

**HERITAGE RANCH
COMMUNITY SERVICES DISTRICT**

BASIC FINANCIAL STATEMENTS
June 30, 2023

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
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June 30, 2023

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FINANCIAL SECTION



Moss, Levy & Hartzheim LLP

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Heritage Ranch Community Services District
Paso Robles, California

Opinions

We have audited the accompanying financial statements of the business-type activities and the major fund of the Heritage Ranch Community Services District, as of and for the fiscal year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Heritage Ranch Community Services District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Heritage Ranch Community Services District, as of June 30, 2023, and the respective changes in financial position and cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Heritage Ranch Community Services District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Heritage Ranch Community Services District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Heritage Ranch Community Services District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Heritage Ranch Community Services District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of net pension liability, the schedule of pension contributions, the schedule of changes in the net OPEB liability and related ratios, and the schedule of OPEB contributions be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Heritage Ranch Community Services District's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information listed in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2023, on our consideration of the Heritage Ranch Community Services District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Moss, Remy & Hutzheim LLP

Santa Maria, California
December 20, 2023

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
Fiscal Year Ending June 30, 2023

The Management Discussion and Analysis of the Heritage Ranch Community Services District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2023. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should review the discussion and analysis in conjunction with the basic financial statements as well as the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2023 are as follows:

- Water user fee revenue decreased by -\$50,427 or -3.9% from last year.
- Sewer user fee revenue increased by \$10,489 or 1.4% from last year.
- The District's non-operating revenue increased by \$148,636 or 22.6% from last year.
- Water and Sewer capacity charge revenue decreased by -\$40,211 or -48.7% from last year.
- Solid Waste franchise revenue increased slightly by \$4,460 or 5.5%.
- Total operating expenses decreased by -85,220 or -3.4% from last year.
- Capital assets (less depreciation) increased by \$266,978 or 3.7%.
- A depreciation expense of \$469,050 is included in the financial statements.
- The District incurred a positive change in net position of \$411,637.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, as an entire operating entity. These statements then proceed to provide an increasingly detailed look at specific financial activities. This annual report consists of four parts – management's discussion and analysis (this section), the basic financial statements, required supplementary information, and supplementary information. The basic financial statements include the enterprise fund statements.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The following explains the structure and content of each of the statements.

Government-wide and fund financial statements

The business-type activities, which rely to a significant extent on fees and charges for support, are the only type of statement reported by the Heritage Ranch Community Services District.

The enterprise fund statement reports on the District's net position and how it has changed. Net position is the difference between the District's assets and deferred

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
Fiscal Year Ending June 30, 2023

outflows of resources and the District's liabilities and deferred inflows of resources and are one of the ways to measure the District's financial health or position.

- Over time, increases or decreases in the District's net position is an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, we need to consider additional non-financial factors, such as increases in the District's customer base, facility condition, and other factors.

The District's enterprise fund consists of the water, sewer, solid waste, and the general activities of the District.

- **Water Activity.** This activity provides for the operation, maintenance, and improvements to the District's water system. The system includes the two million gallons per day water treatment plant, plate settler, five storage tanks, a vertical intake, six pump stations, and over sixteen miles of pipeline. As of June 30, 2023, there were 1,975 paid water connections; of these 1,962 were active. The water activity receives revenue from user fees, standby charges, property taxes, and interest earnings.
- **Sewer Activity.** This activity provides for the operation, maintenance, and improvements to the District's sewer system. The system includes ten lift stations, one pump station, two initial treatment ponds, two secondary treatment areas, and many miles of pipeline. As of June 30, 2023, there were 1,786 paid sewer connections; of these 1,778 were active. The sewer activity receives revenue from user fees, standby charges, property taxes, and interest earnings.
- **Solid Waste Activity.** This activity administers and acts as the Franchiser pursuant to a Franchise Agreement. The fund supports the Franchisee, San Miguel Garbage Company, for solid waste services within the District. The solid waste activity receives 10% of the net revenue from all solid waste fees.

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
Fiscal Year Ending June 30, 2023

Financial Analysis of the District as a Whole

Table 1 provides a summary of the District's net position for fiscal year 2023 compared to 2022.

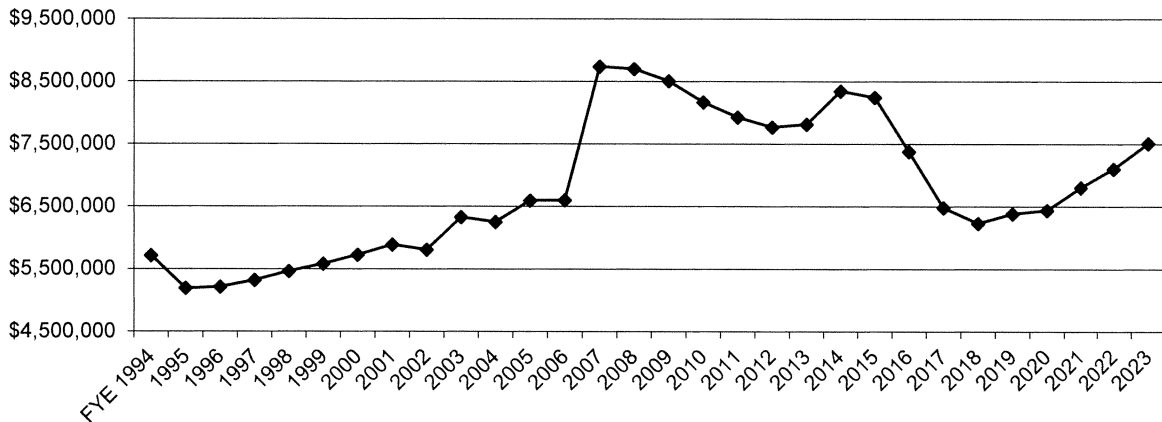
Table 1 Net Position

Table 1 - Net Position			
	FYE 2022	FYE 2023	% Change
Assets			
Cash and equivalents	\$4,784,446	\$4,417,601	-7.67%
Restricted cash and equivalents	172,406	175,885	2.02%
Accounts receivable (net)	236,475	209,317	-11.48%
Other	52,684	80,934	53.62%
Capital assets (net of depreciation)	7,174,105	7,441,083	3.72%
Total Assets	12,420,116	12,324,820	-0.77%
<hr/>			
Deferred outflows of resources	603,386	978,717	62.20%
Liabilities			
Net OPEB liability	546,766	607,121	11.04%
Net pension liability	757,308	1,454,925	92.12%
Long-term liabilities	2,812,161	2,577,309	-8.35%
Current liabilities	399,771	484,626	21.23%
Total Liabilities	4,516,006	5,123,981	13.46%
<hr/>			
Deferred inflows of resources	1,406,884	667,307	-52.57%
Net Position			
Net Investment in capital assets	4,487,818	4,715,675	5.08%
Restricted for debt service	173,224	162,225	-6.35%
Unrestricted	2,439,570	2,634,349	7.98%
Total Net Position	\$7,100,612	\$7,512,249	5.80%

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
 Fiscal Year Ending June 30, 2023

Total net position increased between fiscal years 2022 and 2023, by 5.8% to \$7,512,249. All of the District's net position is restricted either by the purposes they can be used for or are invested in capital assets. Figure 1 illustrates the change in net position over time.

Figure 1 Change in Net Position



Enterprise Activities

Total operating revenues decreased in fiscal year 2023 by -3.7%. Total non-operating revenues increased by 22.6%. Total operating expenses decreased by -3.4%. Total net position increased by \$411,637. The water activities experienced a decrease of -3.9%, the sewer activities experienced an increase of 1.4%, and the solid waste activities experienced an increase of 5.5%. The water fund operating expense had a slight increase of 1%, while the sewer fund operating expense decreased by -1.8%. The general fund experienced a decrease of -9.6%.

All these activities continue to experience high operating expenses and will require capital improvements and other operational enhancements to meet new regulatory compliance. Water and sewer rate increases were implemented in fiscal year 2023; however, the Board directed staff to remove the Water Resource Recovery Facility project capital costs from that increase. Therefore, an additional rate study and increases to the sewer rates are necessary to fund that required project. Table 2 provides a summary of enterprise activities, and Figure 2 illustrates revenues and expenses as percentages.

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
Fiscal Year Ending June 30, 2023

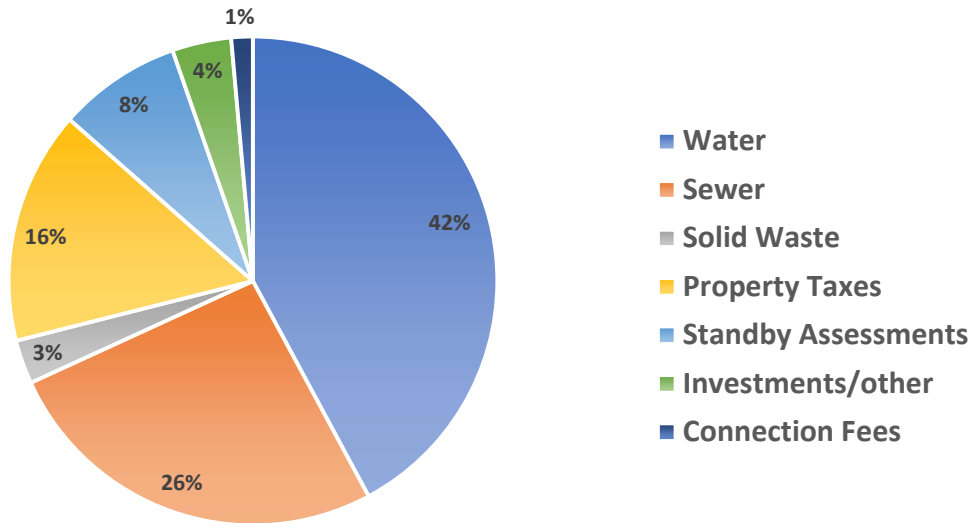
Table 2 Enterprise Activities - Revenues, Expenses, and Change

Table 2 Enterprise Activities			
Revenues, Expenses and Change in Net Position			
	FYE 2022	FYE 2023	% Change
Operating Revenues			
Water fund	\$1,293,895	\$1,243,468	-3.90%
Sewer fund	756,611	767,100	1.39%
General fund	46,633	8,069	-82.70%
Total operating revenues	2,097,139	2,018,637	-3.74%
Non-Operating Revenues			
Water fund	361,070	463,852	28.47%
Sewer fund	154,886	188,738	21.86%
Franchise fees	80,678	85,138	5.53%
General fund	60,966	68,508	12.37%
Net non-operating revenues	657,600	806,236	22.60%
	\$2,754,739	\$2,824,873	
Capital Contributions			
Capital contributions all funds	0	0	0.00%
Connection fee water & sewer funds	82,559	42,348	-48.71%
Total capital contributions	82,559	42,348	-48.71%
Operating Expenses			
Water fund	\$1,072,060	\$1,082,036	0.93%
Sewer fund	587,681	576,912	-1.83%
General fund	881,063	796,636	-9.58%
Total expenses	2,540,804	2,455,584	-3.35%
Increase in net position	296,494	411,637	38.83%
Total net position – beginning	\$6,804,118	\$7,100,612	4.36%
Total net position – ending	\$7,100,612	\$7,512,249	5.80%

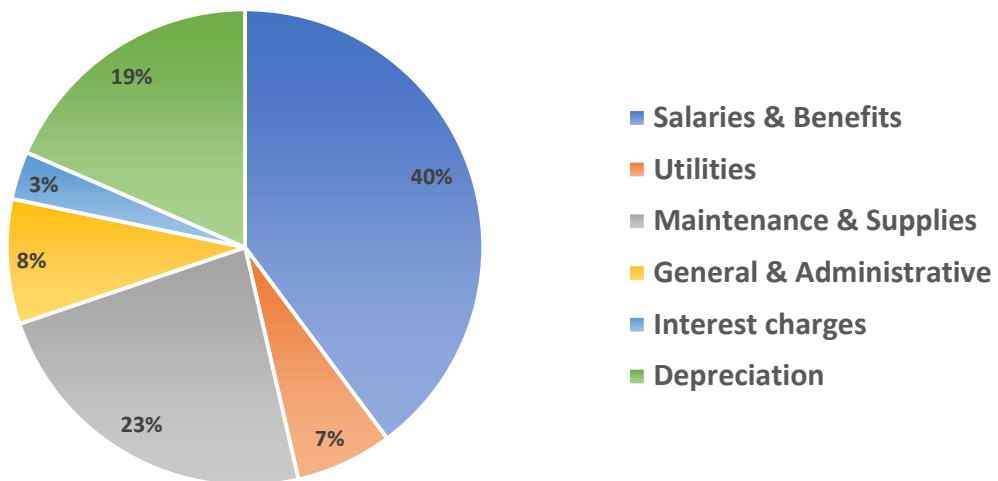
HERITAGE RANCH COMMUNITY SERVICES DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
Fiscal Year Ending June 30, 2023

Figure 2 Revenues and Expenses

Revenues



Expenses



HERITAGE RANCH COMMUNITY SERVICES DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
 Fiscal Year Ending June 30, 2023

Capital Assets and Debt Administration

At the end of fiscal year 2023, the District had invested \$7,441,083 in a broad range of capital assets, including land, equipment, buildings, and infrastructure net of depreciation. This amount represents a net increase (including additions and deletions) of \$266,978 or 3.72% over last fiscal year.

Table 3 Capital Assets

Table 3 Capital Assets at June 30, 2023			
	FYE 2022	FYE 2023	% Change
Land	\$56,938	\$56,938	0.00%
Construction in progress	650,377	663,893	2.08%
Total non-depreciable	707,315	720,831	1.91%
Buildings	2,395,164	2,395,164	0.00%
Plants and facilities	13,392,104	14,033,396	4.79%
Vehicles and equipment	2,132,240	2,213,460	3.81%
Total depreciable	17,919,508	18,642,020	4.03%
Less accumulated depreciation	-11,452,718	-11,921,768	4.10%
Net capital assets	\$7,174,105	\$7,441,083	3.72%

The fiscal year ending June 30, 2023 Budget included projects and equipment replacement. The following is a summary:

- \$1,438,607 – Water Resource Recovery Facility Upgrade
- \$75,000 – Lift Station 1-5 Rehabilitation
- \$59,384 – WTP Filters Renovation
- \$75,000 – GAC System Pilot Study
- \$175,000 – Pressure Reducing Valves (Waterview, Equestrian)
- \$155,000 – Equipment Replacement (service truck, small pickup truck)

The District's fiscal year ending 2024 capital budget projects spending a total of \$2,306,948 for capital projects and equipment purchases. Continued implementation of the 2023 rate study increases as well as a rate study and increases for the sewer fund are expected for FY 2024, with the most significant increase to provide for the major WRRF upgrade project. More detailed information about the District's capital assets is presented in Note 4 of the financial statements.

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
 Fiscal Year Ending June 30, 2023

Long-Term Debt

In 1994 the District obtained a \$2,179,398 loan from the State of California Department of Water Resources under the Safe Drinking Water Bond Law for the construction of a water treatment plant and modifications to the well and booster pumps. The loan is payable over 35 years with a maturity date of 2029 and bears interest at 3.1775% per annum. The June 30, 2023, principal balance is \$562,032.

In 2015 the District obtained a \$984,090 loan to finance water treatment plant improvements. The debt is through a Safe Drinking Water State Revolving Fund. The loan is payable over 20 years with a maturity date of 2036 and bears interest at 1.788% per annum. The June 30, 2023, principal balance is \$655,367.

The District obtained a \$1,707,000 capital lease from the Western Alliance Business Trust on April 1, 2020, for the construction of the District's solar energy generation facilities at the Water and Wastewater Treatment Plants. The lease is payable over 15 years and bears interest at 3.26% annually. The June 30, 2023, principal balance is \$1,508,000.

A summary of debt for fiscal year end 2023 is shown below:

FYE	1994 WTP Loan	2015 WTP Loan	2020 PVS Loan	TOTAL DEBT
2023	\$562,032	\$655,376	\$1,508,000	\$2,725,408

More detailed information about the District's long-term liabilities is presented in Note 5 of the basic financial statements.

Current Financial Issues and Concerns

The District is financially stable despite increasing costs, limited revenues, and new regulatory requirements. The District remains dependent on both property taxes and standby charges to fund the water and sewer operations. Cost increases are projected for labor, utilities, maintenance, and supplies in future years.

Water and sewer rate increases were implemented in fiscal year 2023; however, the Board directed staff to remove the Water Resource Recovery Facility project (Project) capital costs from that increase. Therefore, an additional rate study and increases to the sewer rates are necessary to fund the Project.

Alternatively, if the District does not ensure the funding will be available, the Project cannot be constructed. If the Project is not online, and in compliance with Regional Water Quality Control Board (RWQCB) requirements by September 30, 2027, then mandatory minimum penalties will apply. Mandatory minimum penalties are \$10,000 per day per violation. The existing treatment plant regularly violates three constituents: copper, nitrate, and un-ionized ammonia. That equates to:

$$3 \quad \times \quad \$10,000 \quad \times \quad 365 \quad = \quad \$10,950,000 \text{ per year.}$$

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
Fiscal Year Ending June 30, 2023

The District may also be subject to issuance of a cease and desist order in accordance with CWC section 13301, or the RWQCB may refer the matter to the Attorney General for judicial enforcement, may issue a complaint for administrative civil liability, or may take other enforcement actions.

Contacting the District's Financial Management

This report is designed to provide our ratepayers with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Scott Duffield, General Manager, Heritage Ranch Community Services District, at 4870 Heritage Road, Paso Robles, CA 93446, the phone number is (805) 227-6230.

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
STATEMENT OF NET POSITION - ENTERPRISE FUND
June 30, 2023

ASSETS

Current assets:

Cash and investments	\$ 4,417,601
Taxes receivable	15,358
Accounts receivable	209,317
Interest receivable	33,493
Inventory	<u>32,083</u>
Total current assets	<u>4,707,852</u>

Noncurrent assets:

Restricted cash	<u>175,885</u>
Capital assets	
Land	56,938
Construction in progress	663,893
Property, plant, and equipment	18,642,020
Accumulated depreciation	<u>(11,921,768)</u>
Net capital assets	<u>7,441,083</u>
Total noncurrent assets	<u>7,616,968</u>
Total assets	<u>12,324,820</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred OPEB	336,728
Deferred pension	<u>641,989</u>
Total deferred outflows of resources	<u>978,717</u>

LIABILITIES

Current liabilities:

Accounts payable	203,354
Accrued payroll	16,030
Interest payable	16,767
Deposits	200
Current portion of compensated absences	33,359
Current portion of loans payable	109,916
Current portion of capital lease payable	<u>105,000</u>
Total current liabilities	<u>484,626</u>

Long-term liabilities:

Compensated absences	66,817
Loans payable	1,107,492
Capital lease payable	1,403,000
Net OPEB liability	607,121
Net pension liability	<u>1,454,925</u>
Total liabilities	<u>5,123,981</u>

DEFERRED INFLOWS OF RESOURCES

Deferred OPEB	586,422
Deferred pension	<u>80,885</u>
Total deferred inflows of resources	<u>667,307</u>

NET POSITION

Net investment in capital assets	4,715,675
Restricted for debt service	162,225
Unrestricted	<u>2,634,349</u>
Total net position	<u>\$ 7,512,249</u>

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

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -
ENTERPRISE FUND
For the Fiscal Year Ended June 30, 2023

Operating Revenues:

Service fees	\$ 1,981,476
Turn-on fees	1,875
Hook-up fees	1,800
Late charges and miscellaneous	<u>33,486</u>
 Total operating revenues	 <u>2,018,637</u>

Operating Expenses:

Salaries and wages	907,599
Payroll taxes and benefits	99,130
Publicity	561
Chemicals and gases	91,517
Engineering	160
Fuel and oil	20,907
Lab testing	53,429
Licenses and fees	29,471
Repairs and maintenance	344,447
Small tools and supplies	64,590
Uniforms and laundry	3,516
Alarm	3,420
Dues and publications	18,473
Insurance	38,596
Office expense	19,475
Professional services	102,873
Telephone and utilities	143,792
Training	8,564
Tax collections	6,272
Water purchase	23,114
Bad debt	6,628
Depreciation	<u>469,050</u>
 Total operating expenses	 <u>2,455,584</u>

Net operating income (loss) (436,947)

Non-Operating Revenues (Expenses):

Taxes and assessments	455,398
Standby assessments	240,913
Franchise fees	85,138
Investment income	107,135
Interest expense	<u>(82,348)</u>
 Total non-operating revenues (expenses)	 <u>806,236</u>

Capital Contributions:

Connection fees	<u>42,348</u>
 Change in net position	 411,637

Net Position:

Net position, beginning of fiscal year	<u>7,100,612</u>
 Net position, end of fiscal year	 <u>\$ 7,512,249</u>

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

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
STATEMENT OF CASH FLOWS - ENTERPRISE FUND
For the Fiscal Year Ended June 30, 2023

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 2,045,895
Payments to vendors	(875,842)
Payments to employees	<u>(1,387,543)</u>

Net cash used by operating activities	<u>(217,490)</u>
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CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Property taxes	454,742
Franchise fees	85,138
Standby fees	<u>240,913</u>

Net cash provided by noncapital financing activities	<u>780,793</u>
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of capital assets	(736,028)
Principal paid on long-term debt	(231,166)
Interest paid on long-term debt	(83,838)
Connection fees	<u>42,348</u>

Net cash used by capital and related financing activities	<u>(1,008,684)</u>
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CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	<u>82,015</u>
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Net cash provided by investing activities	<u>82,015</u>
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Net decrease in cash and cash equivalents	(363,366)
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Cash and cash equivalents, July 1	<u>4,956,852</u>
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Cash and cash equivalents, June 30	<u><u>\$ 4,593,486</u></u>
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Reconciliation to Statement of Net Position:

Cash and investments	\$ 4,417,601
Restricted cash	<u>175,885</u>

Total Cash and investments	<u><u>\$ 4,593,486</u></u>
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(Continued)

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

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
STATEMENT OF CASH FLOWS - ENTERPRISE FUND (CONTINUED)
For the Fiscal Year Ended June 30, 2023

Reconciliation of operating income (loss) to net cash provided (used)

by operating activities:

Operating income (loss)	\$ (436,947)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	469,050
Change in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:	
Accounts receivable	27,158
Inventory	(2,474)
Deferred outflows	(375,331)
Accounts payables	106,437
Accrued payroll	(28,927)
Compensated absences	5,049
Deposits	100
Net OPEB liability	60,355
Net pension liability	697,617
Deferred inflows	<u>(739,577)</u>
Net cash used by operating activities	<u>\$ (217,490)</u>

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

HERITAGE RANCH COMMUNITY SERVICES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 1 – REPORTING ENTITY

Heritage Ranch Community Services District (the District) is a multi-purpose special district and began operations on February 26, 1990. The District is a political subdivision of the State of California and operates under the direction of a board of directors who are elected by the residents of Heritage Ranch. The District provides water, wastewater, solid waste services, and recreational services.

The District is a Community Services District as defined under California Government Code Section: 61000. A Community Services District is a public agency (State Code Section: 12463.1), which is a state instrumentality (State Code Section: 23706). State instrumentalities are exempt from federal and state income taxes.

There are no component units included in this report which meet the criteria of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statements No. 39, No. 61, No. 80, and No. 90.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Accounting Policies - The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).
- B. Accounting Method - The District is organized as an Enterprise Fund and follows the accrual method of accounting, whereby revenues are recorded as earned, and expenses are recorded when incurred.
- C. Cash and Cash Equivalents - For purpose of the statement of cash flows, cash and cash equivalents include restricted and unrestricted cash and restricted and unrestricted certificates of deposit with original maturities of three months or less.
- D. Prepaid Expenses - Payments made to vendors for services that will benefit periods beyond June 30, 2023, are recorded as prepaid expenses.
- E. Property, Plant, and Equipment - All capital assets are valued at historical cost or fair value if actual costs are not available. Other donated capital assets are valued at their estimated fair market value on the date received. The capitalization threshold for all capital assets is \$5,000. Depreciation has been provided over the estimated useful life of the asset using the straight-line method. Estimated useful lives range from 5 to 100 years.
- F. Depreciation - Capital assets purchased by the District are depreciated over their estimated useful lives (ranging from 5-100 years) under the straight-line method of depreciation.
- G. Receivables - The District did not experience any significant bad debt losses; accordingly, no provision has been made for doubtful accounts, and accounts receivable is shown at full value.
- H. Inventory - The inventory maintained by the water utility consists primarily of water pipe, valves, and fittings. Inventory is valued at cost, determined on a first-in, first-out basis.
- I. Encumbrances - Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is not utilized by the District.
- J. Compensated Absences - Accumulated unpaid employee vacation, compensatory time, and sick leave benefits are recognized as a liability of the District. The amounts are included in current liabilities under compensated absences.
- K. Customer Deposits - The District requires customers to pay an advance deposit for utility services or provide a letter of credit from another utility. It is the District's current policy to hold all deposits for a period of two years. Deposits are then refunded in full and no accrued interest is paid.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Pensions - For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Heritage Ranch Community Services District's California Public Employee's Retirement System (CalPERS) plan (Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

M. Other Post-Employment Benefits (OPEB) - For purposes of measuring the net OPEB liability and deferred outflows/inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District's plan (OPEB Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period. The District has two items which qualify for reporting in this category; refer to Notes 8 and 9 for a detailed listing of the deferred outflows of resources the District has reported.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. A deferred inflow of resources is defined as an acquisition of net position by the District that is applicable to a future reporting period. The District has two items which qualify for reporting in this category; refer to Notes 8 and 9 for a detailed listing of the deferred inflows of resources the District has reported.

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

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

P. Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, as prescribed by the GASB and the AICPA, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Q. Annual Appropriations Limit - The District is exempt from the annual appropriations limit required by Senate Bill 813 (Chapter 1025, Statutes of 1987), in accordance with California Constitution Article XIII B. This exemption is based on a tax rate not greater than 12.5 cents per \$100 of the assessed valuation in 1978 when the District was operated as a San Luis Obispo County Service Area.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- R. Property Taxes - Property taxes in the State of California are administered for all local agencies at the county level, and consist of secured, unsecured, and utility tax rolls. The following is a summary of major policies and practices relating to property taxes:

Property Valuations - are established by the Assessor of the County of San Luis Obispo for the secured and unsecured property tax rolls; the utility property tax roll is valued by the State Board of Equalization. Under the provisions of Article XIII of the State Constitution (Proposition 13 adopted by the voters on June 6, 1978), properties are assessed at 100% of full value. From the base assessment, subsequent annual increases in valuation are limited to a maximum of 2%. However, increases to full value are allowed for property improvements or upon change in ownership. Personal property is excluded from these limitations and is subject to annual reappraisal.

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

Tax Levy Apportionments - Due to the nature of the District-wide maximum levy, it is not possible to identify general purpose tax rates for specific entities. Under State legislation adopted subsequent to the passage of Proposition 13, apportionments to local agencies are made by the county auditor-controller based primarily on the ratio that each agency represented of the total District-wide levy for the three years prior to fiscal year 1979.

Property Tax Administration Fees - The State of California FY 90-91 Budget Act, authorized counties to collect an administrative fee for collection and distribution of property taxes. Property taxes are recorded as net of administrative fees withheld during the fiscal year.

Tax Levies - are limited to 1% of full value which results in a tax rate of \$1.00 per \$100 assessed valuation, under the provisions of Proposition 13. Tax rates for voter-approved indebtedness are excluded from this limitation.

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

- S. Fund financial statements - 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 the enterprise fund's principal ongoing operations. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2023

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

T. Future Accounting Pronouncements - GASB Statements listed below will be implemented in future financial statements:

Statement No. 99	"Omnibus 2022"	The provisions of this statement are effective in April 2022 except for the provisions related to leases, PPPs, SBITAs, financial guarantees and derivative instruments. The provisions related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022. The provisions related to financial guarantees and derivative instruments are effective for fiscal years beginning after June 15, 2023.
Statement No. 100	"Accounting Changes and Error Corrections - an amendment of GASB Statement No. 62"	The provisions of this statement are effective for fiscal years beginning after June 15, 2023.
Statement No. 101	"Compensated Absences"	The provisions of this statement are effective for fiscal years beginning after December 15, 2023.

NOTE 3 – CASH AND INVESTMENTS

Investments are carried at fair value in accordance with GASB Statements No. 31 and 72. On June 30, 2023, the District had the following cash and investments on hand:

Cash on hand	\$ 300
Cash in banks	365,022
Investments	<u>4,228,164</u>
Total	<u>\$ 4,593,486</u>

Cash and investments listed above are presented on the accompanying basic financial statements, as follows:

Cash and investments	\$ 4,417,601
Restricted cash	<u>175,885</u>
Total	<u>\$ 4,593,486</u>

The District categorizes its fair value measurements within the fair value hierarchy established by the U.S. Generally Accepted Accounting Principles and GASB Statement No. 72. 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. The District has no investments measured at Levels 1,2, or 3.

Investments Authorized by the California Government Code

The table on the following page identifies the investment types that are authorized for the District by the California Government Code. The table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentration of credit risk.

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2023

NOTE 3 – CASH AND INVESTMENTS (Continued)

Investments Authorized by the California Government Code (Continued)

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
Federal Agency Securities	N/A	None	None
Bankers' Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase and Reverse Repurchase Agreements	92 days	20% of base value	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	5 years	15%	10%
Money Market Mutual Funds	N/A	None	None
Mortgage Pass-Through Securities	N/A	20%	None
County Pooled Investment Fund	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	\$75,000,000
State Registered Warrants, Notes, or Bonds	5 years	None	None
Notes and Bonds of other Local California Agencies	5 years	None	None

Disclosures Relating to Interest Rate Risk

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

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity:

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Remaining Maturity (in Months)</u>			
		<u>12 Months Or Less</u>	<u>13-24 Months</u>	<u>25-60 Months</u>	<u>More than 60 Months</u>
State investment pool (LAIF)	\$ 4,228,164	\$ 4,228,164	\$ -	\$ -	\$ -
	<u>\$ 4,228,164</u>	<u>\$ 4,228,164</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code and the District's investment policy, and the actual rating as of fiscal year end for each investment type.

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Minimum Legal Rating</u>	<u>Rating as of Fiscal Year End</u>			
			<u>AAA</u>	<u>AA-</u>	<u>Baa</u>	<u>Not Rated</u>
State investment pool (LAIF)	\$ 4,228,164	N/A	\$ -	\$ -	\$ -	\$ 4,228,164
	<u>\$ 4,228,164</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,228,164</u>

NOTE 3 – CASH AND INVESTMENTS (Continued)

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District's investments.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government 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 risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the District's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2023, none of the District's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government 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 does not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

Investment in State Investment Pool (LAIF)

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. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2023

NOTE 4 – SCHEDULE OF CAPITAL ASSETS

A schedule of changes in capital assets and depreciation for the fiscal year ended June 30, 2023, is shown below:

	Balance July 1, 2022	Additions	Deletions	Transfers	Balance June 30, 2023
Non depreciable					
Land	\$ 56,938	\$ -	\$ -	\$ -	\$ 56,938
Construction in progress	650,377	654,808		(641,292)	663,893
Total non depreciable	<u>\$ 707,315</u>	<u>\$ 654,808</u>	<u>\$ -</u>	<u>\$ (641,292)</u>	<u>\$ 720,831</u>
Depreciable					
Buildings and structures	\$ 2,395,164	\$ -	\$ -	\$ -	\$ 2,395,164
Plant and facilities	13,392,104			641,292	14,033,396
Vehicles and Equipment	2,132,240	81,220			2,213,460
	<u>17,919,508</u>	<u>81,220</u>		<u>641,292</u>	<u>18,642,020</u>
Less accumulated depreciation					
Buildings and structures	(1,261,223)	(105,919)			(1,367,142)
Plant and facilities	(8,982,673)	(307,604)			(9,290,277)
Vehicles and Equipment	(1,208,822)	(55,527)			(1,264,349)
	<u>(11,452,718)</u>	<u>(469,050)</u>			<u>(11,921,768)</u>
Total depreciable	<u>\$ 6,466,790</u>	<u>\$ (387,830)</u>	<u>\$ -</u>	<u>\$ 641,292</u>	<u>\$ 6,720,252</u>
Net capital assets	<u>\$ 7,174,105</u>	<u>\$ 266,978</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,441,083</u>

Depreciation expense for the fiscal year ended June 30, 2023 was \$469,050.

NOTE 5 – LONG-TERM LIABILITIES

The District obtained a \$2,179,398 loan through direct borrowing from the State of California – Department of Water Resources (DWR) in 1994, under the Safe Drinking Water Bond Law of 1984, for the construction of a water treatment plant and modifications to its well and booster. The loan is secured by the property of the District. In the event of a default, all unpaid balance and interest becomes immediately due and the State would have the right to take over all of the District’s property and operate the water system. The loan is payable over 35 years and bears interest at 3.1775% annually. In October of 1994 the District began making semi-annual payments of principal and interest. Remaining semi-annual principal and interest payments of \$51,814 will be made in October and April through fiscal year 2029. As of June 30, 2023, the District has a balance of \$562,032 remaining with future debt service payments as follows:

Fiscal Year	Ending	Principal	Interest	Total
2024	\$ 86,404	\$ 17,224	\$ 103,628	
2025	89,237	14,391	103,628	
2026	92,074	11,554	103,628	
2027	95,023	8,605	103,628	
2028	98,054	5,574	103,628	
2029	101,240	2,388	103,628	
	<u>\$ 562,032</u>	<u>\$ 59,736</u>	<u>\$ 621,768</u>	

NOTE 5 – LONG-TERM LIABILITIES (Continued)

The District obtained a \$984,090 loan through direct borrowing from the State of California – State Water Resources Control Board in 2015, for the District’s plant construction and modification. The loan is secured by all of the revenue of the Water Fund. In the event of a default all remaining outstanding balance is immediately due and payable and the State has the right to seizure of Water Fund revenue. The loan is payable over 20 years and bears interest at 1.788% annually. In July of 2016 the District began making semiannual principal and interest payments. Remaining semiannual payments of \$29,370 will be made in July and January through fiscal year 2036. As of June 30, 2023, the District has a balance of \$655,376 remaining with future debt service payments as follows:

Fiscal Year	Principal	Interest	Total
Ending			
2024	\$ 23,512	\$ 5,857	\$ 29,369
2025	47,656	11,083	58,739
2026	48,512	10,227	58,739
2027	49,383	9,356	58,739
2028	50,269	8,469	58,738
2029-2033	265,214	28,479	293,693
2034-2036	170,830	64,124	234,954
	<u>\$ 655,376</u>	<u>\$ 137,595</u>	<u>\$ 792,971</u>

The District obtained a \$1,707,000 loan from direct borrowing with the Western Alliance Business Trust on April 1, 2020, for the construction of the District’s solar energy general facilities at the Water and Wastewater Treatment Plants. The loan is secured by the solar equipment. In the event of a default, all remaining loan payments are immediately due and payable. The loan is payable over 15 years and bears interest at 3.26% annually. In October of 2020 the District began making semiannual principal and interest payments. Remaining semiannual payments will be made in October and April through fiscal year 2035. As of June 30, 2023, the District has a balance of \$1,508,000 remaining with future debt service payments as follows:

Fiscal Year	Principal	Interest	Total
Ending			
2024	\$ 105,000	\$ 48,313	\$ 153,313
2025	108,000	44,858	152,858
2026	111,000	41,320	152,320
2027	115,000	37,669	152,669
2028	119,000	33,888	152,888
2029-2033	656,000	108,151	764,151
2034-2035	294,000	12,062	306,062
	<u>\$ 1,508,000</u>	<u>\$ 326,261</u>	<u>\$ 1,834,261</u>

NOTE 6 – COMPENSATED ABSENCES

As of June 30, 2023, it is estimated that the District’s employees have \$100,176 of accumulated vested vacation time and sick leave. Accumulated unpaid employee vacation and sick leave benefits are recognized as liabilities of the District. The accumulated benefits will be liquidated in future years as employees elect to use them.

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2023

NOTE 7 – SCHEDULE OF CHANGES IN LONG-TERM LIABILITIES

The changes in long-term liabilities for the fiscal year ended June 30, 2023, were as follows:

	July 1, 2022	Additions	Retirements	June 30, 2023	Due within one year
Compensated absences	\$ 95,127	\$ 5,049	\$ -	\$ 100,176	\$ 33,359
State DWR loan payable - direct borrowing	645,798		(83,766)	562,032	86,404
State SWRCB loan payable - direct borrowing	701,776		(46,400)	655,376	23,512
Solar loan payable - direct borrowing	1,609,000		(101,000)	1,508,000	105,000
Net OPEB liability	546,766	60,355		607,121	
Net pension liability	757,308	697,617		1,454,925	
	<u>\$ 4,355,775</u>	<u>\$ 763,021</u>	<u>\$ (231,166)</u>	<u>\$ 4,887,630</u>	<u>\$ 248,275</u>

NOTE 8 – DEFINED BENEFIT PENSION PLAN

A. General Information about the Pension Plans

Plan Descriptions

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

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for nonduty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees’ Retirement Law.

The Plans’ provisions and benefits in effect at June 30, 2023, are summarized as follows:

Hire Date	Miscellaneous		
	Prior to January 1, 2013	Prior to January 1, 2013 (tier 2)	On or after January 1, 2013
Benefit formula	2.0% @ 55	2.0% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50-63	50-63	52-67
Monthly benefits, as a % of eligible compensation	2.0% to 2.7%	2.0% to 2.7%	1.0% to 2.5%
Required employee contribution rates	8.00%	6.92%	7.75%
Required employer contribution rates	12.21% + \$107,962	10.32% + \$763	7.47% + \$563

Contributions

Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on July 1 following notice of a change in the rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Contributions to the pension plan from the District were \$189,007 for the fiscal year ended June 30, 2023.

NOTE 8 – DEFINED BENEFIT PENSION PLAN (Continued)

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

At June 30, 2023, the District reported a liability of \$1,454,925 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2021 rolled forward to June 30, 2022 using standard update procedures. The District’s proportion of the net pension liability was based on a projection of the District’s long-term share of contributions to the pension plan relative to the projected contributions of all Pension Plan participants, actuarially determined. The District’s proportionate share of net pension liability for the miscellaneous plan as of June 30, 2021, and 2022 was as follows:

	<u>Miscellaneous</u>
Proportion-June 30, 2021	0.03988%
Proportion-June 30, 2022	<u>0.03109%</u>
Change-Increase (Decrease)	<u><u>-0.00879%</u></u>

For the fiscal year ended June 30, 2023, the District recognized pension expense of \$(91,765). Pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits. At June 30, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 189,007	\$ -
Differences between expected and actual experience	29,218	19,569
Changes in assumptions	149,087	
Net difference between projected and actual earnings on retirement plan investments	266,504	
Adjustment due to differences in proportions	8,173	37,670
Difference in actual contributions and proportionate share of contributions		23,646
	<u>\$ 641,989</u>	<u>\$ 80,885</u>

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

\$189,007 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2024.

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

<u>Fiscal Year Ended June 30</u>	<u>Amount</u>
2024	\$ 90,746
2025	76,038
2026	42,310
2027	163,003
Total	<u>\$ 372,097</u>

NOTE 8 – DEFINED BENEFIT PENSION PLAN (Continued)

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

Actuarial Assumptions

The total pension liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions:

	Miscellaneous
Valuation Date	June 30, 2021
Measurement Date	June 30, 2022
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	6.90%
Inflation	2.30%
Projected Salary Increase	Varies by Entry Age and Service
Mortality Rate Table (1)	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.30% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.30% thereafter

- (1) The mortality table used was developed based on CalPERS' specific data. The probabilities are based on the 2021 CalPERS' Experience Study for the period from 2001 to 2019. Pre-retirement and Post-retirement mortality rates include generational mortality improvement using 80% of Scale MP-2020 published by the Society of Actuaries. For more details on this table, please refer to the CalPERS' Experience Study and Review of Actuarial Assumptions report from November 2021 that can be found on the CalPERS' website.

Changes in Assumptions

The discount rate changed from 7.15% to 6.90% and the inflation rate changed from 2.50% to 2.30%.

Long-term Expected Rate of Return

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations. Using historical returns of all of the funds' asset classes, expected compound (geometric) returns were calculated over the next 20 years using a building-block approach. The expected rate of return was then adjusted to account for assumed administrative expenses of 10 Basis points. The expected real rates of return by asset class are as follows:

Asset Class	New Strategic Allocation	Real Return (a,b)
Global Equity - cap-weighted	30.0%	4.54%
Global Equity - non-cap-weighted	12.0%	3.84%
Private Equity	13.0%	7.28%
Treasury	5.0%	0.27%
Mortgage-backed Securities	5.0%	0.50%
Investment Grade Corporations	10.0%	1.56%
High Yield	5.0%	2.27%
Emerging Market Debt	5.0%	2.48%
Private Debt	5.0%	3.57%
Real Assets	15.0%	3.21%
Leverage	-5.0%	-0.59%
Total	100.0%	

- (a) An expected inflation of 2.30% was used for this period.
 (b) Figures are based on the 2021 Asset Liability Management Study.

NOTE 8 – DEFINED BENEFIT PENSION PLAN (Continued)

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

Discount Rate

The discount rate used to measure the total pension liability was 6.90%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Subsequent Events

On July 12, 2021, CalPERS reported a preliminary 21.3% net return on investments for fiscal year 2020-21. Based on the thresholds specified in CalPERS’ Funding Risk Mitigation policy, the excess return of 14.3% prescribes a reduction in investment volatility that corresponds to a reduction in the discount rate used for funding purposes of 0.20%, from 7.00% to 6.80%. Since CalPERS was in the final stages of the four-year Asset Liability Management (ALM) cycle, the board elected to defer any changes to the asset allocation until the ALM process concluded, and the board could make its final decision on the asset allocation in November 2021.

On November 17, 2021, the board adopted a new strategic asset allocation. The new asset allocation along with the new capital market assumptions, economic assumptions and administrative expense assumption support a discount rate of 6.90% (net of investment expense but without a reduction for administrative expense) for financial reporting purposes. This includes a reduction in the price inflation assumption from 2.50% to 2.30% as recommended in the November 2021 CalPERS’ Experience Study and Review of Actuarial Assumptions. This study also recommended modifications to retirement rates, termination rates, mortality rates and rates of salary increases that were adopted by the board. These new assumptions are reflected in the GASB Statement No. 68 accounting valuation reports for the June 30, 2022, measurement date.

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

The following represents the District’s proportionate share of the net pension liability calculated using the discount rate of 6.90 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (5.90 percent) or 1 percentage point higher (7.90 percent) than the current rate:

	1% Decrease 5.90%	Discount Rate 6.90%	1% Increase 7.90%
District's proportionate share of the net pension plan liability	\$ 2,135,634	\$ 1,454,925	\$ 894,870

Pension Plan Fiduciary Net Position

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

C. Payable to the Pension Plan

At June 30, 2023, the District had no amount outstanding for contributions to the pension plan required for the fiscal year ended June 30, 2023.

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2023

NOTE 9 – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description

The District provides other post-employment benefits (OPEB) through the California Employers' Retiree Benefit Fund (CERBT), an agent multiple-employer defined benefit healthcare plan administered by the California Public Employees' Retirement System (CalPERS). Benefits are provided to employees who retire at age 50 or older with five years of eligible CalPERS service. Coverage is also provided to eligible retirees, spouses and surviving spouses. For employees hired prior to February 1, 2006, the District's financial obligation is to pay 100% of the cost of coverage for the eligible retiree and any eligible dependents. For employees hired on or after February 1, 2006, the District's contribution percentage is based on the employee's years of CalPERS eligible service at retirement starting at 50% for employees with 10 years increasing by 5% per year of service up to 100%. The District's maximum contribution is based on the applicable contribution percentage applied to the average weighted premium rates established annually by CalPERS. As of June 30, 2020 the maximum contribution is 90% of the lowest cost plan available in San Luis Obispo. The District also pays administrative fees equal to 0.33% of total premiums. These benefits are provided per contract between the District and the employee associations. Separate financial statements of the CERBT may be obtained by writing to CalPERS at Lincoln Plaza North 400 Q Street, Sacramento, and CA 95814 or by visiting the CalPERS' website at www.calpers.ca.gov.

Funding Policy

In 2009, the District joined the CalPERS medical program. In 2021, the District contributed the full cost of retiree and spousal coverage, up to the cost of PERS Choice coverage in comparison to the "unequal contribution" approach that was used at the inception of the CalPERS medical program. The District's contribution will be based on each retiree's age and enrollment status. The contribution requirements of plan members and the District are established and may be amended by the District and the employee associations. Currently, contributions are not required from plan members.

Employees Covered

As of the June 30, 2021 actuarial valuation, the following current and former employees were covered by the benefit terms under the District's Plan:

Active employees	6
Inactive employees or beneficiaries currently receiving benefits	5
Total	<u>11</u>

Contributions

The District's funding policy is to fund 100% of the actuarially determined contribution determined through the California Employers' Retiree Benefit Trust (CERBT). Based on this valuation, the District contributed \$91,886 to an irrevocable trust to meet the current obligations of this program in the measurement period ending June 30, 2022.

Net OPEB Liability

The District's Net OPEB Liability was measured as of June 30, 2022 and the total OPEB liability used to calculate the Net OPEB Liability was determined by an actuarial valuation as of June 30, 2021 rolled forward to June 30, 2022 using standard update procedures.

Actuarial assumptions. The total OPEB liability was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Discount Rate	6.20%, based on the CERBT Strategy 1 investment policy
Inflation	2.50%
Salary Increases	3.00%
Mortality Rate	Derived from 2017 CalPERS study
Healthcare Trend Rate	5.80% starting and decreasing to 3.90% by 2076 and beyond

Discount rate. GASB Statement No. 75 requires a discount rate that reflects the following:

- a) The long-term expected rate of return on OPEB plan investments — to the extent that the OPEB plan's fiduciary net position (if any) is projected to be sufficient to make projected benefit payments and assets are expected to be invested using a strategy to achieve that return;
- b) A yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher — to the extent that the conditions in (a) are not met.

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2023

NOTE 9 – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

The discount rate is based on a blend of the long-term expected rate of return on assets for benefits covered by plan assets and a yield or index for 20 years, tax-exempt general obligation municipal bonds with an average of AA/Aa or better for benefits not covered by plan assets.

The arithmetic long-term expected real rates of return by asset class for the next 10 years as provided in a report by JP Morgan shown in the Investments portion of this Note. For years thereafter, returns were based on historical average index real returns over the last 30 years assuming a similar equity/fixed investment mix and a 2.50 % inflation rate. Investment expenses were assumed to be 10 basis points per year. These returns were matched with cash flows for benefits covered by plan assets and the Bond Buyer 20-Bond General Obligation index was matched with cash flows not covered by plan assets to measure the reasonableness of the choice in discount rate.

	June 30, 2023	June 30, 2022	June 30, 2021
Discount Rate	6.20%	5.95%	7.00%
Bond buyer 20-Bond GO Index	4.09%	2.18%	3.50%

Changes in the OPEB Liability

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability/(Asset)
Balance at June 30, 2021-Measurement Date	\$ 1,201,973	\$ 655,207	\$ 546,766
Changes recognized for the measurement period:			
Service cost	36,410		36,410
Interest	71,792		71,792
Changes of assumptions	(45,620)		(45,620)
Contributions - employer		91,886	(91,886)
Net investment income		(89,493)	89,493
Benefit payments	(63,580)	(63,580)	
Administrative expense		(166)	166
Net Changes	(998)	(61,353)	60,355
Balance at June 30, 2022-Measurement Date	\$ 1,200,975	\$ 593,854	\$ 607,121

Sensitivity of the net OPEB liability to changes in the discount rate. The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (5.20 percent) or 1 percentage-point higher (7.20 percent) than the current discount rate:

	1% Decrease 5.20%	Discount Rate 6.20%	1% Increase 7.20%
Net OPEB Liability	\$ 806,074	\$ 607,121	\$ 447,884

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage-point lower (4.80 percent decreasing to 2.90 percent) or 1 percentage-point higher (6.80 percent decreasing to 4.90 percent) than the current healthcare cost trend rates:

	1% Decrease (4.80% decreasing to 2.90%)	Trend Rate (5.80% decreasing to 3.90%)	1% Increase (6.80% decreasing to 4.90%)
Net OPEB Liability	\$ 429,440	\$ 607,121	\$ 837,031

HERITAGE RANCH COMMUNITY SERVICES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 9 – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

Investments

The allocation of the plan's invested assets is established by CERBT Strategy 1. The objective is to seek returns that reflect the broad investment performance of the financial markets through capital appreciation and investment income. The asset allocations and benchmarks for CERBT Strategy 1 are listed below:

<u>Asset Classification</u>	<u>Target Allocation</u>	<u>Rate of Return</u>	<u>Rate of Return</u>
		<u>Expected Real Years 1-5(a)</u>	<u>Expected Real Years 6+(b)</u>
Global Equity	49.0%	4.40%	4.50%
Fixed Income	23.0%	-1.00%	2.20%
REITs	20.0%	3.00%	3.90%
Treasury Protected Securities	5.0%	-1.80%	1.30%
Commodities	3.0%	0.80%	1.20%
Total:	<u>100.0%</u>		

(a) An expected inflation of 2.40% was used for this period.

(b) An expected inflation of 2.30% was used for this period.

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the fiscal year ended June 30, 2023, the District recognized OPEB expense of \$13,856. As of the fiscal year ended June 30, 2023, the District reported deferred outflows and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
OPEB contributions subsequent to measurement date	\$ 90,020	\$ -
Change in assumptions	196,266	118,540
Difference between expected and actual experience		467,882
Net difference between projected and actual earnings on retirement plan investments	50,442	
	<u>\$ 336,728</u>	<u>\$ 586,422</u>

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

\$90,020 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the fiscal year ended June 30, 2024.

Amounts reported as deferred outflows and deferred inflows of resources will be recognized in OPEB expense as follows:

<u>Fiscal year Ending June 30,</u>	<u>Amount</u>
2024	\$ (52,155)
2025	(52,478)
2026	(55,723)
2027	(35,338)
2028	(61,497)
Thereafter	(82,523)
	<u>\$ (339,714)</u>

NOTE 10 – CONTINGENCIES

According to the District's attorney, no contingent liabilities are outstanding, and no lawsuits are pending of any real financial consequence.

REQUIRED SUPPLEMENTARY INFORMATION

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
 Last 10 Years*
 As of June 30, 2023

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Proportion of the net pension liability	0.01260%	0.01400%	0.01137%	0.01106%	0.00980%
Proportionate share of the net pension liability	\$ 1,454,925	\$ 757,308	\$ 1,237,384	\$ 1,132,897	\$ 944,816
Covered payroll	\$ 754,252	\$ 550,141	\$ 624,822	\$ 610,870	\$ 630,044
Proportionate share of the net pension liability as percentage of covered payroll	192.9%	137.7%	198.0%	185.5%	150.0%
Plan's total pension liability	\$ 49,525,975,138	\$ 46,174,942,264	\$ 43,702,930,887	\$ 41,426,453,489	\$ 38,944,855,364
Plan's fiduciary net position	\$ 37,975,170,163	\$ 40,766,653,876	\$ 32,822,501,335	\$ 31,179,414,067	\$ 29,308,589,559
Plan fiduciary net position as a percentage of the total pension liability	76.68%	88.29%	75.10%	75.26%	75.26%
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	
Proportion of the net pension liability	0.00842%	0.00930%	0.01103%	0.00990%	
Proportionate share of the net pension liability	\$ 834,917	\$ 805,086	\$ 757,076	\$ 615,781	
Covered payroll	\$ 588,355	\$ 686,124	\$ 600,300	\$ 604,419	
Proportionate share of the net pension liability as percentage of covered payroll	141.9%	117.3%	126.1%	101.9%	
Plan's total pension liability	\$ 37,161,348,332	\$ 33,358,627,624	\$ 31,771,217,402	\$ 30,829,966,631	
Plan's fiduciary net position	\$ 27,244,095,376	\$ 24,705,532,291	\$ 24,907,305,871	\$ 24,607,502,515	
Plan fiduciary net position as a percentage of the total pension liability	73.31%	74.06%	78.40%	79.82%	

Notes to Schedule:

Changes in assumptions

In the reporting fiscal year ended June 30, 2023, the discount rate was reduced from 7.15% to 6.90% and price inflation was reduced from 2.50% to 2.30%.

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

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
SCHEDULE OF PENSION CONTRIBUTIONS
 Last 10 Years*
 As of June 30, 2023

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

	2023	2022	2021	2020	2019
Contractually required contribution (actuarially determined)	\$ 189,007	\$ 169,359	\$ 143,659	\$ 137,080	\$ 148,633
Contribution in relation to the actuarially determined contributions	(189,007)	(169,359)	(143,659)	(137,080)	(148,633)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 859,634	\$ 754,252	\$ 550,141	\$ 624,822	\$ 610,870
Contributions as a percentage of covered payroll	21.99%	22.45%	26.11%	21.94%	24.33%
	2018	2017	2016	2015	
Contractually required contribution (actuarially determined)	\$ 115,809	\$ 103,627	\$ 99,444	\$ 93,706	
Contribution in relation to the actuarially determined contributions	(115,809)	(103,627)	(99,444)	(93,706)	
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Covered payroll	\$ 630,044	\$ 588,355	\$ 686,124	\$ 600,300	
Contributions as a percentage of covered payroll	18.38%	17.61%	14.49%	15.61%	

Notes to Schedule:

Changes in assumptions

In the reporting fiscal year ended June 30, 2023, the discount rate was reduced from 7.15% to 6.90% and price inflation was reduced from 2.50% to 2.30%.

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

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS
Last 10 Years*
As of June 30, 2023

<u>Fiscal Year Date</u>	<u>6/30/2023</u>	<u>6/30/2022</u>	<u>6/30/2021</u>	<u>6/30/2020</u>	<u>6/30/2019</u>
<u>Measurement Date</u>	<u>6/30/2022</u>	<u>6/30/2021</u>	<u>6/30/2020</u>	<u>6/30/2019</u>	<u>6/30/2018</u>
Total OPEB Liability					
Service cost	\$ 36,410	\$ 38,672	\$ 42,910	\$ 36,604	\$ 35,538
Interest on the total OPEB liability	71,792	103,826	98,687	94,721	90,665
Actual and expected experience difference		(467,134)		(204,342)	
Changes in assumptions	(45,620)	112,534	(118,230)	200,986	
Changes in benefit terms					
Benefit payments	(63,580)	(60,952)	(61,478)	(70,961)	(58,747)
Net change in total OPEB Liability	(998)	(273,054)	(38,111)	57,008	67,456
Total OPEB liability- beginning	1,201,973	1,475,027	1,513,138	1,456,130	1,388,674
Total OPEB liability- ending	<u>\$ 1,200,975</u>	<u>\$ 1,201,973</u>	<u>\$ 1,475,027</u>	<u>\$ 1,513,138</u>	<u>\$ 1,456,130</u>
Plan Fiduciary Net Position					
Contributions - employer	\$ 91,886	\$ 87,637	\$ 86,478	\$ 95,961	\$ 83,747
Net investment income	(89,493)	137,267	16,168	25,223	27,739
Benefit payments	(63,580)	(60,952)	(61,478)	(70,961)	(58,747)
Administrative expense	(166)	(186)	(221)	(86)	(187)
Other expenses					(461)
Net change in plan fiduciary net position	(61,353)	163,766	40,947	50,137	52,091
Plan fiduciary net position- beginning	655,207	491,441	450,494	400,357	348,266
Plan fiduciary net position- ending	<u>\$ 593,854</u>	<u>\$ 655,207</u>	<u>\$ 491,441</u>	<u>\$ 450,494</u>	<u>\$ 400,357</u>
Net OPEB liability - ending	<u>\$ 607,121</u>	<u>\$ 546,766</u>	<u>\$ 983,586</u>	<u>\$ 1,062,644</u>	<u>\$ 1,055,773</u>
Covered payroll	\$ 783,408	\$ 611,761	\$ 719,128	\$ 645,139	\$ 552,532
Net OPEB liability as a percentage of covered payroll	77.50%	89.38%	136.77%	164.72%	191.08%

<u>Fiscal Year Date</u>	<u>6/30/2018</u>
<u>Measurement Date</u>	<u>6/30/2017</u>
Total OPEB Liability	
Service cost	\$ 34,503
Interest on the total OPEB liability	88,082
Actual and expected experience difference	
Changes in assumptions	
Changes in benefit terms	
Benefit payments	(50,373)
Net change in total OPEB Liability	72,212
Total OPEB liability- beginning	1,316,462
Total OPEB liability- ending	<u>\$ 1,388,674</u>
Plan Fiduciary Net Position	
Contributions - employer	\$ 75,373
Net investment income	30,828
Benefit payments	(50,373)
Administrative expense	(158)
Other expenses	
Net change in plan fiduciary net position	55,670
Plan fiduciary net position- beginning	292,596
Plan fiduciary net position- ending	<u>\$ 348,266</u>
Net OPEB liability - ending	<u>\$ 1,040,408</u>
Covered payroll	\$ 602,594
Net OPEB liability as a percentage of covered payroll	172.65%

*- Fiscal year 2018 was the 1st year of implementation, thus only six years are shown.

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
SCHEDULE OF OPEB CONTRIBUTIONS
 Last 10 Years*
 As of June 30, 2023

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Contractually required contribution (actuarially determined)	\$ 62,647	\$ 101,300	\$ 98,553	\$ 95,878	\$ 88,399
Contribution in relation to the actuarially determined contributions	(90,020)	(91,886)	(87,637)	(86,478)	(95,961)
Contribution deficiency (excess)	<u>\$ (27,373)</u>	<u>\$ 9,414</u>	<u>\$ 10,916</u>	<u>\$ 9,400</u>	<u>\$ (7,562)</u>
Covered payroll	\$ 930,457	\$ 783,408	\$ 611,761	\$ 719,128	\$ 645,139
Contributions as a percentage of covered payroll	9.67%	11.73%	14.33%	12.03%	14.87%
	<u>2018</u>				
Contractually required contribution (actuarially determined)	\$ 88,399				
Contribution in relation to the actuarially determined contributions	(83,747)				
Contribution deficiency (excess)	<u>\$ 4,652</u>				
Covered payroll	\$ 552,532				
Contributions as a percentage of covered payroll	15.16%				

*- Fiscal year 2018 was the 1st year of implementation, thus only six years are shown.

SUPPLEMENTARY INFORMATION

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
COMBINING STATEMENT OF NET POSITION - BY ACTIVITY
 June 30, 2023

	<u>Water</u>	<u>Sewer</u>	<u>Solid Waste</u>	<u>General</u>	<u>Total</u>
ASSETS					
Current assets:					
Cash and investments	\$ 1,980,136	\$ 1,505,197	\$ 183,175	\$ 749,093	\$ 4,417,601
Taxes receivable	9,741	3,499	1,073	1,045	15,358
Accounts receivable	132,940	76,377			209,317
Interest receivable	25,455	8,038			33,493
Inventory	32,083				32,083
Total current assets	<u>2,180,355</u>	<u>1,593,111</u>	<u>184,248</u>	<u>750,138</u>	<u>4,707,852</u>
Noncurrent assets:					
Restricted cash	175,885				175,885
Capital assets					
Land	56,747	191			56,938
Construction in progress	78,339	585,554			663,893
Property, plant, and equipment	12,625,934	5,552,870		463,216	18,642,020
Accumulated depreciation	<u>(7,162,841)</u>	<u>(4,315,267)</u>		<u>(443,660)</u>	<u>(11,921,768)</u>
Net capital assets	<u>5,598,179</u>	<u>1,823,348</u>		<u>19,556</u>	<u>7,441,083</u>
Total noncurrent assets	<u>5,774,064</u>	<u>1,823,348</u>		<u>19,556</u>	<u>7,616,968</u>
Total assets	<u>7,954,419</u>	<u>3,416,459</u>	<u>184,248</u>	<u>769,694</u>	<u>12,324,820</u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred OPEB	124,589	84,182		127,957	336,728
Deferred pension	224,696	147,657		269,636	641,989
Total deferred outflows of resources	<u>349,285</u>	<u>231,839</u>		<u>397,593</u>	<u>978,717</u>
LIABILITIES					
Current liabilities:					
Accounts payable	83,956	116,530		2,868	203,354
Accrued payroll	3,665	2,443		9,922	16,030
Interest payable	13,660	3,107			16,767
Deposits	200				200
Current portion of compensated absences	8,844	5,896		18,619	33,359
Current portion of loans payable	109,916				109,916
Current portion of capital lease payable	78,456	26,544			105,000
Total current liabilities	<u>298,697</u>	<u>154,520</u>		<u>31,409</u>	<u>484,626</u>
Long-term liabilities:					
Compensated absences	17,714	11,810		37,293	66,817
Loans payable	1,107,492				1,107,492
Capital lease payable	1,048,322	354,678			1,403,000
Net OPEB liability	224,635	151,780		230,706	607,121
Net pension liability	509,224	334,633		611,068	1,454,925
Total liabilities	<u>3,206,084</u>	<u>1,007,421</u>		<u>910,476</u>	<u>5,123,981</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred OPEB	216,976	146,606		222,840	586,422
Deferred pension	28,310	18,604		33,971	80,885
Total deferred inflows of resources	<u>245,286</u>	<u>165,210</u>		<u>256,811</u>	<u>667,307</u>
NET POSITION					
Net investment in capital assets	3,253,993	1,442,126		19,556	4,715,675
Restricted for debt service	162,225				162,225
Unrestricted	1,436,116	1,033,541	184,248	(19,556)	2,634,349
Total net position	<u>\$ 4,852,334</u>	<u>\$ 2,475,667</u>	<u>\$ 184,248</u>	<u>\$ -</u>	<u>\$ 7,512,249</u>

HERITAGE RANCH COMMUNITY SERVICES DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION - BY ACTIVITY

For the Fiscal Year Ended June 30, 2023

	Water	Sewer	Solid Waste	General	Total
Operating Revenues:					
Service fees	\$ 1,225,227	\$ 756,249	\$ -	\$ -	\$ 1,981,476
Turn-on fees	1,125	750			1,875
Hook-up fees	1,500	300			1,800
Late charges and miscellaneous	15,616	9,801		8,069	33,486
	<u>1,243,468</u>	<u>767,100</u>		<u>8,069</u>	<u>2,018,637</u>
Operating Expenses:					
Salaries and wages	235,030	156,692		515,877	907,599
Payroll taxes and benefits	(756)	217		99,669	99,130
Publicity				561	561
Chemicals and gases	61,070	30,447			91,517
Engineering	96	64			160
Fuel and oil	11,678	7,785		1,444	20,907
Lab testing	21,135	32,294			53,429
Licenses and fees	18,350	10,871		250	29,471
Repairs and maintenance	238,176	101,704		4,567	344,447
Small tools and supplies	27,900	6,613		30,077	64,590
Uniforms and laundry	2,239	1,277			3,516
Alarm	855	855		1,710	3,420
Dues and publications	3,988	1,806		12,679	18,473
Insurance	16,210	12,351		10,035	38,596
Office expense				19,475	19,475
Professional services	37,972	24,771		40,130	102,873
Telephone and utilities	55,157	79,711		8,924	143,792
Training	5,100	897		2,567	8,564
Tax collections				6,272	6,272
Water purchase	23,114				23,114
Bad debt				6,628	6,628
Depreciation	324,722	108,557		35,771	469,050
	<u>1,082,036</u>	<u>576,912</u>		<u>796,636</u>	<u>2,455,584</u>
Total operating expenses					
Net operating income (loss)	<u>161,432</u>	<u>190,188</u>		<u>(788,567)</u>	<u>(436,947)</u>
Non-Operating Revenues (Expenses):					
Taxes and assessments	250,686	136,204		68,508	455,398
Standby assessments	199,958	40,955			240,913
Franchise fees			85,138		85,138
Investment income	82,710	24,425			107,135
Interest expense	(69,502)	(12,846)			(82,348)
Transfers in (out)	(374,431)	(288,023)	(57,605)	720,059	
	<u>89,421</u>	<u>(99,285)</u>	<u>27,533</u>	<u>788,567</u>	<u>806,236</u>
Total non-operating revenues (expenses)					
Capital Contributions:					
Connection fees	19,022	23,326			42,348
	<u>19,022</u>	<u>23,326</u>			<u>42,348</u>
Change in net position	269,875	114,229	27,533		411,637
Net position:					
Net position, beginning of fiscal year	4,582,459	2,361,438	156,715		7,100,612
Net position, end of fiscal year	<u>\$ 4,852,334</u>	<u>\$ 2,475,667</u>	<u>\$ 184,248</u>	<u>\$ -</u>	<u>\$ 7,512,249</u>

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
COMBINING STATEMENT OF CASH FLOWS - BY ACTIVITY
For the Fiscal Year Ended June 30, 2023

	<u>Water</u>	<u>Sewer</u>	<u>Solid Waste</u>	<u>General</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 1,265,882	\$ 771,944	\$ -	\$ 8,069	\$ 2,045,895
Payments to vendors	(474,800)	(254,539)		(146,503)	(875,842)
Payments to employees	(365,204)	(243,506)		(778,833)	(1,387,543)
Net cash provided (used) by operating activities	<u>425,878</u>	<u>273,899</u>		<u>(917,267)</u>	<u>(217,490)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Property taxes	250,248	136,500	(255)	68,249	454,742
Franchise fees			85,138		85,138
Stand by fees	199,958	40,955			240,913
Transfers	(374,431)	(288,023)	(57,605)	720,059	
Net cash provided (used) by noncapital financing activities	<u>75,775</u>	<u>(110,568)</u>	<u>27,278</u>	<u>788,308</u>	<u>780,793</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchase of capital assets	(333,143)	(402,885)			(736,028)
Principal paid on long-term debt	(205,633)	(25,533)			(231,166)
Interest paid on long-term debt	(70,784)	(13,054)			(83,838)
Connection fees	19,022	23,326			42,348
Net cash used by capital and related financing activities	<u>(590,538)</u>	<u>(418,146)</u>			<u>(1,008,684)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received	63,619	18,396			82,015
Net cash provided by investing activities	<u>63,619</u>	<u>18,396</u>			<u>82,015</u>
Net increase (decrease) in cash and cash equivalents	(25,266)	(236,419)	27,278	(128,959)	(363,366)
Cash and cash equivalents, July 1	<u>2,181,287</u>	<u>1,741,616</u>	<u>155,897</u>	<u>878,052</u>	<u>4,956,852</u>
Cash and cash equivalents, June 30	<u>\$ 2,156,021</u>	<u>\$ 1,505,197</u>	<u>\$ 183,175</u>	<u>\$ 749,093</u>	<u>\$ 4,593,486</u>
Reconciliation to Statement of Net Position:					
Cash and investments	\$ 1,980,136	\$ 1,505,197	\$ 183,175	\$ 749,093	\$ 4,417,601
Restricted cash	175,885				175,885
Total cash and investments	<u>\$ 2,156,021</u>	<u>\$ 1,505,197</u>	<u>\$ 183,175</u>	<u>\$ 749,093</u>	<u>\$ 4,593,486</u>

(Continued)

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
COMBINING STATEMENT OF CASH FLOWS - BY ACTIVITY (CONTINUED)
For the Fiscal Year Ended June 30, 2023

	<u>Water</u>	<u>Sewer</u>	<u>Solid Waste</u>	<u>General</u>	<u>Total</u>
Reconciliation of operating income (loss) to net cash provided (used)					
by operating activities:					
Operating income (loss)	\$ 161,432	\$ 190,188	\$ -	\$ (788,567)	\$ (436,947)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	324,722	108,557		35,771	469,050
Change in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:					
Accounts receivable	22,314	4,844			27,158
Inventory	(2,474)				(2,474)
Deferred outflows	(131,615)	(86,576)		(157,140)	(375,331)
Accounts payables	50,714	56,907		(1,184)	106,437
Accrued payroll	(7,332)	(4,887)		(16,708)	(28,927)
Compensated absences	2,850	1,907		292	5,049
Deposits	100				100
Net OPEB liability	22,332	15,088		22,935	60,355
Net pension liability	244,166	160,452		292,999	697,617
Deferred inflows	(261,331)	(172,581)		(305,665)	(739,577)
Net cash provided (used) by operating activities	<u>\$ 425,878</u>	<u>\$ 273,899</u>	<u>\$ -</u>	<u>\$ (917,267)</u>	<u>\$ (217,490)</u>