

HERITAGE RANCH COMMUNITY SERVICES DISTRICT

MEMORANDUM

TO: Board of Directors
FROM: Scott Duffield, General Manager
DATE: December 20, 2018
SUBJECT: Request to elect a Board President and Vice President for 2019.

Recommendation

It is recommended that the Board of Directors:

1. Nominate and elect a Director to the position of Board President for 2019; and
2. Nominate and elect a Vice President for 2019.

Background

District Code of Ordinance states:

2.110 – Officer Election and Term of Officer

The President and Vice President of the Board shall be elected by the members of the Board for a one-year term pursuant to a rotation policy. The election shall be held at any time during the December meeting.

Discussion

The above Code reflects your Board's desire to have one-year terms for all Board Officers during their four-year term in office with a customary arrangement during the nomination period that provides for any serving Board member to be offered the president position based on seniority. Thus, the Board will normally rotate the presidency and vice presidency amongst the Directors. The rotation policy is not a written policy but only a customary practice.

Traditionally the next senior Board member has been offered the office of Vice President before their turn as President.

The District's current Board officers and projected 2019 officers pursuant to the rotation policy are shown in Attachment A.

Attachments: Attachment A – Board of Directors and Officers

Attachment A

**Heritage Ranch Community Services District
Board of Directors and Officers**

Officers	2013	2014	2015	2016	2017
President	Bill Barker	Bill Barker	Tony Foti	Dan Burgess	Reg Cousineau
VP	Ralph Allison	Tony Foti	Dan Burgess	Reg Cousineau	Martin Rowley
					Bill Barker
					Dan Burgess
					Devin Capps
Officers	2018	2019	2020	2021	2022
President	Martin Rowley	Bill Barker			
VP	Bill Barker	Dan Burgess			
	Dan Burgess	Devin Capps			
	Devin Capps	Reg Cousineau			
	Reg Cousineau	Martin Rowley			

HERITAGE RANCH COMMUNITY SERVICES DISTRICT

MEMORANDUM

TO: Board of Directors

FROM: Scott Duffield, General Manager
Robert Crosby, CPA

DATE: December 20, 2018

SUBJECT: Request to accept and direct staff to file the Independent Auditor's Report and Financial Statements for the Year Ended June 30, 2018, prepared by Crosby Company.

Recommendation

It is recommended that the Board of Directors accept and direct staff to file the Independent Auditor's Report and Financial Statements for the Year Ended June 30, 2018, (audit) prepared by Crosby Company.

Background

Government Code Section 61118 requires that the Board of Directors shall provide for regular audits of the district's accounts and records, and shall provide for the annual financial reports to the State Controller.

Discussion

The annual audit is attached for your Board's review and comment. The audit includes a Management Discussion and Analysis (MD&A) report in compliance with Governmental Accounting Standards Board Statement No. 34. The MD&A was prepared by the General Manager and is intended to summarize the financial highlights of the District as compared to last year. The MD&A is an introduction to the audit and provides a document that is more easy to read and understand.

The audit was performed by Robert Crosby, Certified Public Accountant, with information provided from Kristen Gelos, Office Supervisor. Mr. Crosby will present the audit and answer any detailed questions from your Board. The audit provides an opinion that the District's financial statements fairly represent the financial position of the District.

Fiscal Implications

The cost for preparation of the audit is included in the FY 2018/19 Budget.

Results

By providing for the annual financial reports to be filed with the State Controller, the District continues to provide municipal services in a fiscally responsible manner and in accordance with applicable law.

Attachment: Independent Auditor's Report and Financial Statements for the Year Ended
June 30, 2018

**HERITAGE RANCH COMMUNITY
SERVICES DISTRICT**

**Independent Auditor's Report and
Financial Statements**

For the Year Ended
June 30, 2018

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

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CROSBY COMPANY, CERTIFIED PUBLIC ACCOUNTANT

1457 MARSH STREET, SUITE 100 - SAN LUIS OBISPO, CA 93401

PHONE: (805)543-6100 FAX: (805)858-9505

Independent Auditor's Report

To the Board of Directors
Heritage Ranch Community Services District
Paso Robles, California 93446

Report on the Financial Statements

I have audited the accompanying financial statements of the business-type activities of the Heritage Ranch Community Services District (the District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my 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 of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position the business-type activities of the District, as of June 30, 2018, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Emphasis of Matter
Implementation of New Accounting Standards

As disclosed in Note 1 to the financial statements, the District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, during the fiscal year 2018. The District also implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Other Matters
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages *i* through *ix*, and the Schedule of Funding Progress, Schedule of the District's Proportionate Share of the Net Pension Liability, and Schedule of Contributions, listed on pages 25 through 27, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I 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 I obtained during my audit of the basic financial statements. I 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.

Other Information

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Heritage Ranch Community Services District basic financial statements. The combining financial statement schedules listed in the table of contents are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information 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 basic 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 my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



CROSBY COMPANY
Certified Public Accountant
San Luis Obispo, California

August 30, 2018

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
Fiscal Year Ending June 30, 2018

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, 2018. 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 2018 are as follows:

- The District incurred a deficit after all revenues, expenses and contributions, of \$252,762. A depreciation expense of \$449,922 is included in the financial statements.
- The District's operating revenue increased by \$121,202, or 8.9% from last year.
- The District's non-operating revenue decreased by \$249,048, or 28.2% from last year primarily due to not having grant revenue.
- Water Fund user fee revenue increased by \$87,045, or 10.5% from last year.
- Sewer Fund user fee revenue increased by \$32,515, or 6.1% from last year.
- Water and Sewer Fund capacity charge revenue increased by \$11,393 or 13.4% from last year.
- Solid Waste Fund franchise revenue increased by \$15,435, or 36.7%.
- Total operating expenses increased by \$15,395, or 0.6% from last year.
- Capital assets (less depreciation) decreased by \$614,289 or 8.5%.

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, an entire operating entity. These statements then proceed to provide an increasingly detailed look at specific financial activities. This annual report consists of two parts – management's discussion and analysis (this section) and the basic financial statements. The basic financial statements include two kinds of statements that present different views of the District:

- The first statements are the *government-wide financial statements* that provide both long-term and short-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the government, reporting the District's operations in more detail than the *government-wide 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.

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
Fiscal Year Ending June 30, 2018

Government-wide and fund financial statements

The government-wide financial statement (i.e. the statements of net assets and activities) reports information on all the activities of the District. 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 government-wide statement reports the District's net assets and how they have changed. Net assets are the difference between the District's assets and liabilities 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 assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional non-financial factors, such as increases in the District's customer base, facility condition, and other factors.

The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending.

The District's proprietary funds are the water fund, sewer fund, solid waste fund, and the general fund.

- **Water Fund.** This fund 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, six pump stations, and over sixteen miles of pipeline. As of June 30, 2018, there were 1,913 approved water connections; of these 1,898 were active. The water fund receives revenue from user fees, standby charges, property taxes, and interest earnings.
- **Sewer Fund.** This fund 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, 2018, there were 1,763 active sewer connections. The sewer fund receives revenue from user fees, standby charges, property taxes, and interest earnings.
- **Solid Waste Fund.** This fund 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 fund 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, 2018

Financial Analysis of the District as a Whole

Table 1 provides a summary of the District's net position for fiscal year 2018 compared to 2017.

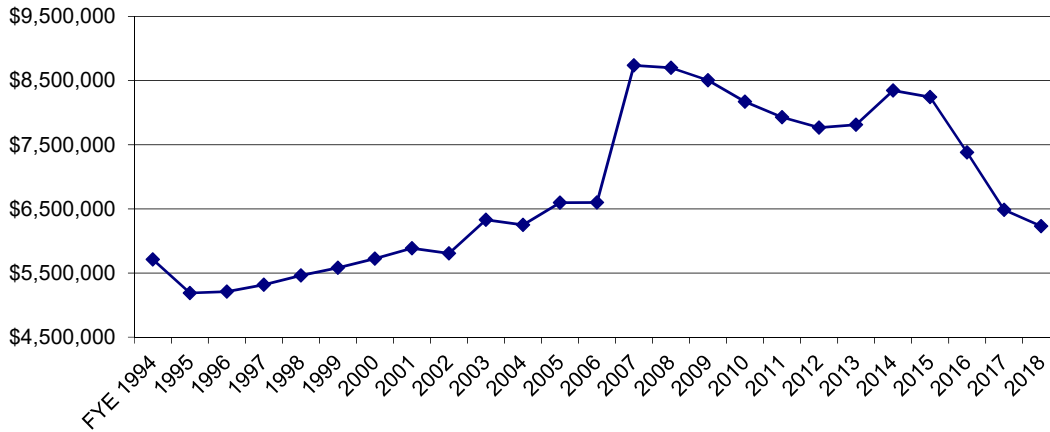
Table 1 Net Position

	FYE 2017	FYE 2018	% Change
Assets			
Cash and equivalents	\$2,717,254	\$3,086,911	13.60%
Restricted cash and equivalents	112,392	112,666	0.24%
Accounts receivable (net)	275,004	252,431	-8.21%
Other	45,683	53,356	16.80%
Capital assets (net of depreciation)	7,221,519	6,607,230	-8.51%
Total Assets	10,371,852	10,112,594	-2.50%
Liabilities			
Net OPEB Liabilities	775,541	1,040,408	34.15%
Net Pension Liabilities	757,076	772,630	2.05%
Long-term liabilities	1,834,993	1,717,937	-6.38%
Current liabilities	430,194	317,830	-26.12%
Total Liabilities	3,797,804	3,848,805	1.34%
Deferred Inflows of Resources			
Deferred Pensions	89,953	32,456	-63.92%
Net Position			
Net Invested in Capital Assets	5,272,523	4,772,237	-9.49%
Restricted for Debt Service	112,392	112,666	0.24%
Restricted by Resolution	1,099,180	1,346,430	22.49%
Total Net Position	\$6,484,095	\$6,231,333	-3.90%

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
 Fiscal Year Ending June 30, 2018

Total net position decreased between fiscal years 2017 and 2018, by 3.90% to \$6,231,333. This is a slight decrease from the fiscal year 2016 to 2017 decrease of 1.64%. All the District's net assets are 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

Operating revenues increased in fiscal year 2018 by 8.86%. Total expenses increased by a very small 0.63%. Non-Operating revenues decreased by 28.24% primarily due to not having revenue from grants as we did last year. Total net position decreased by \$252,762. The water, sewer, and solid waste funds all experienced increases in revenue. All funds continue to experience high operating expense and will require capital improvements and other operational enhancements to meet new regulatory compliance. A water and sewer rate increase was implemented in fiscal year 2018, and further solutions are needed and should be considered to lower operating costs. 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, 2018

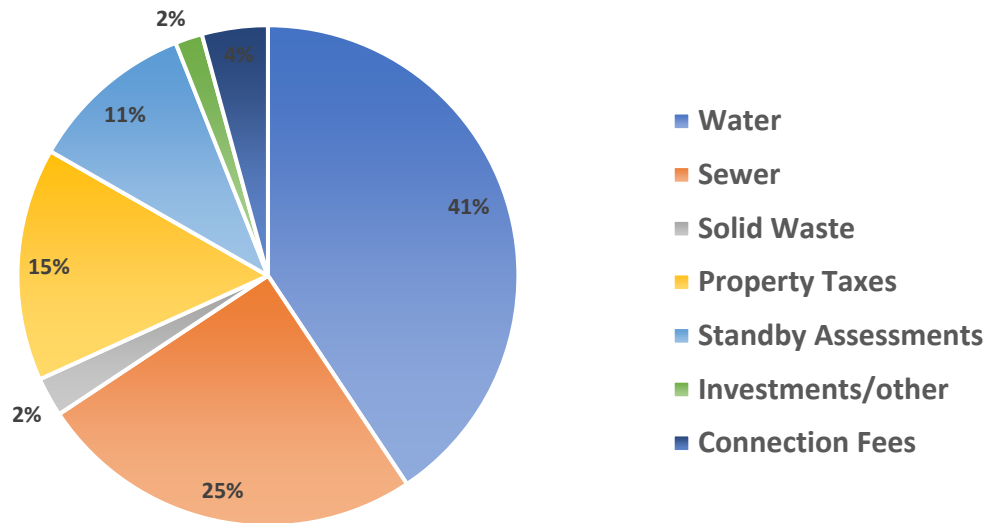
Table 2 Enterprise Activities - Revenues, Expenses, and Change

	FYE 2017	FYE 2018	% Change
Operating Revenues			
Water fund	\$833,261	\$920,306	10.45%
Sewer fund	534,973	567,488	6.08%
General fund	484	2,126	339.26%
Total operating revenues	1,368,718	1,489,920	8.86%
Non-Operating Revenues			
Water fund	331,930	371,279	11.85%
Sewer fund	137,838	152,998	11.00%
Franchise fees	42,097	57,532	36.67%
General fund	52,656	51,129	-2.90%
Grant Income	317,465	0	
Total non-operating revenues	881,986	632,938	-28.24%
Capital Contributions			
Capital contributions all funds	0	0	0.00%
Connection fees water & sewer funds	85,007	96,400	13.40%
Total capital contributions	85,007	96,400	13.40%
Operating Expenses			
Water fund	\$1,156,904	\$1,119,907	-3.20%
Sewer fund	587,301	791,789	34.82%
General fund	712,420	560,324	-21.35%
Total expenses	2,456,625	2,472,020	0.63%
Increase (decrease) in net assets	-120,914	-252,762	109.04%
Total net assets – beginning (as restated)	\$7,380,550	\$6,484,095	-12.15%
Total net assets – end	\$7,259,636	\$6,231,333	-14.16%

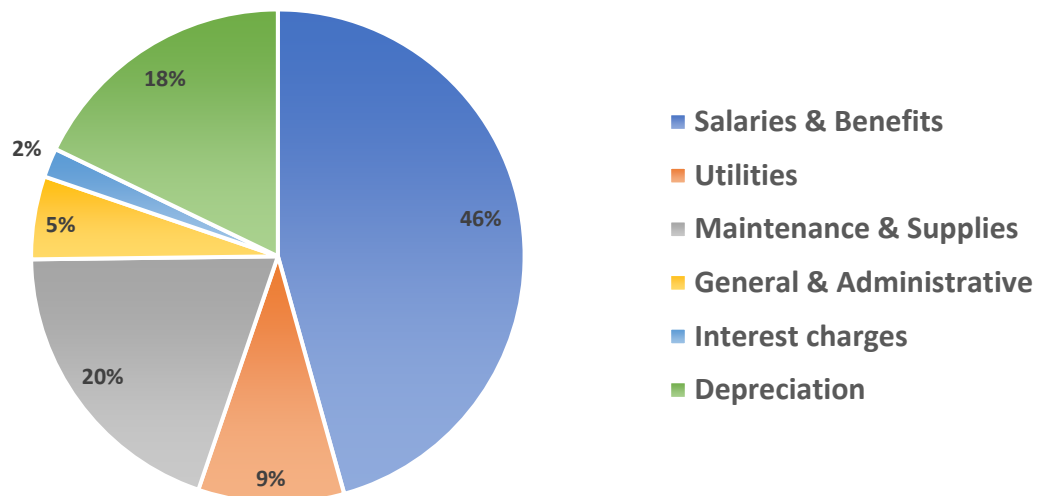
HERITAGE RANCH COMMUNITY SERVICES DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
 Fiscal Year Ending June 30, 2018

Figure 2 Revenues and Expenses

Revenues



Expenses



HERITAGE RANCH COMMUNITY SERVICES DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
 Fiscal Year Ending June 30, 2018

Capital Assets and Debt Administration

At the end of fiscal year 2018, the District had invested \$6,607,230 in a broad range of capital assets, including land, equipment, buildings, and infrastructure net of depreciation. This amount represents a net decrease (including additions and deletions) of \$614,289 or 8.5% over last fiscal year.

Table 3 Capital Assets at June 30, 2018

	FYE 2017	FYE 2018	% Change
Land	\$56,938	\$56,938	0.00%
Construction in progress	225,850	9,625	-95.74%
Total non-depreciable	282,788	66,563	-76.46%
Buildings	919,594	919,594	0.00%
Plants and facilities	13,388,553	13,440,410	0.39%
Vehicles and equipment	2,008,897	2,008,898	0.00%
Total depreciable	16,317,044	16,368,902	0.32%
Less accumulated depreciation	-9,378,313	-9,828,235	4.80%
Net capital assets	\$7,221,519	\$6,607,230	-8.51%

The fiscal year ending June 30, 2018, did not include any major capital projects pursuant to the Board's approval of the rate study. There were several smaller professional services projects. The following is a summary of the professional services projects funded during the year:

- \$22,000 – Basin Boundary Modification Request
- \$20,000 – NPDES Permit Renewal
- \$7,654 – Capacity Charge Study
- \$2,845 – Paso Robles Basin GSP

The District's fiscal year 2019 capital budget projects spending a total of \$73,000 for capital projects and equipment purchases. This is a very modest capital project budget due to limited revenues and pursuant to the Board's decision to delay capital projects for two years in conjunction with the rate increases. Continued implementation of the 2018 rate increases will assist in funding capital projects pursuant to the rate increase study and the approved Capital Improvement Plan. More detailed information about the District's capital assets is presented in Note 4 to the financial statements.

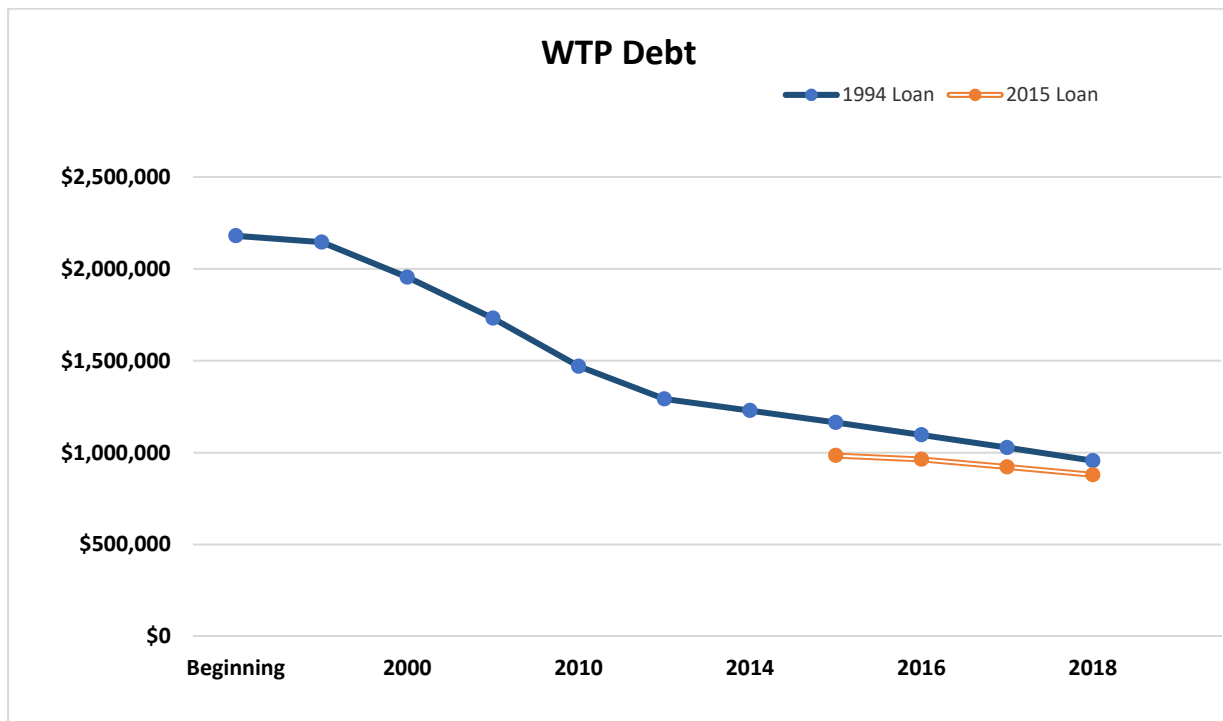
HERITAGE RANCH COMMUNITY SERVICES DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
Fiscal Year Ending June 30, 2018

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, 2018, principal balance is \$955,657.

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, 2018, principal balance is \$879,336. More detailed information about the District's long-term liabilities is presented in Note 6 of the basic financial statements. Figure 3 illustrates the water treatment plant debt over time.

Figure 3 Water Treatment Plant Debt



Current Financial Issues and Concerns

The District is financially stable despite increasing costs, limited/reducing 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. The District increased its water and sewer rates and charges in recent years but must continue to look for ways to lower operating costs to meet future operating and capital fund stability. The District currently has \$1,717,937 in long-term principal and interest payments due on two water

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
Fiscal Year Ending June 30, 2018

treatment plant construction and improvement loans. This debt must be closely monitored before further debt is incurred.

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

BOARD OF DIRECTORS

June 30, 2018

NAME

TERM EXPIRES

Martin Rowley, President

December, 2018

Bill Barker, Jr., Vice President

December, 2018

Dan Burgess, Director

December, 2020

Devin Capps, Director

December, 2018

Reginald Cousineau, Director

December, 2018

HERITAGE RANCH COMMUNITY SERVICES DISTRICT

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

As of June 30, 2018

ASSETS		
Current assets:		
Cash and cash equivalents	\$	3,086,911
Taxes receivable		12,894
Accounts receivable		252,431
Interest receivable		14,016
Inventory		26,446
Total current assets		3,392,698
Noncurrent assets:		
<i>Investments:</i>		
Restricted cash and cash equivalents		112,666
<i>Capital assets:</i>		
Land and construction in progress		66,563
Property plant and equipment, net accumulated depreciation		6,540,667
Total noncurrent assets		6,719,896
Total assets		\$ 10,112,594
Deferred Outflows of Resources:		
Deferred pensions and OPEB obligations	\$	-
LIABILITIES		
Current liabilities:		
Accounts payable	\$	46,465
Accrued payroll expenses		36,787
Interest payable		7,857
Compensated absences		96,904
Deposit		12,761
Note payable - current portion		117,056
Total current liabilities		317,830
Noncurrent liabilities:		
Net OPEB liability		1,040,408
Net pension liability		772,630
Note payable - less current portion		1,717,937
Total noncurrent liabilities		3,530,975
Total liabilities		\$ 3,848,805
Deferred Inflows of Resources:		
Deferred pensions	\$	32,456
NET POSITION		
Net investment in capital assets	\$	4,772,237
Restricted for debt service		112,666
Restricted by resolution		1,346,430
Total net position		\$ 6,231,333

The accompanying notes are an integral part of these financial statements

HERITAGE RANCH COMMUNITY SERVICES DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION PROPRIETARY FUNDS As of June 30, 2018

Operating revenues:	
Charges for services	\$ 1,487,794
Miscellaneous	2,126
Total revenue	1,489,920
Operating expenses:	
Salaries and wages	594,805
Employee benefits and taxes	264,556
Publicity	1,703
Chemicals and gases	53,234
Engineering	250,418
Fuel and oil	11,090
Lab testing	24,063
Licenses and fees	42,171
Repairs and maintenance	111,177
Small tools and supplies	43,479
Uniforms and laundry	2,758
Alarm	3,622
Dues and publications	8,590
Insurance	23,388
Office expense	17,089
Professional services	26,086
Telephone and utilities	240,830
Training	3,666
Travel	3,000
Tax collection	4,923
Depreciation	449,922
Total operating expenses	2,180,570
Operating loss	(690,650)
Non-operating revenues (expenses):	
Taxes and assessments	340,857
Standby assessments	242,921
Franchise fees	57,532
Investment income	39,667
Annual required contributions for post employment benefits	(291,450)
Interest expense	(48,039)
Total non-operating revenues (expenses)	341,488
Income (loss) before grant income and capital contributions	(349,162)
Capital contributions - connection fees	96,400
Change in net assets	(252,762)
Net position-beginning (as restated)	6,484,095
Net position-ending	\$ 6,231,333

The accompanying notes are an integral part of these financial statements

HERITAGE RANCH COMMUNITY SERVICES DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

As of June 30, 2018

Cash flows from operating activities:	
Receipts from customers and users	\$ 1,512,493
Payments to suppliers	(971,718)
Payments to employees	(657,822)
Net cash used by operating activities	(117,047)
Cash flows from non-capital financing activities:	
Taxes and assessments	340,857
Standby assessments	242,921
Franchise fees	57,532
Net cash provided by non-capital and related financing activities	641,310
Cash flows from capital and related financing activities:	
Change in net OPEB liability	264,867
Change in net pension liability	(41,943)
Principal paid on capital debt	(114,003)
Interest paid on capital debt	(48,039)
Acquisition of capital assets	(59,830)
Capital contributions	96,400
Other nonoperating capital activities	(291,450)
Net cash used by capital and related financing activities	(193,998)
Cash flows from investing activities:	
Investment income	39,667
Net cash provided by investing activities	39,667
Net change in cash and cash equivalents	369,932
Total cash and cash equivalents-beginning	2,829,645
Total cash and cash equivalents-ending	3,199,577
Less: Restricted cash and cash equivalents-ending	(112,666)
Total unrestricted cash and cash equivalents-ending	\$ 3,086,911
Reconciliation of operating income to net cash used by operating activities:	
Operating loss	\$ (690,650)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	449,922
Loss on constuction of capital assets	224,198
Change in operating assets and liabilities	
Increase in taxes receivable	(677)
Decrease in accounts receivable	22,573
Increase in interest receivable	(8,751)
Decrease in inventory	1,755
Decrease in accounts payable	(64,836)
Increase in accrued payroll	10,200
Decrease in interest payable	(325)
Decrease in compensated absences	(73,217)
Increase in deposits	12,761
Net cash used by operating activities	\$ (117,047)

The accompanying notes are an integral part of these financial statements

HERITAGE RANCH COMMUNITY SERVICES DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Heritage Ranch Community Services District (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 complies with U.S. Generally Accepted Accounting Principles (GAAP) and all relevant U.S. Governmental Accounting Standards Board (GASB) pronouncements. These technical pronouncements establish criteria for determining the organization's activities and functions that are included in the financial statements of a governmental unit. The proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

Reporting Entity

For financial reporting purposes, the District would include in this report all funds and account groups of all agencies and boards that are controlled by, or dependent upon, the District's legislative body. The criteria of control is determined on the basis of financial accountability, imposition of will, and financial benefit or burden.

There are no component units included in this report which meet the criteria of GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39.

The District is a member of the Special District Risk Management Authority Joint Powers Agency, which was organized for the purpose of providing general liability, workers compensation, automobile, errors and omissions, and property loss insurance coverage to special districts. This organization is financed through premium charges to each member. This organization does not meet the aforementioned reporting entity criteria and therefore is not included in the accompanying financial statements.

Proprietary Fund Financial Statements

The accounts of the District are organized into proprietary/enterprise funds. Enterprise funds use the economic resources measurement focus. The accounting objectives are a determination of net income, financial position, and cash flows. All assets and liabilities associated with an enterprise fund's activities are included on the balance sheet.

HERITAGE RANCH COMMUNITY SERVICES DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Accounting

The enterprise funds of the District are accounted for using the accrual basis of accounting. Revenues, including user fees and service charges, are recognized when earned, and expenses are recognized when incurred.

Budgets and Budgetary Accounting

An annual budget is adopted by the Board of Directors at the start of each fiscal year. Any changes or revisions to that budget throughout the year must be approved by the Board of Directors.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Operating Revenues and Expenses

Operating revenues, such as charges for services (water and wastewater fees) result from exchange transactions associated with the principal activities of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as property taxes and investment income, result from non-exchange transactions or ancillary activities in which the District gives (receives) value without directly receiving (giving) equal value in exchange.

Operating expenses include the cost of sales and services, administrative expenses and depreciation on capital assets. All expenses not meeting this definition are reported as non-operating expenses.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Accounts Receivable

The District did not experience any significant bad debt losses and therefore a zero provision has been made for doubtful accounts. Accounts receivable is shown at full value.

HERITAGE RANCH COMMUNITY SERVICES DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond June 30, 2018, are recorded as prepaid expenses.

Capital Assets

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.

Inventory

The inventories maintained by the water utility consist primarily of water pipe, valves, and fittings. Inventory is valued at cost, determined on a first-in, first-out basis.

Compensated Absences

Accumulated unpaid employee vacation and sick leave benefits are recognized as liabilities of the District. The amounts are included in current liabilities under accruals.

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.

Interfund Transactions

Transactions that constitute a reimbursement from one fund to another are recorded as an expense in the reimbursing fund and an expense reduction in the fund being reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or non-routine transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

HERITAGE RANCH COMMUNITY SERVICES DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property Taxes

The County of San Luis Obispo bills and collects property taxes for the District. The County charges the District for these services. Tax revenues are recognized by the District in the year received.

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 District's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' 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.

Effect of New Governmental Accounting Standards Board (GASB) Pronouncements

Effective This Fiscal Year:

GASB Statement #68 – In June 2012, GASB issued Statement #68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement #27*. This Statement replaces the requirements of Statements #27 and #50 related to pension plans that are administered through trust or equivalent arrangements. The requirements of Statements #27 and #50 remain applicable for pensions that are not administered as trusts or equivalent arrangements. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2014. The District implemented this statement effective July 1, 2015.

GASB Statements #74 and #75 – In June 2015, GASB issued both Statement #74 and #75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. These Statements replace the requirements of Statements #43 and #45 related to Other Postemployment Benefit Plans (OPEB) that are administered through trust or equivalent arrangements. The requirements of Statements #43 and #45 remain applicable for OPEBs that are not administered as trusts or equivalent arrangements. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2017. The District implemented these statements effective July 1, 2017.

HERITAGE RANCH COMMUNITY SERVICES DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE 2: CASH AND CASH EQUIVALENTS

The value of cash and cash equivalents at June 30, 2018 is summarized as follows:

Cash on hand and in banks	\$	187,738
Cash and investments with the Local Agency Investment Fund (LAIF)		3,011,839
Total cash and cash equivalents	\$	3,199,577

The California Government Code requires California banks and savings and loan associations to secure a district's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of a district's deposits. California law also allows financial institutions to secure district deposits by pledging first trust deed mortgage notes having a value of 150% of a district's total deposits. The District may waive collateral requirements for deposits which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC).

Credit Risk, Carrying Amount, and Market Value

Cash is classified in three categories of credit risk as follows:

- Category 1 - insured or collateralized with securities held by the entity or by its agent in the entity's name;
- Category 2 - collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name; and
- Category 3 - uncollateralized.

Investments in pools managed by other governments (LAIF) or in mutual funds are not required to be categorized.

At June 30, 2018, the carrying amount of the District's cash deposits was \$187,738. The bank's balance was \$178,780. This difference is due to the normal deposits in transit and outstanding checks. District cash deposits by category as of June 30, 2018, are as follows:

		<u>Category</u>			<u>Bank</u>	<u>Carrying</u>
	<u>1</u>	<u>2</u>	<u>3</u>		<u>Balance</u>	<u>Amount</u>
Bank accounts	\$ <u>178,780</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$	<u>178,780</u>	\$ <u>187,738</u>

HERITAGE RANCH COMMUNITY SERVICES DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE 3: INVESTMENTS

Investments Authorized by the District's Investment Policy

The District is authorized to invest in the following institutions:

1. County pooled funds (California Government Code Section 61730)
2. The Local Agency Investment Fund (LAIF) created by the California State Treasury (California Government Code Section 16429.1)
3. One or more FDIC insurance banks and/or savings and loan associations that are designated as District depositories by resolution of the Board of Directors (California Government Code Section 61737.02)
4. Such other financial institutions or securities that may be designated by the Board of Directors from time to time in compliance with California and Federal law.

The District's investment policy does contain specific provisions intended to limit the District's exposure to interest rate risk, credit risk, and concentration of credit risk.

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee and governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy. The table below identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>
Money Market Mutual Funds	N/A

Disclosure Relating to Interest Rate Risk

Interest rate risk is the risk that changes in the 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. The weighted average maturity of the investment contained in the LAIF investment pool is approximately 9 months.

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

		<u>Maturity Date</u>
State investment pool	\$ <u>3,011,839</u>	9 months average maturity

HERITAGE RANCH COMMUNITY SERVICES DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE 3: INVESTMENTS (continued)

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 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 entity'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 costs basis.

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 a rating by a nationally recognized statistical rating organization. LAIF does not have a rating provided by a nationally recognized statistical rating organization.

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 California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by the state or local governmental 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 market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgages notes having a value of 150% of the secured public deposits.

The custodial 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 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 local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

HERITAGE RANCH COMMUNITY SERVICES DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE 3: INVESTMENTS (continued)

Concentration of Risk

The District's investment policy does not contain various limitations on the amounts that can be invested in any one governmental agency or non-governmental issuer as stipulated by the California Government Code. As of June 30, 2018, the District's deposit portfolio with government agencies, LAIF, was 100%.

NOTE 4: PROPERTY, PLANT, EQUIPMENT AND CONSTRUCTION IN PROGRESS

A summary of capital assets by major classifications is as follows:

	June 30, <u>2017</u>	<u>Additions</u>	<u>(Deletions)</u>	June 30, <u>2018</u>
<u>Non-depreciable:</u>				
Land	\$ 56,938	\$ -	\$ -	\$ 56,938
Construction in progress	<u>225,850</u>	<u>3,147</u>	<u>(219,372)</u>	<u>9,625</u>
Total non-depreciable	<u>282,788</u>	<u>3,147</u>	<u>(219,372)</u>	<u>66,563</u>
<u>Depreciable:</u>				
Buildings and structures	919,594			919,594
Plant and facilities	13,388,552	56,684	(4,826)	13,440,410
Vehicles and equipment	<u>2,008,898</u>			<u>2,008,898</u>
Total depreciable	16,317,044	56,684	(4,826)	16,368,902
Accumulated depreciation	<u>(9,378,313)</u>	<u>(449,922)</u>		<u>(9,828,235)</u>
Net depreciable assets	<u>6,938,731</u>	<u>(393,238)</u>	<u>(4,826)</u>	<u>6,540,667</u>
Net capital assets	\$ <u>7,221,519</u>	\$ <u>(390,091)</u>	\$ <u>(224,198)</u>	\$ <u>6,607,230</u>

Depreciation expense for the period ended June 30, 2018 was \$449,922.

HERITAGE RANCH COMMUNITY SERVICES DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE 5: RESTRICTED ASSETS

Certain proceeds of the enterprise funds are classified as restricted on the statement of net position because their uses are limited. For the fiscal year ended June 30, 2018, the following amounts are restricted:

Cash with fiscal agent	\$ 112,665
Restricted by enabling legislation	<u>3,086,911</u>
Total restricted	\$ <u>3,199,576</u>

The monies with the fiscal agent are limited by the note payable agreement with the Department of Water Resources. The additional amounts were restricted by resolution.

NOTE 6: LONG-TERM DEBT

Long term debt consisted of the following:

	<u>Balance at June 30, 2017</u>	<u>Balance at June 30, 2018</u>
The District obtained a \$2,179,398 loan 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 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.	1,027,208	955,657
The District obtained a \$984,090 loan from the State of California – State Water Resources Control Board in 2015, for the District's plant construction and modification. The loan is payable over 20 years and bears interest at 1.788% annually. In July of 2016 the District began making semi-annual principal and interest payments. Remaining semi-annual payments of \$29,370 will be made in July and January through fiscal year 2036.	<u>921,788</u>	<u>879,336</u>
Total long-term debt	1,948,996	1,834,993
Less current maturities	<u>114,003</u>	<u>117,056</u>
Total long-term maturities	\$ 1,834,993	\$ 1,717,937

See Auditor's report

HERITAGE RANCH COMMUNITY SERVICES DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE 6: LONG-TERM DEBT (continued)

The aggregate maturities of long term debts are as follows:

<u>Fiscal year ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Debt service</u>
2019	\$ 117,056	\$ 45,312	\$ 162,368
2020	120,142	42,226	162,368
2021	123,478	38,690	162,368
2022	126,750	35,618	162,368
2023	130,168	32,200	162,368
2024-2028	705,631	106,211	811,842
2029-2033	368,807	29,013	397,820
2034-2036	<u>142,961</u>	<u>5,382</u>	<u>148,343</u>
Total	\$ <u>1,834,993</u>	\$ <u>334,852</u>	\$ <u>2,169,845</u>

NOTE 7: NET POSITION

The business-type activity fund financial statements utilize a net position presentation. Net position is categorized as invested capital assets (net of related debt), restricted, and unrestricted.

Invested in Capital Assets, Net of Related Debt – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.

Restricted Net Position – This category presents external restrictions imposed by creditors, grantors, contributors, laws, or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position – This category represents net assets of the District, not restricted for any project or other purpose.

HERITAGE RANCH COMMUNITY SERVICES DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE 8: JOINT POWERS AUTHORITY

The District is a member of the Special District Risk Management Authority (S.D.R.M.A.), an intergovernmental risk sharing joint powers authority, created pursuant to California Government code Sections 6500 et.seq. In becoming a member of the S.D.R.M.A., the District elected to participate in the risk financing program(s) listed below for the program period July 1, 2017 through June 30, 2018.

General and Auto Liability, Public Officials' and Employees' Errors, Employment Practices Liability and Employee Benefits Liability: Special District Risk Management Authority, coverage number LCA SDRMA 201718. This covers \$2,500,000 per occurrence, subject to policy deductibles.

Employee Dishonesty Coverage: Special District Risk Management Authority, coverage number EDC SDRMA 201718. This policy includes a \$400,000 Public Employees Dishonesty Blanket Coverage.

Property Loss: Special District Risk Management Authority, coverage number PPC SDRMA 201718. This policy covers the replacement cost for property on file, \$1 billion per occurrence.

Boiler and Machinery: Special District Risk Management Authority, coverage number BMC SDRMA 201718. This covers \$100,000,000 per occurrence, subject to a \$1,000 deductible. The District also participated in the elective comprehension/collision coverage on selected vehicles, subject to policy deductibles.

Personal Liability Coverage for Board Members: Special District Risk Management Authority, coverage number LCA SDRMA 201718. \$500,000 per occurrence, annual aggregate per each elected/appointed official.

Uninsured/Underinsured Motorists: Special District Risk Management Authority, coverage number UMI SDRMA 201718. This covers \$1,000,000 for each accident.

Workers' Compensation: Special District Risk Management Authority, coverage number WCP SDRMA 201718. The policy covers \$5,000,000 per occurrence.

HERITAGE RANCH COMMUNITY SERVICES DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE 8: JOINT POWERS AUTHORITY (continued)

Members are subject to dividends and/or assessments, in accordance with Second Amended Joint Powers Agreement and amendments thereto, on file with the District. No such dividends have been declared, nor have any assessments been levied.

The annual member contribution was \$23,388 for the Package Program and \$18,043 for the worker's compensation program. Members are subject to dividends and/or assessments, in accordance with Fourth Amended Joint Powers Agreement and amendments thereto, on file with the District. No such dividends have been declared, nor have any assessments been levied. Presently, there are no known refunds or credits due to the District. There has been no reduction in insurance coverage from the prior year. Insurance settlements have not exceeded insurance coverage for each of the past three fiscal years.

Condensed financial information for S.D.R.M.A. for the most recent year available is as follows:

	<u>June 30, 2017</u>
Total assets	\$ 111,852,055
Deferred outflows of pensions	637,936
Total liabilities	(62,077,098)
Deferred inflows of pensions	<u>(171,678)</u>
Total net position	<u>\$ 50,241,215</u>
Total revenues	\$ 65,314,124
Total operating expenses	(67,407,021)
Total non-operating income	<u>190,728</u>
Change in net position	<u>\$ (1,902,169)</u>

Complete audited financial statements on the S.D.R.M.A. are on file with the general manager of the District.

HERITAGE RANCH COMMUNITY SERVICES DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE 9: DEFINED BENEFIT PENSION PLAN

A. General Information about the Pension Plans

Plan Descriptions - All qualified regular and introductory employees of the District participate in a cost-sharing multiple employer defined benefit pension plans, administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and Local Government 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 non-duty 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. New members employed after January 1, 2013 are designated as PEPRA Miscellaneous and are subject to the provisions of California Government Code 7522 et seq. and AB 197. All other members employed prior to January 1, 2013 are designated as Miscellaneous First Tier Plan or Miscellaneous Second Tier Plan.

Contributions - Section 208149(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 the July 1 following notice of a change in the rate. Funding contributions for both Plans are 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. For the measurement period ended June 30, 2018, depending on the plan, the active employee contribution rate ranges between 6.25% and 8.0% of annual pay, and the employer's contribution rate ranges between 6.533% and 10.110% of annual payroll.

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

As of June 30, 2018, the District reported net pension liabilities of \$772,630 for its proportionate shares of the net pension liability of the Plan.

HERITAGE RANCH COMMUNITY SERVICES DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE 9: DEFINED BENEFIT PENSION PLAN (continued)

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2017, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2017 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 participating employers, actuarially determined. The District's proportionate share of the net pension liability for the Plan as of June 30, 2017 was as follows:

	<u>Amount</u>
Proportion – June 30, 2015	\$ 615,781
Proportion – June 30, 2016	\$ 757,076
Proportion – June 30, 2017	\$ 772,630

For the year ended June 30, 2018, the District recognized pension expense of \$103,627. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows for Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 0	\$ 0
Differences between actual and expected experience	0	32,456
Change in employer's proportion and differences between the employer's contributions and employer's proportionate share of contributions	<u>0</u>	<u>0</u>
Total	<u>\$ 0</u>	<u>\$ 32,456</u>

\$208,940 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

HERITAGE RANCH COMMUNITY SERVICES DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE 9: DEFINED BENEFIT PENSION PLAN (continued)

C. Actuarial Methods and Assumptions Used to Determine Total Pension Liability

For the measurement period ending June 30, 2017 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2016 total pension liability. Both the June 30, 2016 total pension liability and the June 30, 2017 total pension liability were based on the following actuarial assumptions:

Actuarial Cost Method:	Entry Age Normal in accordance with the requirements of GASB Statement #68
Actuarial Assumptions:	
Discount Rate	7.375%
Inflation	3.0%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.375% Net of Pension Plan Investment and Administration Expenses; Includes Inflation
Mortality Rate Table	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 3.0% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 3.0% thereafter

All other actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the fiscal years, including updates to salary increase, mortality and retirement rates.

D. Discount Rate

The discount rate used to measure the total pension liability was 7.375% for the 2017/2018 fiscal year actuarial computations.

For subsequent fiscal years, starting in the 2018/2019 fiscal year, it was determined that the discount rate should be phased down to 7.0% for all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle. This determination was made during a scheduled CalPERS review completed February 2018.

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

HERITAGE RANCH COMMUNITY SERVICES DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE 9: DEFINED BENEFIT PENSION PLAN (continued)

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations, as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the actual CalPERS asset class allocation at June 30, 2017.

Asset Class	Strategic Allocation
Public Equity	48.3%
Global Fixed Income	19.4%
Inflation Sensitive	7.8%
Private Equity	8.0%
Real Estate	11.2%
Liquidity	4.8%
Other	0.5%
Total	100%

E. Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability/(asset) of the Plan as of the measurement date, calculated using the discount rate of 7.0%, as well as what the net pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage-point lower (6.0% or 1% point higher (8.0%) than the current rate

	Discount Rate 1% (6.0%)	Current Discount Rate (7.0%)	Discount Rate 1% (8.0%)
Plans' Net Pension Liability/(Asset)	\$ 2,051,469	\$ 1,111,326	\$ 343,946

HERITAGE RANCH COMMUNITY SERVICES DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE 9: DEFINED BENEFIT PENSION PLAN (continued)

F. Post-employment Benefits

In addition to pension benefits, the District provides post-retirement health care benefits through the California Public Employees' Retirement System. Employees who retire on or after attaining age 50 and are vested, are eligible for District paid health insurance.

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 July 1, 2017 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.

On July 1, 2017, the District conducted an actuarial valuation based on the Alternative Measurement Method to determine the required funding for this health care benefits program.

The actuarial accrued liability for the District's retiree health benefits program on this measurement date was determined to be \$1,388,674. This value is based on a discount rate of 6.5% and an inflation rate of 3.0%. The District's funding policy is to fund 100% of the annual required contribution determined through the California Employers' Retiree Benefit Trust (CERBT). Based on this valuation, the District contributed \$83,747 to an irrevocable trust to meet the current obligations of this program. Currently, four retired employees and their dependents are receiving 100% paid health care benefits totaling \$6,979 per month.

Below are the required disclosures for this plan:

Number of active participants		13
Employer's actuarially required contributions	\$	54,203
Employer's actual contributions	\$	83,747
Accrued Liability(AL)	\$	1,388,674
Actuarial Valuation of Assets(AVA)	\$	348,266
Unfunded Accrued Liability(UAL)=(AL less AVL)	\$	1,040,408
Funded Ratio(AVA/AL)		25%
Estimated Payroll	\$	602,594
UAL as a Percentage of Covered Payroll		172.65%

HERITAGE RANCH COMMUNITY SERVICES DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE 10: PRIOR PERIOD ADJUSTMENT

A total prior period adjustment of \$775,541 was made to decrease the governmental activities' beginning net position. The adjustment was made to reflect the prior period costs related to the implementation of the net OPEB liability. The restatement of beginning position is summarized as follows:

Net Position – July 1, 2017	\$	7,259,636
Net OPEB Liability Adjustment		<u>(775,541)</u>
Net Position – July 1, 2017 (Restated)	\$	<u>6,484,095</u>

NOTE 11: SUBSEQUENT EVENTS

The District has evaluated events subsequent to June 30, 2018, to assess the need for potential recognition or disclosures in the financial statements. Such events were evaluated through August 31, 2018, the date these financial statements were available to be issued. Based upon this evaluation, it was determined that no other subsequent events occurred that require recognition or additional disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 As of June 30, 2018

	<u>June 30, 2015</u>	<u>June 30, 2016</u>	<u>June 30, 2017</u>
Proportion of the net pension liability	0.024051%	0.024900%	0.024900%
Proportionate share of the net pension liability	\$615,781	\$757,076	\$805,086
Covered- employee payroll	\$600,300	\$686,124	\$588,355
Proportionate Share of the net pension liability as percentage of covered-employee payroll	102.58%	110.34%	136.83%
Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	80.5%	78.1%	87.1%
Proportionate Share of Aggregate Employer Contributions	\$93,706	\$99,444	\$103,627

Notes to Schedule:

Benefit Changes: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2013 as they have minimal cost impact.

* Fiscal year 2018 was the 3rd year of implementation, therefore only three years are shown. Additional years will be presented as they become available.

HERITAGE RANCH COMMUNITY SERVICES DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CONTRIBUTIONS

As of June 30, 2018

	<u>2014 – 2015</u>	<u>2015 – 2016</u>	<u>2016 – 2017</u>
Actuarially determined contributions	\$ 93,706	\$ 99,444	\$ 103,627
Contributions in relation to the actuarially determined contributions	(93,706)	(99,444)	(103,627)
Contribution deficiency (excess)	\$ -0-	\$ -0-	\$ -0-
Covered- employee payroll	\$ 600,300	\$ 686,124	\$ 588,355
Contributions as a percentage of covered-employee payroll	15.6%	14.5%	17.6%

Notes to Schedule:

Valuation date:	6/30/2014	6/30/2015	6/30/2016
-----------------	-----------	-----------	-----------

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll
Asset valuation method	Market value
Inflation	3.0%
Salary increases	Varies by Entry Age and Service
Investment rate of return	7.0% net of pension plan investment expense, including inflation

* Fiscal year 2018 was the 3rd year of implementation, therefore only three years are shown. Additional years will be presented as they become available.

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND EXPENSE
 As of June 30, 2018

	GASB 75 Blended Rate July 1, 2017*
Discount Rate	6.5%
Present Value of Future Benefits	
Active	\$ 789,734
Retired	937,993
Total	\$ 1,727,727
Total OPEB Liability (Actuarial Liability)	
Active	\$ 450,681
Retired	937,993
Total	\$ 1,388,674
Plan Fiduciary Net Position (Plan Assets)	\$ 348,266
Net OPEB Liability (Unfunded Actuarial Liability)	\$ 1,040,408
Components of Net OPEB Expense for Fiscal year 2018	
Service Cost at Year-End	\$ 35,538
Interest Cost	88,082
Expected Return on Assets	(22,637)
Subtotal	100,983
Current year actuarial liability adjustment	190,467
Total	\$ 291,450
Change in Deferred Outflows**	
Change in Deferred Inflows**	

Notes to Schedule:

* Fiscal year 2018 was the 1st year of implementation, therefore only one year is shown. Additional years will be presented as they become available.

** To be determined based on the Total OPEB Obligation and Plan Fiduciary Net Position as of June 30, 2018

HERITAGE RANCH COMMUNITY SERVICES DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF OPEB FUNDING PROGRESS For the Year Ended June 30, 2018

OTHER POST EMPLOYMENT BENEFITS (OPEB) PLAN

The schedule of funding progress below shows the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded actuarial accrued liability (UAAL)

FUNDED PROGRESS OF THE OPEB PLAN

<u>Actuarial Valuation Date</u>	<u>Actuarial Accrued Liability (AAL) Entry Age</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded Liability (Excess Assets) (UAAL)</u>	<u>Funded Status</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a Percentage of Payroll</u>
7/1/2017	\$ 1,388,674	\$ 348,266	\$ 1,040,408	25%	\$ 588,355	176.8%
7/1/2015	\$ 1,112,465	\$ 279,760	\$ 832,705	25%	\$ 600,300	138.7%
7/1/2013	\$ 1,321,029	\$ 224,197	\$ 1,096,832	17%	\$ 575,000	190.8%
7/1/2011	\$ 1,013,658	\$ 133,768	\$ 879,890	13%	\$ 598,600	147.0%
2/24/2010	\$ 657,360	\$ -	\$ 657,360	0%	\$ 564,000	116.6%

The schedule of employer contributions below shows the recent history of the OPEB annual required actuarial contributions and the percentage actually contributed to the District's OPEB plan.

EMPLOYER CONTRIBUTIONS TO THE OPEB PLAN

<u>Year Ended June 30,</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2018	\$ 100,983	100.0%
2017	\$ 84,736	59.4%
2016	\$ 84,366	73.0%
2015	\$ 89,669	100.0%
2014	\$ 89,422	100.0%
2013	\$ 85,140	100.0%

SUPPLEMENTAL INFORMATION

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
COMBINING STATEMENTS OF NET POSITION
PROPRIETARY FUNDS
As of June 30, 2018

	Business Type Activities - Enterprise Funds				
	Water Fund	Sewer Fund	Solid Waste Fund	General Fund	Total
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 1,328,760	\$ 1,661,243	\$ 96,908	\$ -	\$ 3,086,911
Taxes receivable	7,092	3,868		1,934	12,894
Accounts receivable	197,953	54,478			252,431
Interest receivable	10,652	3,364			14,016
Inventory	26,446				26,446
Total current assets	1,570,903	1,722,953	96,908	1,934	3,392,698
Noncurrent assets:					
Investments:					
Restricted cash	112,666				112,666
Capital assets:					
Land and construction in progress	59,621	6,942			66,563
Property plant and equipment, net accumulated depreciation	5,104,428	1,341,419		94,820	6,540,667
Total noncurrent assets	5,276,715	1,348,361	-	94,820	6,719,896
Total assets	\$ 6,847,618	\$ 3,071,314	\$ 96,908	\$ 96,754	\$ 10,112,594
Deferred Outflows of Resources:					
OPEB obligation	-	-	-	-	-
Deferred pensions	-	-	-	-	-
LIABILITIES					
Current liabilities:					
Accounts payable	\$ 18,622	\$ 23,677	\$ -	\$ 4,166	\$ 46,465
Accrued payroll expenses	9,149	6,099		21,539	36,787
Interest payable	7,857				7,857
Compensated absences	50,700	33,800		12,404	96,904
Deposits	12,761				12,761
Notes payable - current portion	117,056				117,056
Total current liabilities	216,145	63,576	-	38,109	317,830
Long-term liabilities					
Net OPEB liability	416,163	228,890		395,355	1,040,408
Net pension liability	309,052	169,978		293,600	772,630
Notes payable, less current portion	1,717,937				1,717,937
Total noncurrent liabilities	2,443,152	398,868	-	688,955	3,530,975
Total liabilities	\$ 2,659,297	\$ 462,444	\$ -	\$ 727,064	\$ 3,848,805
Deferred Inflows of Resources:					
OPEB obligation	-	-	-	-	-
Deferred pensions	12,983	7,140	-	12,333	32,456
NET POSITION					
Net investment in capital assets	3,329,056	1,348,361	-	94,820	4,772,237
Restricted for debt service	112,666				112,666
Restricted by resolution	733,616	1,253,369	96,908	(737,463)	1,346,430
Total net position	\$ 4,175,338	\$ 2,601,730	\$ 96,908	\$ (642,643)	\$ 6,231,333

See Auditor's Report

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
As of June 30, 2018

Business Type Activities - Enterprise Funds					
	Water Fund	Sewer Fund	Solid Waste Fund	General Fund	Totals
Operating revenues:					
Utility sales	\$ 909,873	\$ 564,392	\$ -	\$ -	\$ 1,474,265
Turn-on fees	2,346	1,544			3,890
Hook-up fees	8,087	1,552			9,639
Late charges and miscellaneous				2,126	2,126
Total operating revenues	920,306	567,488	-	2,126	1,489,920
Operating expenses:					
Salaries and wages	243,353	162,235		189,217	594,805
Employee benefits and taxes	121,168	58,935		84,453	264,556
Publicity				1,703	1,703
Chemicals and gases	35,511	17,723			53,234
Engineering	67,867	181,753		798	250,418
Fuel and oil	6,654	4,436			11,090
Lab testing	9,266	14,797			24,063
Licenses and fees	12,182	14,006		15,983	42,171
Repairs and maintenance	49,761	58,888		2,528	111,177
Small tools and supplies	20,406	5,042		18,031	43,479
Uniforms and laundry	1,655	1,103			2,758
Alarm	926	841		1,855	3,622
Dues and publications	2,788	1,712		4,090	8,590
Insurance	9,823	7,484		6,081	23,388
Office expense				17,089	17,089
Professional services	3,951	5,558		16,577	26,086
Telephone and utilities	159,253	71,755		9,822	240,830
Training	70	143		3,453	3,666
Travel				3,000	3,000
Tax collections				4,923	4,923
Depreciation	292,192	139,683		18,047	449,922
Total operating expenses	1,036,826	746,094	-	397,650	2,180,570
Operating income (loss)	(116,520)	(178,606)	-	(395,524)	(690,650)

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
As of June 30, 2018

Business Type Activities - Enterprise Funds					
	Water Fund	Sewer Fund	Solid Waste Fund	General Fund	Totals
Non operating revenues (expenses):					
Taxes and assessments	187,471	102,257		51,129	340,857
Standby assessments	201,624	41,297			242,921
Franchise fees			57,532		57,532
Investment income	30,223	9,444			39,667
Interest expense	(48,039)				(48,039)
Annual required contributions for post employment benefits	(83,081)	(45,695)		(162,674)	(291,450)
Operating transfers in (out)	(521,138)	(379,010)	(47,376)	947,524	-
Total non operating revenues (expenses)	(232,940)	(271,707)	10,156	835,979	341,488
Income (loss) before contributions	(349,460)	(450,313)	10,156	440,455	(349,162)
Capital contributions - connection fees	41,170	55,230			96,400
Net income (loss)	(308,290)	(395,083)	10,156	440,455	(252,762)
Fund equity-beginning balance (as restated)	4,483,628	2,996,813	86,752	(1,083,098)	6,484,095
Fund equity-ending balance	\$ 4,175,338	\$ 2,601,730	\$ 96,908	\$ (642,643)	\$ 6,231,333

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
COMBINING STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
As of June 30, 2018

Business Type Activities - Enterprise Funds					
	Water Fund	Sewer Fund	Solid Waste Fund	General Fund	Total
Cash flows from operating activities:					
Receipts from customers and users	\$ 953,369	\$ 556,998	\$ -	\$ 2,126	\$ 1,512,493
Payments to suppliers	(475,238)	(247,240)	-	(249,240)	(971,718)
Payments to employees	(246,273)	(164,181)		(247,368)	(657,822)
Net cash provided (used) by operating activities	231,858	145,577	-	(494,482)	(117,047)
Cash flows from non-capital and related financing activities:					
Taxes and assessments	187,471	102,257		51,129	340,857
Standby assessments	201,624	41,297			242,921
Franchise fees			57,532		57,532
Net transfer (to) from other funds	(267,230)	(194,351)	(24,293)	485,874	-
Net cash provided (used) by non-capital and related financing activities	121,865	(50,797)	33,239	537,003	641,310
Cash flows from capital and related financing activities:					
Change in net OPEB liability	83,081	45,695		136,091	264,867
Change in net pension liability	(16,776)	(9,229)		(15,938)	(41,943)
Principal paid on capital debt	(114,003)				(114,003)
Interest paid on capital debt	(48,039)				(48,039)
Acquisition of capital assets	(15,645)	(44,185)			(59,830)
Capital contributions	41,170	55,230			96,400
Other nonoperating capital activities	(83,081)	(45,695)		(162,674)	(291,450)
Net cash provided (used) by capital and related financing activities	(153,293)	1,816	-	(42,521)	(193,998)
Cash flows from investing activities:					
Investment income	30,223	9,444			39,667
Net cash provided by investing activities	30,223	9,444	-	-	39,667
Net increase (decrease) in cash and cash equivalents	230,653	106,040	33,239	-	369,932
Cash and cash equivalents - beginning	1,210,773	1,555,203	63,669	-	2,829,645
Cash and cash equivalents - ending	\$ 1,441,426	\$ 1,661,243	\$ 96,908	\$ -	\$ 3,199,577
Reconciliation to statement of net position:					
Total cash and cash equivalents	\$ 1,441,426	\$ 1,661,243	\$ 96,908	\$ -	\$ 3,199,577
Restricted cash and cash equivalents	(112,666)				(112,666)
Unrestricted cash and cash equivalents	\$ 1,328,760	\$ 1,661,243	\$ 96,908	\$ -	\$ 3,086,911

See Auditor's Report

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
COMBINING STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
As of June 30, 2018

Business Type Activities - Enterprise Funds					
	Water Fund	Sewer Fund	Solid Waste Fund	General Fund	Total
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ (116,520)	\$ (178,606)	\$ -	\$ (395,524)	\$ (690,650)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities					
Depreciation	292,192	139,683	-	18,047	449,922
Loss on construction of capital assets	31,966	192,232			224,198
Change in operating assets and liabilities:					
(Increase) decrease in taxes receivable	1,186	(857)		(1,006)	(677)
(Increase) decrease in accounts receivable	33,063	(10,490)			22,573
Increase in interest receivable	(6,651)	(2,100)			(8,751)
Decrease in inventory	1,755				1,755
Increase (decrease) in accounts payable	(14,649)	7,661		(57,848)	(64,836)
Increase in accrued payroll	605	404		9,191	10,200
Decrease in interest payable	(325)				(325)
Decrease in compensated absences	(3,525)	(2,350)		(67,342)	(73,217)
Increase in deposits	12,761				12,761
Net cash provided (used) by operating activities	\$ 231,858	\$ 145,577	\$ -	\$ (494,482)	\$ (117,047)

HERITAGE RANCH COMMUNITY SERVICES DISTRICT

MEMORANDUM

TO: Board of Directors

FROM: Scott Duffield, General Manager

DATE: December 20, 2018

SUBJECT: Request to consider appointments to the District's Committees for the term 2018 – 2020.

Recommendation

It is recommended that the Board of Directors discuss and consider appointments to the District's committees for the term 2018 – 2020.

Background

The Board President may appoint standing and/or ad-hoc committees. The District currently has five standing committees and one ad-hoc committee.

The purpose of the committees is to provide recommendations to the Board of Directors. Any such recommendations shall be advisory to the Board and shall not commit the District to any policy, act or expenditure unless expressly delegated by Board action. Nor may any committee direct staff to perform specific duties unless duly authorized by the Board. The committee chair is authorized to schedule committee meetings as deemed necessary and all such meetings shall be in compliance with Open Meeting Law of California (Brown Act).

Committees may include two Board members and members of the public. The Manager is the staff person assigned to all committees. The Board President appoints membership to committees at the first regular meeting in December in even number years. Committee membership is for two years.

Discussion

The District's current committee membership and one option for filling the Director positions for the next term is provided as Attachment A.

Fiscal Considerations

There are no direct fiscal considerations associated with this item. The current approved budget includes estimated costs to utilize the committees.

Results

Appointments to the District's committees will provide additional resources to review and analyze important issues and initiatives, and develop informed data driven recommendations to the Board.

Attachments: Attachment A – District Committee Membership

Attachment B – Standing Committees Statement of Purpose

Attachment A

**Heritage Ranch Community Services District
Committee Membership**

Committee	2016-18	2018-20 (one option)	2020-22	2022-24	2024-26
Finance & Audit	Director Cousineau Director Barker	Director Barker Director Burgess			
Personnel	Director Cousineau Director Burgess	Director Burgess Director Rowley			
Operations & Engineering	Director Barker Director Cousineau	Director Capps Director Barker			
Safety	Director Rowley Director Cousineau	Director Cousineau Director Capps			
Public Relations	Director Burgess Director Rowley	Director Rowley Director Cousineau			
SGMA (Ad-hoc)	Director Cousineau Director Barker	Director Cousineau Director Rowley			

Attachment B

Committees

The Board President may appoint standing and/or ad-hoc committees. Committee motions and recommendations shall be advisory to the Board and shall not commit the District to any policy, act or expenditure unless expressly delegated by Board action. Nor may any committee direct staff to perform specific duties unless duly authorized by the Board. The committee chair is authorized to schedule committee meetings as deemed necessary and all such meetings shall be in compliance with Open Meeting Law of California (Brown Act).

Committees may include two Board members and members of the public. The Manager is the staff person assigned to all Committees. The Board President appoints membership to committees at the first regular meeting in December in even number years. Committee membership last for two years.

Each standing committee has a Board approved Statement of Purpose as set forth below:

Finance & Audit Committee

Statement of Purpose - February 20, 1997

There are those who believe that budget reports are the most important documents produced by an organization. If they are not, they certainly come close. After all, money and the amount available is the fuel of our engine.

As a public agency, we are the stewards of public funds. We are charged with the responsibility to invest and spend wisely. We have the obligation to sustain an infrastructure that in turn sustains life itself, as well as monetary investment in property and improvements by our constituency.

The purpose of this committee is to seek and maintain a balance of revenues and expenditures which are both fair to our constituents and sustain the community owned infrastructure which serves them. This philosophy is accomplished through developments and use of budgets, financial reports and audits that enable adequate cash flows for both routine operations and special projects. This Committee reviews all rate increase issues.

Operations and Engineering Committee

Statement of Purpose - February 20, 1997

Engineering is the practical application of knowledge. In our case, this means such things as the mechanics of providing services and enhancement of same as technology allows or regulations dictate. For this reason, engineering relates to operations, and therefore are combined.

A major element of our operation is of course the facilities used to provide water and sewer services.

This includes not only the more direct components such as pumps and pipelines, but also the indirect or supporting components such as rolling stock, equipment, labs, shops, tools, and parts.

Attachment B

We also have the authority for removal of Solid Waste, a function handled by contract with the San Miguel Garbage Company. The District does not perform any hands-on activity with this operation.

Following the reorganization of CSA 19 to the District, we have facilitated a number of capital improvements and upgrades. As time progresses, we will have more such activity, especially if we add new services or face new regulatory requirements. The relationship of engineering and operations calls for integration of applied science to create and build along with efficient operation and proper maintenance.

The purpose of this committee is to ensure efficient operation of our facilities. By definition, this includes improvements or enhancements that improve that purpose or to maintain long term integrity of our facilities as determined by planning. This Committee receives consulting advice from the District Engineer.

Personnel Committee

Statement of Purpose - February 20, 1997

In order to carry out the mission of any organization, it is essential that staff be competent. To retain qualified personnel, it is incumbent on this committee to establish and sustain an environment in which District personnel can be productive.

The cornerstone of effective administration for our type of organization is the establishment and executive of written procedures. These take the form of many examples such as state law, District Ordinances and Resolution, Policies and Procedures and so on. This concept provides a clear picture to all with consistency and fair ideology.

The purpose of this committee is to endeavor to sustain a high degree of integrity of District operations through the practice of effective administration strategies including the element of competent personnel. This Committee reviews all wage and benefit issues related to employee compensation.

Safety Committee

Statement of Purpose - February 20, 1997

Safety is an attitude. It is also an important concept in terms of cost and production; cost relative to risk exposure and production relative to lost man hours and impact on work schedules. Safety is an issue that concerns both staff and the public. Our best defense is an awareness and an on-going campaign of prevention measures.

The purpose of this committee is to promote and establish safety awareness, to prevent accidents, and if accidents do occur, to investigate them with a resolve to prevent repetition. The methods to accomplish this purpose include education, training, and inspections. Resources include such things as video tapes, tailgate sessions, safety equipment, implementation of policy and procedures, practice drills, etc.

Attachment B

Public Relations Committee

Statement of Purpose - February 20, 1997

Communications are all important in any organization regardless of type or size. As a public agency, we want to communicate with our constituency those issues that may be of concern, and to the extent possible, encourage feedback so as to “complete the loop”. This act of communication is basically a flow of information which informs and gives a certain comfort level to our constituents on what their Community Services District is accomplishing.

The purpose of this committee is to develop and foster public relations with our constituency. This includes information about District activities, future plans, helpful hints, and customer service. This is accomplished through “user friendly” customer service policies and procedures, promotion beneficial to the public, positive relationships with other agencies, making information and documents available, distribution of newsletter, bulletins, etc.

HERITAGE RANCH COMMUNITY SERVICES DISTRICT

MEMORANDUM

TO: Board of Directors

FROM: Scott Duffield, General Manager

DATE: December 20, 2018

SUBJECT: Request to 1) designate a Director as a voting delegate for the Local Agency Formation Commission (LAFCO) election to attend the January 25, 2019, Special District Annual Meeting, 2) vote on the alternative quorum procedure, and 3) consider nominating a Director as a candidate for the open Commissioner special districts member seat.

Recommendation

It is recommended that the Board of Directors:

1. Designate a Director as a voting delegate for the LAFCO election to attend the January 25, 2019, Special District Annual Meeting; and
2. Vote on the alternative quorum procedure; and
3. Consider nominating a Director as a candidate for the open Commissioner special districts member seat.

Background

The Local Agency Formation Commission (LAFCO) is an independent local government agency that has planning and growth powers over all cities, counties, and special districts. San Luis Obispo County special districts have two Commissioners and one Alternate Commissioner on LAFCO. There is an opening for the Commissioner special districts member seat currently held by Marshall Ochylski, Los Osos CSD. The other special districts representatives on LAFCO are:

- Robert Enns, Cayucos Sanitary District – Commissioner
- Ed Eby, Nipomo CSD – Alternate Commissioner

The other LAFCO representatives include two elected officials from cities, two from the County, and one member of the general public. Special district members on LAFCO do not represent their agencies but rather all County special districts.

Discussion

California Government Code requires that election to a special district seat on LAFCO be made by the boards of the independent special districts within the County.

Election to LAFCO seats have generally been done via mail/email. For this 2019 election, LAFCO is proposing to fill the open special district Commissioner seat by voting at the scheduled California Special District Association San Luis Obispo Chapter, January 25, 2019 annual meeting. Several procedural items need to be considered prior to the annual meeting.

1. Designating a Director

Special districts should designate a Director to attend the annual meeting as the voting delegate for their District. The delegate can be any of the Directors currently on the Board.

2. Vote on the Alternative Quorum Procedure

LAFCOs proposed quorum procedure is as follows:

“There are a total of 35 Special Districts in the County. In researching the prior 11 district elections from 2010-2018, it was found that six Special Districts have participated in zero to one of the elections. Based on that finding, the Selection Committee should consider an alternative method for calculating a quorum founded on 29 total Districts. This provides for a reduced quorum number of 15; which is more achievable at the Annual Meeting. All 35 Special Districts would continue to participate as part of the Selection Committee.”

3. Consider nominating a Director

If a Director desires to be nominated for the open Commissioner seat, a nomination must be made and approved by the Board. Any nomination along with the candidate’s statement of qualifications will be forwarded to LAFCO for the vote at the annual meeting.

Results

This item will provide for the selection of the LAFCO Commissioner special district member open seat. The term of this seat is February 2019 through December 2022.

Attachments: LAFCO Notice, Selection Procedure, and Nomination Form



Independent Special District Selection Committee

San Luis Obispo Chapter of the
California Special District Association

TO: Special District General Manager

FROM: David Church, LAFCO Executive Officer

DATE: November 30, 2018

SUBJECT: Regular LAFCO Member Selection

Background. At the CSDA Annual Meeting (**January 25, 2019-Avila Beach Community Center**) the San Luis Obispo Chapter of the CSDA dons the hat of the Independent Special District Selection Committee. The Committee is responsible for the selection of Special District representatives to serve on LAFCO. Establishing a quorum is always a challenge.

Alternative Quorum Procedure. There are a total of 35 Special Districts in the County. In researching the prior 11 district elections from 2010-2018, it was found that six Special Districts have participated in zero to one of the elections. Based on that finding, the Selection Committee should consider an alternative method for calculating a quorum founded on 29 total Districts. This provides for a reduced quorum number of 15; which is more achievable at the Annual Meeting. All 35 Special Districts would continue to participate as part of the Selection Committee.

The term for this position would begin in February 2019 and run through December 2022. The full election procedure and form is attached. If only one candidate is nominated, that individual shall be selected to the position.

Please place this item on your Board's Agenda:

- 1) **Designate a Director as a voting delegate** to attend the January 25, 2019 Special District Annual Meeting in Avila Beach at the Community Center.
- 2) **Vote on the Alternative Quorum Procedure** as found on the attached form.
- 3) **Nominate a candidate if you would like.** A nomination must be approved by the District's Board.
- 4) **Nominations are required to be submitted by January 18, 2019.** The completed and signed nomination form (attached) may be submitted to the LAFCO office via mail, fax-788-2072, or e-mail to DChurch@slolafco.com. The form must be signed by the General Manager or Board President, and the Nominee.

Independent Special District Selection Committee

Selection Procedure

- 1- **Determining a Quorum.** All 35 Districts shall be notified of the special district election for the LAFCO member and are eligible to participate. Based on past participation, the quorum would be considered to be 15 District Delegates in attendance at the annual meeting. All Districts are allowed to participate. The quorum procedure applies to the email election process as well.
- 2- **Designate Voting Delegates.** Special Districts shall designate the presiding officer or another board member as the voting delegate for the Selection Committee meeting.
- 3- **Nomination Procedure.** A notice of nomination would be emailed to the Special Districts requesting that nominations be submitted within 45 days. The Candidates' Statement of Qualifications should be submitted at the same time. Nominations may be received from the floor at the meeting.
- 4- **Alternate Position.** If the Alternate LAFCO Commissioner is elected to the Regular position, nominations from the floor for filling the term of the vacated Alternate may be considered and a vote conducted at the meeting.
- 5- **Election Procedure.**
 - a. A candidate's information package is emailed to all Special Districts prior to the Annual Meeting. It would include a list of the nominees and their Statements of Qualifications. The package would be emailed as soon as the nomination period ends and the package can be compiled.
 - b. A Special District Roll Call is conducted to determine if the Selection Committee has a quorum. Ballots would be distributed at the meeting.
 - c. Each candidate shall be given up to five minutes at the Selection Committee Meeting to present his/her qualifications.
 - d. If a quorum of 15 District Delegates is achieved, the delegates in attendance complete and submit ballots.
 - e. The ballots would be counted by three reviewers appointed by the Selection Committee.
 - f. Results would be announced at the Selection Committee Meeting.
 - g. If a quorum is not achieved at the meeting, the voting period will be extended for 45 days. Districts that were not present would be emailed a ballot and instructions. Districts in attendance at the meeting may submit ballots at that time if they choose.



LAFCO SPECIAL DISTRICT MEMBER SELECTION FORM
Independent Special District Committee

The _____
(Insert Name of Special District)

Delegate

Hereby designates _____ as a voting delegate to the Selection Committee.
(Insert Name of Delegate)

Approval of the Alternative Quorum Procedure.

Yes

No

Nomination-(Optional)

Hereby nominates _____ to serve as the
(Insert Name of Nominee-nomination is voluntary)

Special District Member on the San Luis Obispo Local Agency Formation Commission (LAFCO).

Board of Director's action in the nomination was taken on:

Insert Date of Board Action

General Manager or Chairman/President

Consent of the Nominee – Signature (If Nominated)



**HERITAGE RANCH COMMUNITY SERVICES DISTRICT
BOARD OF DIRECTORS' REGULAR MEETING**
Minutes of November 15, 2018

1. 4:00 PM OPEN SESSION / CALL TO ORDER / FLAG SALUTE / ROLL CALL

President Rowley called the meeting to order at 4:00 pm and led the flag salute.

Secretary Gelos called the role. All Directors were present.

Staff present: General Manager Scott Duffield, Office Supervisor/Board Secretary Kristen Gelos, Operations Manager/AGM Jason Molinari.

2. PUBLIC COMMENT ON ITEMS NOT ON THE AGENDA

Heritage Ranch's new Resident Deputy Brandon Florentino wanted to introduce himself. Florentino said he would be attending any future meetings to provide us with a monthly report on his calls for service which pertain to the community.

3. DISCUSSION ITEMS

- a. Request to receive and file Paso Robles Subbasin Groundwater Sustainability Plan Draft Chapters:** Manager Duffield and Director Cousineau provided a brief summary of the item and answered any questions the Board had.

The report was received and filed.

- b. Request to consider approval of replacing the Water Treatment Plant influent and effluent actuators at an estimated code of \$48,990 and authorize a corresponding budget adjustment from reserves:** Manager Duffield provided a brief summary of the item and answered any questions the Board had. Director Barker stated he would like to increase the budget adjustment to include estimated staff labor costs and not pull from the personnel budget for the project time.

Director Capps disagreed with increasing the budget adjustment to include staff labor costs. He stated staff's labor is already accounted for in the personnel budget and staff would not be working any more than their regular schedules.

Director Barker made a motion to approve replacing the Water Treatment Plant influent and effluent actuators and authorized a corresponding budget adjustment of \$55,000. Director Burgess seconded the motion. The motion passed by the following roll-call vote:

Ayes: Barker, Burgess, Capps, Cousineau, Rowley

- c. Submittal for approval Resolution 18-12 declaring certain items to be surplus property and authorizing disposal:** Manager Duffield provided a brief summary of the item and answered any questions the Board had.

Director Burgess made a motion to approve Resolution 18-12 declaring certain items to be surplus property and authorizing disposal. Director Barker seconded the motion. The motion passed by the following roll-call vote:

Ayes: Barker, Burgess, Capps, Cousineau, Rowley

4. CONSENT ITEMS

- a. **Regular Meeting Minutes:** Receive/approve minutes of regular meeting of October 18, 2018.
- b. **Warrant Register:** Receive/approve October 2018 warrants.
- c. **Treasurer's Report:** Receive/file October 2018 report.
- d. **Treasurer's Report:** Receive/fil FY 2018/19 1st Quarter report.
- e. **Fiscal Report:** Receive/file October 2018 status report.
- f. **Manager's Report:** Receive/file October 2018 report.
- g. **Staff Reports:** Receive/file October 2018 reports.

Director Rowley pulled items F and G (Manager and Staff Reports) and made a motion to approve items A – E as presented. Director Cousineau seconded the motion. The motion passed by a unanimous voice vote:

Ayes: Barker, Burgess, Capps, Cousineau, Rowley

Manager Duffield provided a brief summary of item F (Manager's Report) and answered any questions the Board had. Operations Manager Molinari provided a brief summary of item G (Operation's Report) and answered any questions the Board had.

Director Barker made a motion to approve items F and G as presented. Director Burgess seconded the motion. The motion passed by a unanimous voice vote:

Ayes: Barker, Burgess, Capps, Cousineau, Rowley

5. DIRECTORS/MANAGER COMMENTS

Director Capps would like to see what it would take for the District to take over all Heritage Ranch parks under the District's Park & Recreations. Director Barker supported the idea and offered his opinion on how to go about starting the conversation with the Heritage Ranch Owner's Association.

Director Burgess said the District needs to move forward with the Solar project and added some ideas for the project, including the possibility of creating covered parking/storage facility.

6. ADJOURNMENT

On a motion by Director Barker and seconded by Director Burgess, the meeting adjourned at 5:26 pm to the next scheduled meeting on Thursday, December 20, 2018 at 4:00 pm.

APPROVED:

Martin Rowley, Board President

ATTEST:

Kristen Gelos, Board Secretary

HERITAGE RANCH COMMUNITY SERVICES DISTRICT

Manager Report For November and start of December 2018

Basin Boundary Modification Request (BBMR)

The Manager submitted our BBMR by June 30, 2018. DWR extended the submittal deadline to September 30, 2018. DWR requested additional information which we provided on October 24th. DWR's Draft Basin Boundary Modifications is to deny our request. In response, the Manager and our consultant met with the DWR team in person at their Fresno office on December 6th and discussed further. We have not had any feedback since then. DWR held a public meeting regarding the draft decisions on December 12th. We did not attend but will be submitting a comment letter. At least one other GSA in the basin is considering submitting a comment letter further supporting our BBMR and our request that DWR reconsider their denial.

Groundwater Sustainability Plan (GSP)

The GSP continues to progress and the Manager and Director Cousineau are very much engaged. The DWR grant agreement has finally been executed and staff is planning to start invoicing DWR for reimbursements. We will continue to participate in the development of the GSP and be cognizant of the direction it is heading. The Manager will investigate other options the Board may wish to consider such as removing the District from the GSA MOU and letting DWR manage the tiny area of our jurisdiction within the reported basin, or dissolving our GSA altogether letting the County be responsible to manage it.

Monterey County Water Resource Agency (MCWRA)

The Manager attending a portion of the Reservoir Operations Committee meeting last month via Skype. The main topic of interest was a report regarding the National Marine Fisheries Service (NMFS) proposal to make winter reservoir releases for improving steelhead migration conditions. From the meeting and other conversations with MCWRA staff, the Manager understands:

- It would require higher reservoir elevations throughout the year to have water to release in the winter.
- If conditions are met, it could mean releasing about 60,000 acre-feet total over 15-days (2000 cfs if constant).
- The agriculture community does not support it as it would conflict with the operation of the Salinas River Diversion Facility (SRDF).
- MCWRA needs to write a Habitat Conservation Plan (HCP).
- MCWRA needs to write a Drought Contingency Plan (DCP).
- MCWRA is not supportive of the NMFS proposal either.

Integrated Waste Management Authority (IWMA)

The Manager has been working with IWMA over the last several months to make the Household Hazardous Waste (HHW) drop off location and operation better. The HHW location is managed by IWMA with the District being the host. Some of our discussions have been about what their contractor (Stericycle) can do better as well as what the District can do to help. The District's main responsibility is site security. There have been numerous occasions when HHW (oil, TVs, paint), and other things not accepted as HHW (appliances, mattresses, metal), have been illegally dumped in the yard next to the HHW location.

The drop off time is only on Fridays from 12:00 – 2:00 p.m. It is illegal otherwise and violators will be fined.

Solar Project

The Manager and the District Engineer met with the San Luis Obispo County Energy Watch team to review available programs that may facilitate a solar project. The meeting was very informative, and we learned of some preliminary things we can do now:

- Perform a benchmarking of our meter portfolio. The County has a CivicSpark Climate Fellow working with them who is assisting us with this.
- Request PG&E to do a rate schedule analysis on our meter portfolio. We have done that and are awaiting the information.

A local commercial solar installation company requested to meet with the Manager to provide information and to express their interest in providing for our solar needs. Staff is continuing to work towards solar project options and will bring a formal item to your Board at a near future meeting.

* * *

HERITAGE RANCH COMMUNITY SERVICES DISTRICT - CONSOLIDATED BUDGET
2018/19 Budget

OPERATING INCOME	Budget FY 18/19	Actual November	Actual Year to Date	Percentage Year to Date	Variance Explanation
Water Fees	901,000	84,097	450,102	50%	
Sewer Fees	594,950	47,803	238,494	40%	
Hook-Up Fees	6,000	0	3,000	50%	Fluctuates based on activity
Turn on Fees	3,500	250	1,325	38%	
Late Fees	16,500	1,437	7,549	46%	
Plan Check & Inspection	10,000	0	7,500	75%	Check./Insp. Deposit TR3110
Miscellaneous Income	2,000	168	1,043	52%	
TOTAL OPERATING INCOME	\$1,533,950	\$133,755	\$709,013	46%	

FRANCHISE INCOME					
Solid Waste Franchise Fees	66,000	5,612	28,840	44%	
TOTAL FRANCHISE REVENUE	\$66,000	\$5,612	\$28,840	44%	

NON-OPERATING INCOME					
Standby Charges	242,921	27,676	40,366	17%	
Property Tax	341,000	34,695	74,710	22%	
Interest	27,000	6	30,211	112%	Fluctuates based on activity
Connection Fees	70,250	0	36,213	52%	Fluctuates based on activity
TOTAL NON-OPERATING INCOME	\$681,171	\$62,378	\$181,499	27%	

RESERVE REVENUE					
Capital Reserves	83,276	890	10,348	12%	
General Reserves	50,000	0	1,285	3%	
TOTAL RESERVE REVENUE	\$133,276	\$890	\$11,634	9%	

TOTAL ALL INCOME	\$2,414,397	\$202,635	\$930,986	39%	
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**HERITAGE RANCH COMMUNITY SERVICES DISTRICT - CONSOLIDATED BUDGET
2018/19 Budget**

OPERATING EXPENSES

SALARIES AND BENEFITS	Budget FY 18/19	Actual November	Actual Year to Date	Percentage Year to Date	Variance Explanation
Salaries	654,697	47,822	257,044	39%	
Health Insurance	120,616	9,735	52,359	43%	
Health Insurance - Retiree	58,233	5,119	25,602	44%	
PERS	123,796	11,737	49,154	40%	
Standby	12,500	975	4,965	40%	
Overtime	11,500	1,276	3,552	31%	
Workers Comp. Ins.	22,675	0	19,924	88%	Paid Annually
Directors' Fees	7,000	500	2,400	34%	
Medicare/FICA	10,014	773	4,093	41%	
Car Allowance	3,000	250	1,250	42%	
SUI/ETT	1,500	0	0	0%	
Uniforms	3,800	531	1,391	37%	
TOTAL SALARIES & BENEFITS	\$1,029,331	\$78,718	\$421,735	41%	

UTILITIES

Electricity	242,800	22,188	94,176	39%	
Propane	900	0	0	0%	
Water Purchase	23,114	0	11,557	50%	Paid Semiannually
Telephone/Internet	11,830	871	4,198	35%	
TOTAL UTILITIES EXPENSE	\$278,644	\$23,058	\$109,930	39%	

MAINTENANCE & SUPPLIES

Chemicals	68,000	3,202	32,058	47%	
Computer/Software	7,000	285	3,164	45%	
Equip. Rental/Lease	1,000	0	70	7%	
Fixed Equip.	85,000	2,351	15,216	18%	
Fuel & Oil	12,000	1,443	4,992	42%	
Lab Testing	24,500	1,286	8,989	37%	
Office Supplies	3,000	80	331	11%	
Parks & Recreation	500	0	68	14%	
Struct./Grnds.	6,500	352	2,404	37%	
Small Tools/Equip.	3,500	246	869	25%	
Supplies	6,000	532	2,149	36%	
Meters/Equip.	5,000	0	2,639	53%	Fluctuates based on activity
Vehicles	8,500	560	2,086	25%	
TOTAL MAINT. & SUPPLY EXPENSE	\$230,500	\$10,337	\$75,034	33%	

HERITAGE RANCH COMMUNITY SERVICES DISTRICT - CONSOLIDATED BUDGET
2018/19 Budget

GENERAL & ADMINISTRATION	Budget FY 18/19	Actual November	Actual Year to Date	Percentage Year to Date	Variance Explanation
Ads./Advertising	1,500	0	962	64%	Fluctuates based on activity
Alarm/Answering Service	3,275	290	1,144	35%	
Audit	6,000	6,000	6,000	100%	
Bank Charges/Fees	2,000	193	946	47%	
Consulting/Engineering	40,000	785	2,869	7%	
Dues/Subscription	12,000	740	890	7%	
Elections	1,000	0	0	0%	
Insurance	22,525	0	25,768	114%	Paid Annually
LAFCO	8,000	0	7,015	88%	Paid Annually
Legal/Attorney	17,000	0	2,568	15%	
Licenses/Permits	26,000	1,279	1,369	5%	
Plan Check & Inspection	10,000	0	958	10%	
Postage/Billing	20,000	1,364	7,708	39%	
Professional Service	16,000	45	5,785	36%	
Tax Collection	5,300	0	0	0%	
Staff Training & Travel	5,000	0	353	7%	
Board Training & Travel	1,500	0	25	2%	
TOTAL G & A	\$197,100	\$10,695	\$64,360	33%	

CAPITAL PROJECTS & EQUIPMENT					
Structures/Improvements	70,276	890	7,299	10%	
Equipment	63,000	0	4,385	7%	
TOTAL CAPITAL EXPENSE	\$133,276	890	11,684	9%	

DEBT					
State Loan Payment	103,629	0	51,814	50%	paid semiannually
State Loan Payment Phase II	58,740	0	0	0%	paid semiannually
TOTAL DEBT	\$162,369	\$0	\$51,814		

FUNDED DEPRECIATION	\$288,000	\$24,000	\$120,000	42%	
UNFUNDED DEPRECIATION	\$0	\$0	\$0	0%	

TOTAL EXPENSE	\$2,319,220	\$147,699	\$854,557	37%	
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CONNECTION FEES TRANSFER	\$70,250	\$0	\$36,213	52%
SOLID WASTE FEES TRANSFER	\$29,222	\$2,576	\$12,426	43%

FUND TOTAL	(\$4,295)	\$52,360	\$27,790	
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**HERITAGE RANCH COMMUNITY SERVICES DISTRICT
NOVEMBER 2018 OFFICE REPORT**

Water & Sewer

On December 1st, we processed 1,888 bills for a total dollar amount of \$120,454 for water and sewer user fees for the month of November. The number of Automatic Drafts processed was 502 for a total dollar amount of \$31,172. On November 26th we processed 239 Late Notices.

San Miguel Garbage Franchise Fees

Each month, the District receives franchise fees from the previous month. The breakdown is as follows:

Month of October

Garbage Collection (10%) - \$ 5,351.98

Roll-Off Collection (10%) - \$ 260.14

Total Franchise Fees Collected - \$ 5,612.12

Service Orders Completed

Staff completed a total of 64 service orders for the month of November. Below is a breakdown by job code.

USA	7	Swap / pull Meter	1
Lock Meter	14	Occupant Change	10
Leak	3	Pressure Check	2
Unlock Meter	13	Courtesy Turn-Off	4
Call-Out	7	Cal Fire Pressure Check	1
Misc.	2		

**HERITAGE RANCH COMMUNITY SERVICES DISTRICT
TREASURER'S REPORT
NOVEMBER 2018**

SUMMARY REPORT OF ALL ACCOUNTS

Beginning Balance:	\$ 3,255,739.50
Ending Balance:	\$ 3,328,644.60
Variance:	\$ 72,905.10
Interest Earnings for the Month Reported:	\$ 6.35
Interest Earnings Fiscal Year-to-Date:	\$ 30,210.64

ANALYSIS OF REVENUES

Total operating income for water and sewer was:	\$ 133,754.97
Non-operating income was:	\$ 62,377.77
Franchise fees paid to the District by San Miguel Garbage was:	\$ 5,612.12
Interest earnings for the P.P.B. checking account was:	\$ 6.37
Interest earnings for the P.P.B. DWR Loan Services account was:	\$ -
Interest earnings for the P.P.B. DWR Reserve account was:	\$ -
Interest earnings for the P.P.B. SRF Loan Services account was:	\$ -
Interest earnings for the P.P.B. SRF Reserve account was:	\$ -
Interest earnings for the LAIF account was:	\$ -

ANALYSIS OF EXPENSES

Pacific Premier Bank checking account total warrants, fees, and Electronic Fund Transfers was:	\$ 127,238.89
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STATEMENT OF COMPLIANCE

This report was prepared in accordance with the Heritage Ranch Community Services District Statement of Investment Policy. All investment activity was within policy limits. There are sufficient funds to meet the next 30 days obligations. Attached is a status report of all accounts and related bank statements.

**HERITAGE RANCH COMMUNITY SERVICES DISTRICT
STATUS REPORT FOR ALL ACCOUNTS
NOVEMBER 2018**

BEGINNING BALANCE ALL ACCOUNTS **\$ 3,255,739.50**

OPERATING CASH IN DRAWER **\$300.00**

PACIFIC PREMIER BANK - CHECKING

BEGINNING BALANCE 9/30/2018	\$151,589.62	
DEPOSIT REVENUE & MISCELLANEOUS INCOME	\$200,137.62	
INTEREST EARNED	\$6.37	
TOTAL CHECKS, FEES AND EFT'S	(\$127,238.89)	
TRANSFER TO LAIF ACCOUNT	(\$80,000.00)	
ENDING BALANCE 10/31/2018		\$144,494.72

PACIFIC PREMIER BANK DWR LOAN REPAYMENT (1994-2029):

LOAN SERVICES ACCOUNT

BEGINNING BALANCE 9/30/2018	\$67.99	
QUARTERLY DEPOSIT	\$0.00	
INTEREST EARNED	\$0.00	
SEMI-ANNUAL PAYMENT	\$0.00	
ENDING BALANCE 10/31/2018		\$67.99

PACIFIC PREMIER BANK DWR RESERVE ACCOUNT

BEGINNING BALANCE 9/30/2018	\$112,736.62	
INTEREST EARNED	\$0.00	
ENDING BALANCE 10/31/2018		\$112,736.62

PACIFIC PREMIER BANK SDWSRF LOAN SERVICES ACCOUNT

BEGINNING BALANCE 9/30/2018	\$29,404.05	
QUARTERLY DEPOSIT	\$0.00	
INTEREST EARNED	\$0.00	
SEMI-ANNUAL PAYMENT	\$0.00	
ENDING BALANCE 10/31/2018		\$29,404.05

PACIFIC PREMIER BANK SDWSRF RESERVE ACCOUNT

BEGINNING BALANCE 9/30/2018	\$0.00	
QUARTERLY DEPOSIT	\$0.00	
INTEREST EARNED	\$0.00	
ENDING BALANCE 10/31/2018		\$0.00

LOCAL AGENCY INVESTMENT FUND (LAIF)

BEGINNING BALANCE 9/30/2018	\$2,961,941.22	
INTEREST EARNED	\$0.00	
TRANSFER FROM PACIFIC PREMIER CHECKING	\$80,000.00	
TRANSFER TO PACIFIC PREMIER CHECKING	\$0.00	
ENDING BALANCE 10/31/2018		\$3,041,941.22

ENDING BALANCE ALL ACCOUNTS **\$3,328,644.60**

**HERITAGE RANCH COMMUNITY SERVICES DISTRICT
STATUS REPORT FOR ALL ACCOUNTS
NOVEMBER 2018**

DIFFERENCE FROM LAST MONTH

Increase

\$72,905.10

**HERITAGE RANCH COMMUNITY SERVICES DISTRICT
NOVEMBER 2018 WARRANT REGISTER**

PACIFIC PREMIER BANK WARRANTS

DATE	NAME OF PAYEE	DESCRIPTION	AMOUNT
11/2/2018	CALPERS 457 DEFFERED COMP PROG	PERS 457- DEFFERED COMP.	\$ 1,187.00
11/2/2018	CALPERS RETIREMENT SYSTEM	PERS RETIREMENT	\$ 2,920.43
11/2/2018	CALPERS RETIREMENT SYSTEM	PERS RETIREMENT TIER 2	\$ 778.07
11/2/2018	CALPERS RETIREMENT SYSTEM	PERS RETIREMENT PEPRA	\$ 260.64
11/2/2018	CALPERS RETIREMENT SYSTEM	SURVIVOR BENEFIT	\$ 7.44
11/2/2018	CALPERS HEALTH BENEFITS	CALPERS HEALTH BENEFITS	\$ 13,827.36
11/2/2018	CALPERS HEALTH BENEFITS	EMPLOYEE PAID HEALTH BENEFIT	\$ 444.00
11/2/2018	CALPERS HEALTH BENEFITS	EMPLOYEE PAID HEALTH BENEFIT	\$ 490.04
11/7/2018	STAPLES CREDIT PLAN	OFFICE SUPPLIES	\$ 80.33
11/7/2018	GREAT WESTERN ALARM	ALARM & ANSWERING SERVICE	\$ 289.60
11/7/2018	FERGUSON ENTERPRISES INC	MAINTENANCE FIXED EQUIPMENT	\$ 64.65
11/7/2018	RYAN BRINK	MEDICAL REIMBURSEMENTS	\$ 337.00
11/7/2018	HOME DEPOT CREDIT SERVICES	STRCT&GRND/SM TOOLS/FIX.EQUIP	\$ 134.30
11/7/2018	FGL ENVIRONMENTAL	LAB TESTING	\$ 100.00
11/7/2018	AIRFLOW FILTER SERVICE, INC.	FUEL & OIL	\$ 193.87
11/7/2018	STAR DRUG TESTING, INC	PROFESSIONAL SERVICES	\$ 45.00
11/7/2018	JASON MOLINARI	MEDICAL REIMBURSEMENTS	\$ 191.99
11/7/2018	JASON MOLINARI	UNIFORM ALLOWANCE	\$ 111.18
11/7/2018	WESTERN JANITOR SUPPLY	SUPPLIES	\$ 127.92
11/7/2018	ANTHONY'S TIRE STORE	VEHICLES	\$ 373.83
11/7/2018	NAPA AUTO PARTS	VEHICLES	\$ 186.02
11/7/2018	ABALONE COAST ANALYTICAL	LAB TESTING	\$ 671.00
11/7/2018	JAMES A. PRITCHETT	UNIFORM ALLOWANCE	\$ 92.70
11/7/2018	PITNEY BOWES INC.	POSTAGE METER RENTAL	\$ 118.58
11/7/2018	DATA PROSE LLC	OCT. BILLING / LATE NOTICES	\$ 1,239.58
11/7/2018	DOMAIN REGISTRY OF AMERICA	COMPUTER/SOFTWARE	\$ 45.00
11/7/2018	SWRCB	LICENSES & PERMITS	\$ 95.00
11/7/2018	NANCY HAIR	CUSTOMER REFUND	\$ 65.88
11/7/2018	CALIFORNIA RURAL WATER ASSOC	DUES & SUBSCRIPTIONS	\$ 740.00
11/7/2018	BAUTISTA'S CLEANING SERVICE	STRUCTURES & GROUNDS	\$ 180.00
11/8/2018	PG&E	ELECTRICITY	\$ 22,187.71
11/8/2018	U.S. BANK	POSTAGE	\$ 5.35
11/8/2018	U.S. BANK	UNIFORMS	\$ 327.30
11/8/2018	U.S. BANK	MAINTENANCE FIXED EQUIPMENT	\$ 361.26
11/8/2018	U.S. BANK	MAINTENANCE FIXED EQUIPMENT	\$ 718.70
11/8/2018	U.S. BANK	COMPUTER/SOFTWARE	\$ 240.00
11/9/2018	R. BRINK	NET PAYROLL	\$ 2,155.90
11/9/2018	J. MOLINARI	NET PAYROLL	\$ 2,847.27
11/9/2018	R. ARNOLD	NET PAYROLL	\$ 2,532.06
11/9/2018	J. PRITCHETT	NET PAYROLL	\$ 2,048.90
11/9/2018	M. HUMPHREY	NET PAYROLL	\$ 1,511.41
11/9/2018	K. GELOS	NET PAYROLL	\$ 2,254.56
11/9/2018	S. DUFFIELD	NET PAYROLL	\$ 3,183.13

**HERITAGE RANCH COMMUNITY SERVICES DISTRICT
NOVEMBER 2018 WARRANT REGISTER**

DATE	NAME OF PAYEE	DESCRIPTION	AMOUNT
11/9/2018	S. BRENNEMAN	NET PAYROLL	\$ 1,203.45
11/13/2018	INTERNAL REVENUE SERVICE	FEDERAL WITHHOLDING TAXES	\$ 2,223.99
11/13/2018	INTERNAL REVENUE SERVICE	MEDICARE	\$ 721.64
11/13/2018	EDD	ETT	\$ 1.92
11/13/2018	EDD	SDI	\$ 248.85
11/13/2018	EDD	SUI	\$ 73.08
11/13/2018	EDD	STATE WITHHOLDING	\$ 837.58
11/16/2018	CALPERS 457 DEFFERED COMP PROG	PERS 457- DEFFERED COMP.	\$ 1,187.00
11/16/2018	CALPERS RETIREMENT SYSTEM	EMPLOYER'S CONTRIBUTION	\$ 18.60
11/16/2018	CALPERS RETIREMENT SYSTEM	PERS RETIREMENT	\$ 2,920.43
11/16/2018	CALPERS RETIREMENT SYSTEM	PERS RETIREMENT TIER 2	\$ 778.07
11/16/2018	CALPERS RETIREMENT SYSTEM	PERS RETIREMENT PEPRA	\$ 405.79
11/16/2018	CALPERS RETIREMENT SYSTEM	SURVIVOR BENEFIT	\$ 7.44
11/16/2018	J.B. DEWAR. INC.	FUEL & OIL	\$ 1,249.18
11/19/2018	FERGUSON ENTERPRISES INC	SM TOOLS & EQUIP/FIXED EQUIP.	\$ 90.28
11/19/2018	WALLACE GROUP	CONSULTING & ENGINEERING	\$ 785.00
11/19/2018	RYAN BRINK	CELL PHONE/INTERNET ALLOWANCE	\$ 80.00
11/19/2018	CRYSTAL SPRINGS WATER	LAB TESTING	\$ 27.17
11/19/2018	KRITZ EXCAVATING & TRUCKING	STRUCTURES&GRNDS/FIXED EQUIP	\$ 76.86
11/19/2018	BRENNTAG PACIFIC, INC	CHEMICALS	\$ 1,711.33
11/19/2018	BRENNTAG PACIFIC, INC	CHEMICALS	\$ 1,490.64
11/19/2018	FGL ENVIRONMENTAL	LAB TESTING	\$ 104.00
11/19/2018	LAB TESTING	LAB TESTING	\$ 384.00
11/19/2018	CAL COAST IRRIGATION, INC.	SUPPLIES	\$ 65.36
11/19/2018	CAL COAST IRRIGATION, INC.	SUPPLIES	\$ 76.93
11/19/2018	JASON MOLINARI	CELL PHONE/INTERNET ALLOWANCE	\$ 80.00
11/19/2018	COUNTY OF SAN LUIS OBISPO	LICENSES & PERMITS/ WTP HAZMAT	\$ 429.00
11/19/2018	COUNTY OF SAN LUIS OBISPO	LICENSES & PERMITS STP HAZMAT	\$ 755.00
11/19/2018	ROY ARNOLD	CELL PHONE/INTERNET ALLOWANCE	\$ 80.00
11/19/2018	CROSBY COMPANY, CPA	AUDIT - FY 2017/2018	\$ 6,000.00
11/19/2018	KRISTEN GELOS	CELL PHONE/INTERNET ALLOWANCE	\$ 40.00
11/19/2018	JAMES A. PRITCHETT	CELL PHONE/INTERNET ALLOWANCE	\$ 80.00
11/19/2018	LOWE'S	SMALL TOOLS & EQUIPMENT	\$ 35.82
11/19/2018	BURT INDUSTRIAL SUPPLY	FIXED EQUIP/SM TOOLS/SUPPLIES	\$ 935.39
11/19/2018	BURT INDUSTRIAL SUPPLY	SUPPLIES	\$ 254.88
11/19/2018	BURT INDUSTRIAL SUPPLY	MAINTENANCE FIXED EQUIPMENT	\$ 196.75
11/19/2018	BURT INDUSTRIAL SUPPLY	SMALL TOOLS & EQUIPMENT	\$ 75.37
11/19/2018	SCOTT DUFFIELD	CELL PHONE/INTERNET ALLOWANCE	\$ 40.00
11/19/2018	WESTERN EXTERMINATOR COMPANY	STRUCTURES & GROUNDS	\$ 86.00
11/19/2018	CITY OF PASO ROBLES	PASO ROBLES BASIN GSP	\$ 890.35
11/20/2018	SAN MIGUEL GARBAGE	DELINQUENT SOLID WASTE FEES	\$ 207.00
11/20/2018	AT&T	TELEPHONE/INTERNET	\$ 154.90
11/23/2018	R. BRINK	NET PAYROLL	\$ 2,546.88
11/23/2018	J. MOLINARI	NET PAYROLL	\$ 3,015.75
11/23/2018	R. ARNOLD	NET PAYROLL	\$ 2,185.57

**HERITAGE RANCH COMMUNITY SERVICES DISTRICT
NOVEMBER 2018 WARRANT REGISTER**

DATE	NAME OF PAYEE	DESCRIPTION	AMOUNT
11/23/2018	J. PRITCHETT	NET PAYROLL	\$ 2,035.30
11/23/2018	M. HUMPHREY	NET PAYROLL	\$ 1,525.64
11/23/2018	K. GELOS	NET PAYROLL	\$ 2,254.56
11/23/2018	D. BURGESS	NET PAYROLL	\$ 92.35
11/23/2018	B. BARKER	NET PAYROLL	\$ 92.35
11/23/2018	M. ROWLEY	NET PAYROLL	\$ 92.35
11/23/2018	R. COUSINEAU	NET PAYROLL	\$ 92.35
11/23/2018	S. DUFFIELD	NET PAYROLL	\$ 3,350.00
11/23/2018	D. CAPP	NET PAYROLL	\$ 92.35
11/23/2018	S. BRENNEMAN	NET PAYROLL	\$ 1,479.23
11/23/2018	CALPERS RETIREMENT SYSTEM	PERS RETIREMENT U/L	\$ 4,750.86
11/23/2018	CALPERS RETIREMENT SYSTEM	PERS RETIREMENT U/L	\$ 85.79
11/23/2018	CHARTER COMMUNICATIONS	INTERNET	\$ 79.99
11/27/2018	INTERNAL REVENUE SERVICE	FEDERAL WITHHOLDING TAXES	\$ 2,386.70
11/27/2018	INTERNAL REVENUE SERVICE	FICA WITHHOLDING	\$ 62.00
11/27/2018	INTERNAL REVENUE SERVICE	MEDICARE	\$ 762.32
11/27/2018	EDD	ETT	\$ 1.94
11/27/2018	EDD	SDI	\$ 257.86
11/27/2018	EDD	SUI	\$ 73.77
11/27/2018	EDD	STATE WITHHOLDING	\$ 880.09
11/28/2018	AT&T	TELEPHONE/INTERNET	\$ 235.77
11/30/2018	CALPERS 457 DEFFERED COMP PROG	PERS 457- DEFFERED COMP.	\$ 1,187.00
11/30/2018	CALPERS RETIREMENT SYSTEM	PERS RETIREMENT	\$ 2,920.43
11/30/2018	CALPERS RETIREMENT SYSTEM	PERS RETIREMENT TIER 2	\$ 778.07
11/30/2018	CALPERS RETIREMENT SYSTEM	PERS RETIREMENT PEPR	\$ 444.29
11/30/2018	CALPERS RETIREMENT SYSTEM	SURVIVOR BENEFIT	\$ 7.44
GRAND TOTAL FOR ALL WARRANTS			\$ 126,650.01

Operations Report

November 2018

Water Treatment:

11.6 Million gallons of water was produced.

The Water Treatment Plant uses programmable logic controllers (PLC's) to control the treatment process. Each PLC has a power supply which reduces incoming power to a more useable level. On November 29th, there was a power failure which shut down the main PLC. When power was restored, the main PLC would not turn on due to a damaged power supply. A replacement power supply was overnighed and installed the very next day. Staff also ordered a spare power supply to have on hand in case of a similar failure in the future. The batteries in the back-up power supply were also replaced. Replacing the batteries will insure longer run times during future power outages. Staff has also decided to place the back-up power supply batteries on a three-year replacement program.

The potassium permanganate (permanganate) system at the water treatment plant reduces raw water manganese levels by up to 98%. The permanganate system has proved challenging to operate and maintain. Staff has dealt with broken feed augers, plugged chemical lines and incomplete mixing of chemical. Staff has solved the incomplete mixing issue by installing a chemical mixing pump. The plugging of chemical lines is the current issue staff is working to solve. The permanganate is as a granular form into the mixing tank where water is added to turn the permanganate into a liquid solution. From the tank, a chemical pump delivers the solution, through a half-inch tube, to Pump Station 1 which is approximately four hundred feet away. The issue is, the permanganate is reverting back to the granular form in the four hundred feet of line causing plugging issues. Staff then must remove the line or try to flush out the blockage with water and compressed air.

The permanganate percent solution was changed from three percent to five percent to reduce the concentration of permanganate pumped into the line. Changing the solution was not enough and plugging of the line continued. Staff is currently working on a "Flush Program". This program will open a solenoid valve letting potable water into the injection line when the system shuts down for the night. The potable water will flush out any accumulated granules in the line going to Pump Station 1 and prevent clogging. There is a backflow valve already in place on the potable water feed so there is no chance of back feeding chemical into the potable water system.

The rapid mixer on the plate settler has proven to be problematic from the beginning. The plate settler was placed into operation in 2015, staff replaced the gearbox in 2016 under warranty. The replacement gear box failed in 2017 which led staff to determine why the failures were occurring. Staff observed a vortex effect in the rapid mix chamber. The vortex created a hollow, air filled pocket around the mixer impellers. The vortex led to loading and unloading of the impellers creating shock loading which transferred to the gear box.

Staff sent the manufacturer videos of what was occurring and causing the repeated failures. Although it took some time, staff was able to warranty the damaged gear box and secure a more robust unit better suited to the application. Staff was also able to have a baffle configuration fabricated by the plate settler manufacturer free of charge. The replacement gear box and baffle are expected to arrive within two months and should fix the design flaw and provide increased reliability.

Wastewater Treatment:

2.29 Million gallons of wastewater was treated.

The District's wastewater Time Schedule Order (TSO) allows five years to comply with un-ionized ammonia, copper and nitrate. Certain TSO requirements must be completed within a certain timeframe. One of these requirements is that the District develop and implement a Pollution Prevention Plan. The Pollution Prevention Plan lists un-ionized ammonia, nitrate and copper as pollutants of concern. The plan also lists ways in which the District can manage and mitigate these pollutants. Unionized ammonia, nitrate and copper are only considered a pollutant if their levels above the discharge limit specified in the District's permit. The District's history of discharge compliance has included violations for ammonia and copper.

The District's current wastewater treatment plant was not designed to treat unionized ammonia, nitrate and copper. The Pollution Prevention Plan focuses on specific operational changes while minimizing the amount of wastewater discharged during times of elevated pollutant levels. The Pollution Prevention Plan was submitted to the Regional Board within the required timeframe. Staff will work on the next step of the TSO which is to consider pH adjustment in an attempt to reduce incoming copper levels.