

**HERITAGE RANCH  
COMMUNITY SERVICES DISTRICT**

BASIC FINANCIAL STATEMENTS  
June 30, 2021



**HERITAGE RANCH COMMUNITY SERVICES DISTRICT**  
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June 30, 2021

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**FINANCIAL SECTION**





Moss, Levy & Hartzheim LLP

Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying basic financial statements of the Heritage Ranch Community Services District (District) as of and for the fiscal year ended June 30, 2021, and the related notes to the 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.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Heritage Ranch Community Services District, as of June 30, 2021, and the respective changes in financial position and cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

**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 3 through 10, Schedule of Proportionate Share of Net Pension Liability on page 31, and the Schedule of Pension Contributions on page 32, the Schedule of Changes in Net OPEB Liability and Related Ratios on page 33, and the Schedule of OPEB Contributions on page 34, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Heritage Ranch Community Services District’s basic financial statements. The combining enterprise fund by activity financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining enterprise fund by activity financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 basic financial statements or the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining proprietary fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2021 on our consideration of the Heritage Ranch Community Services District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District’s internal control over financial reporting and compliance.

*Moss, Remy & Haefliger LLP*

Santa Maria, California

December 8, 2021



**HERITAGE RANCH COMMUNITY SERVICES DISTRICT**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
Fiscal Year Ending June 30, 2021

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, 2021. 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 2021 are as follows:

- Water user fee revenue increased by \$46,535 or 4% from last year.
- Sewer user fee revenue decreased by \$11,527 or -2% from last year.
- Revenue indicative of operating during COVID.
- The District's non-operating revenue increased by \$83,961 or 15% from last year.
- Water and Sewer capacity charge revenue increased by \$39,418 or 93% from last year.
- Solid Waste franchise revenue increased by \$9,751 or 13%.
- Total operating expenses decreased by \$62,912 or -3% from last year.
- Capital assets (less depreciation) increased by \$492,876 or 8%.
- A depreciation expense of \$408,417 is included in the financial statements.
- The District incurred a positive change in net position of \$361,345.

**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 four parts – management's discussion and analysis (this section), the basic financial statements, required supplementary information, and supplementary information. The basic financial statements include the enterprise fund statements.

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

**Government-wide and fund financial statements**

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

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

**HERITAGE RANCH COMMUNITY SERVICES DISTRICT**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
Fiscal Year Ending June 30, 2021

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

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

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

- **Water Activity.** This activity provides for the operation, maintenance, and improvements to the District's water system. The system includes the two million gallons per day water treatment plant, plate settler, five storage tanks, six pump stations, and over sixteen miles of pipeline. As of June 30, 2021, there were 1,971 paid water connections; of these 1,958 were active. The water activity receives revenue from user fees, standby charges, property taxes, and interest earnings.
- **Sewer Activity.** This activity provides for the operation, maintenance, and improvements to the District's sewer system. The system includes ten lift stations, one pump station, two initial treatment ponds, two secondary treatment areas, and many miles of pipeline. As of June 30, 2021, there were 1,782 paid sewer connections; of these 1,774 were active. The sewer activity receives revenue from user fees, standby charges, property taxes, and interest earnings.
- **Solid Waste Activity.** This activity administers and acts as the Franchiser pursuant to a Franchise Agreement. The fund supports the Franchisee, San Miguel Garbage Company, for solid waste services within the District. The solid waste activity receives 10% of the net revenue from all solid waste fees.

**HERITAGE RANCH COMMUNITY SERVICES DISTRICT**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
 Fiscal Year Ending June 30, 2021

**Financial Analysis of the District as a Whole**

Table 1 provides a summary of the District's net position for fiscal year 2021 compared to 2020.

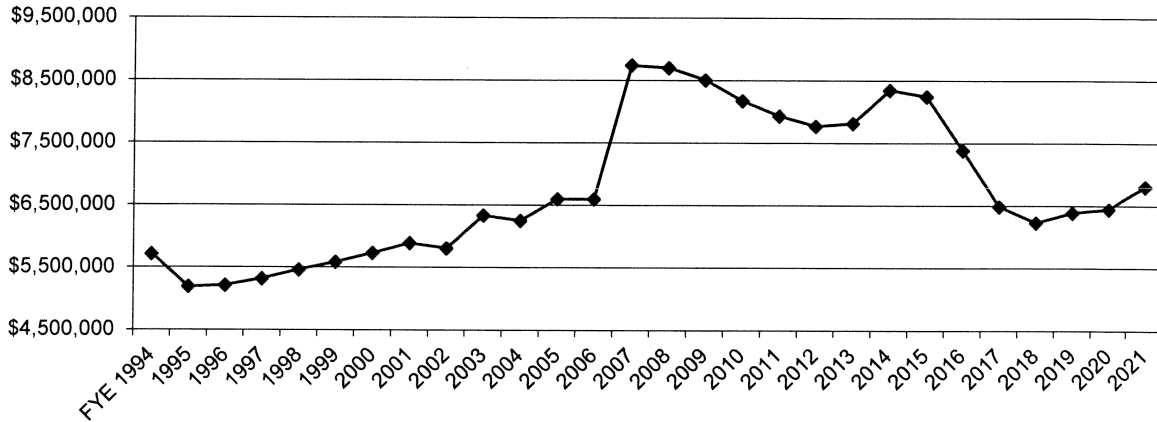
*Table 1 Net Position*

| <b>Table 1 - Net Position</b>        |             |             |          |
|--------------------------------------|-------------|-------------|----------|
|                                      | FYE 2020    | FYE 2021    | % Change |
| <b>Assets</b>                        |             |             |          |
| Cash and equivalents                 | \$5,040,246 | \$4,881,901 | -3.14%   |
| Restricted cash and equivalents      | 113,231     | 113,434     | 0.18%    |
| Accounts receivable (net)            | 172,875     | 189,936     | 9.87%    |
| Other                                | 55,328      | 46,218      | -16.47%  |
| Capital assets (net of depreciation) | 6,407,942   | 6,900,818   | 7.69%    |
| Total Assets                         | 11,789,622  | 12,132,307  | 2.91%    |
| <hr/>                                |             |             |          |
| Deferred outflows of resources       | 571,239     | 544,277     | -4.72%   |
| <hr/>                                |             |             |          |
| <b>Liabilities</b>                   |             |             |          |
| Net OPEB Liabilities                 | 1,062,644   | 983,586     | -7.44%   |
| Net Pension Liabilities              | 1,132,897   | 1,237,384   | 9.22%    |
| Long-term liabilities                | 3,251,690   | 3,127,172   | -3.83%   |
| Current liabilities                  | 206,155     | 213,110     | 3.37%    |
| Total Liabilities                    | 5,653,386   | 5,561,252   | -1.63%   |
| <hr/>                                |             |             |          |
| Deferred Inflows of resources        | 264,702     | 311,214     | 17.57%   |
| <hr/>                                |             |             |          |
| <b>Net Position</b>                  |             |             |          |
| Net Investment in Capital Assets     | 3,103,142   | 4,087,781   | 31.73%   |
| Restricted for Debt Service          | 113,231     | 113,434     | 0.18%    |
| Restricted by Resolution             | 3,226,400   | 2,602,903   | -19.32%  |
| Total Net Position                   | \$6,442,773 | \$6,804,118 | 5.61%    |

**HERITAGE RANCH COMMUNITY SERVICES DISTRICT**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
 Fiscal Year Ending June 30, 2021

Total net position increased between fiscal years 2020 and 2021, by 5.6% to \$6,804,118. All the District's net position 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**

Total operating revenues increased in fiscal year 2021 by 1.08%. Total non-operating revenues increased by 14.64%. Total operating expenses decreased by 2.68%. Total net position increased by \$361,345. The water activities experienced an increase of only 3.98%, the sewer activities experienced a decrease of -1.64%, and the solid waste activities experienced an increase of 13.48%. These numbers are probably indicative of operating during the COVID emergency. Operating expenses experienced small decreases due to staffing changes and other small operational adjustments.

All activities 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 with the final annual incremental increase to be implemented in January 2022. A rate study and increases are expected for FY 2023 with the most significant increase in the sewer fund to fund the major plant upgrade and other necessary projects. 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, 2021

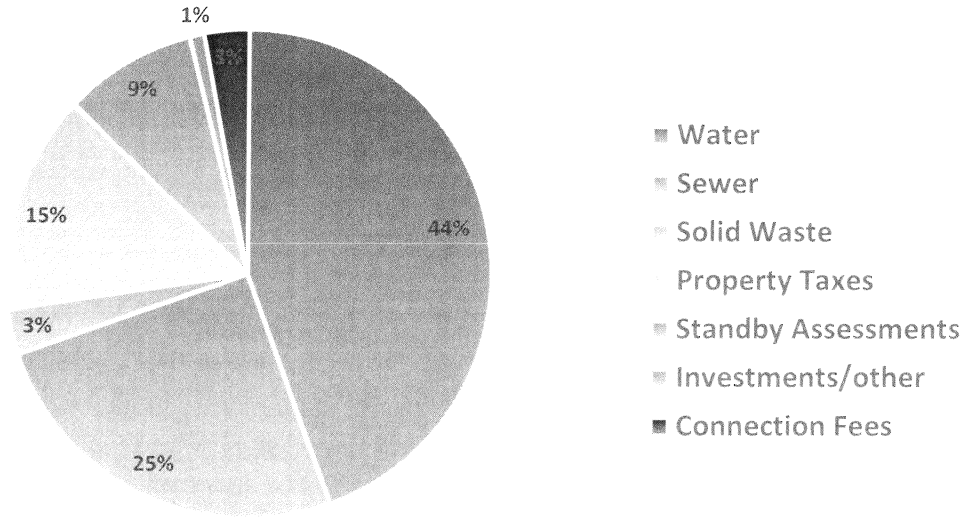
*Table 2 Enterprise Activities - Revenues, Expenses, and Change*

| <b>Table 2 Enterprise Activities</b>                 |             |             |          |
|--|-------------|-------------|----------|
| <b>Revenues, Expenses and Change in Net Position</b> |             |             |          |
|  | FYE 2020    | FYE 2021    | % Change |
| <b>Operating Revenues</b>                            |             |             |          |
| Water fund   | \$1,169,305 | \$1,215,840 | 3.98%    |
| Sewer fund   | 703,398     | 691,871     | -1.64%   |
| General fund   | 14,834      | 178         | -98.80%  |
| Total operating revenues                             | 1,887,537   | 1,907,889   | 1.08%    |
| <b>Non-Operating Revenues</b>                        |             |             |          |
| Water fund   | 363,724     | 362,308     | -0.39%   |
| Sewer fund   | 85,463      | 153,593     | 79.72%   |
| Franchise fees                                       | 72,345      | 82,096      | 13.48%   |
| General fund   | 51,972      | 59,468      | 14.42%   |
| Total non-operating revenues                         | 573,504     | 657,465     | 14.64%   |
|  | \$2,461,041 | \$2,565,354 |          |
| <b>Capital Contributions</b>                         |             |             |          |
| Connection fees water & sewer funds                  | 42,348      | 81,766      | 93.08%   |
| Total capital contributions                          | 42,348      | 81,766      | 93.08%   |
| <b>Operating Expenses</b>                            |             |             |          |
| Water fund   | \$1,022,647 | \$1,060,538 | 3.71%    |
| Sewer fund   | 672,653     | 588,450     | -12.52%  |
| General fund   | 653,387     | 636,787     | -2.54%   |
| Total expenses                                       | 2,348,687   | 2,285,775   | -2.68%   |
| Increase (decrease) in net position                  | 154,702     | 361,345     | 133.57%  |
| Total net position – beginning                       | \$6,288,071 | \$6,442,773 | 2.46%    |
| Total net position – ending                          | \$6,442,773 | \$6,804,118 | 5.61%    |

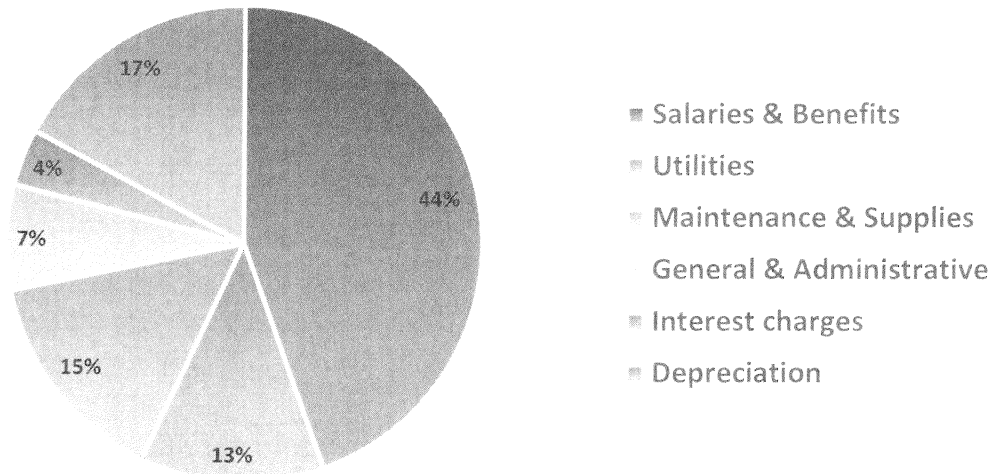
**HERITAGE RANCH COMMUNITY SERVICES DISTRICT**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
 Fiscal Year Ending June 30, 2021

Figure 2 Revenues and Expenses

**Revenues**



**Expenses**



**HERITAGE RANCH COMMUNITY SERVICES DISTRICT**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
 Fiscal Year Ending June 30, 2021

**Capital Assets and Debt Administration**

At the end of fiscal year 2021, the District had invested \$6,900,818 in a broad range of capital assets, including land, equipment, buildings, and infrastructure net of depreciation. This amount represents a net increase (including additions and deletions) of \$492,876 or 7.69% over last fiscal year.

*Table 3 Capital Assets*

| <b>Table 3 Capital Assets at June 30, 2021</b> |             |             |          |
|--|-------------|-------------|----------|
|  | FYE 2020    | FYE 2021    | % Change |
| Land   | \$56,938    | \$56,938    | 0.00%    |
| Construction in progress                       | 599,468     | 1,489,839   | 148.53%  |
| Total non depreciable                          | 656,406     | 1,546,777   | 135.64%  |
| Buildings                                      | 935,899     | 935,899     | 0.00%    |
| Plants and facilities                          | 13,375,918  | 13,386,840  | 0.08%    |
| Vehicles and equipment                         | 2,126,728   | 2,126,728   | 0.00%    |
| Total depreciable                              | 16,438,545  | 16,449,467  | 0.07%    |
| Less accumulated depreciation                  | -10,687,009 | -11,095,426 | 3.82%    |
| Net capital assets                             | \$6,407,942 | \$6,900,818 | 7.69%    |

The fiscal year ending June 30, 2021, included projects and equipment replacement. The following is a summary for the year:

- \$192,303 – Vertical Intake Project
- \$1,612,080 – Photovoltaic System Project
- \$85,000 – Equipment replacement
- \$137,521 – Lift Station 1-5 Rehabilitation
- \$82,500 – Water Resource Recovery Facility Upgrade

The District's fiscal year ending 2022 capital budget projects spending a total of \$2,241,986 for capital projects and equipment purchases. Continued implementation of the 2018 rate increases as well as a rate study and increases are expected for FY 2023 with the most significant increase in the sewer fund to provide for the major plant upgrade and other necessary projects. 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, 2021

**Long-Term Liabilities**

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, 2021, principal balance is \$726,965.

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, 2021, principal balance is \$747,359.

The District obtained a \$1,707,000 capital lease from the Western Alliance Business Trust on April 1, 2020, for the construction of the District's solar energy generation facilities at the Water and Wastewater Treatment Plants. The lease is payable over 15 years and bears interest at 3.26% annually. In October of 2020 the District began making semiannual payments. Remaining semiannual payments will be made in October and April through fiscal year 2035. The June 30, 2021, principal balance is \$1,707,000.

A summary of debt for fiscal year end 2021 is shown below:

| FYE  | 1994 WTP Loan | 2015 WTP Loan | 2020 PVS Loan | TOTAL DEBT  |
|------|---------------|---------------|---------------|-------------|
| 2021 | \$726,965     | \$747,359     | \$1,707,000   | \$3,181,324 |

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

**Current Financial Issues and Concerns**

The District is financially stable despite increasing costs, limited revenues, and new regulatory requirements. The District remains dependent on both property taxes and standby charges to fund the water and sewer operations. Cost increases are projected for labor, utilities, maintenance, and supplies in future years. The District increased its water and sewer rates and charges in 2018; however, a rate study and increases are expected for FY 2023 with the most significant increase in the sewer fund to provide for the major plant upgrade and other necessary projects and to meet future operating stability. The District currently has \$3,181,324 in long-term debt due on two water treatment plant loans and the photovoltaic system loan. It is anticipated that the District will apply for additional funding via loans, grants, or a combination of both, for these major projects.

**Contacting the District's Financial Management**

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



**HERITAGE RANCH COMMUNITY SERVICES DISTRICT**

## STATEMENT OF NET POSITION - ENTERPRISE FUND

June 30, 2021

**ASSETS**

## Current assets:

|                      |              |
|----------------------|--------------|
| Cash and investments | \$ 4,881,901 |
| Taxes receivable     | 12,850       |
| Accounts receivable  | 189,936      |
| Interest receivable  | 3,759        |
| Inventory            | 29,609       |
|                      | <hr/>        |
| Total current assets | 5,118,055    |

## Noncurrent assets:

|                               |              |
|-------------------------------|--------------|
| Restricted cash               | 113,434      |
|                               | <hr/>        |
| Capital assets                |              |
| Land                          | 56,938       |
| Construction in progress      | 1,489,839    |
| Property, plant and equipment | 16,449,467   |
| Accumulated depreciation      | (11,095,426) |
|                               | <hr/>        |
| Net capital assets            | 6,900,818    |
|                               | <hr/>        |
| Total noncurrent assets       | 7,014,252    |
|                               | <hr/>        |
| Total assets                  | 12,132,307   |

**DEFERRED OUTFLOWS OF RESOURCES**

|                                      |         |
|--------------------------------------|---------|
| Deferred OPEB                        | 255,686 |
| Deferred pensions                    | 288,591 |
|                                      | <hr/>   |
| Total deferred outflows of resources | 544,277 |

**LIABILITIES**

## Current Liabilities:

|  |         |
|--|---------|
| Accounts payable                         | 58,693  |
| Accrued payroll                          | 5,943   |
| Interest payable                         | 19,702  |
| Deposits                                 | 100     |
| Current portion of compensated absences  | 24,815  |
| Current portion of loans payable         | 103,857 |
| Current portion of capital lease payable | 98,000  |
|  | <hr/>   |
| Total current liabilities                | 311,110 |

## Long-Term Liabilities:

|                       |           |
|-----------------------|-----------|
| Compensated absences  | 49,705    |
| Loans payable         | 1,370,467 |
| Capital lease payable | 1,609,000 |
| Net OPEB liability    | 983,586   |
| Net pension liability | 1,237,384 |
|                       | <hr/>     |
| Total liabilities     | 5,561,252 |

**DEFERRED INFLOWS OF RESOURCES**

|                                     |         |
|-------------------------------------|---------|
| Deferred OPEB                       | 263,367 |
| Deferred pension                    | 47,847  |
|                                     | <hr/>   |
| Total deferred inflows of resources | 311,214 |

**NET POSITION**

|                                  |              |
|----------------------------------|--------------|
| Net investment in capital assets | 4,087,781    |
| Restricted for debt service      | 113,434      |
| Unrestricted                     | 2,602,903    |
|                                  | <hr/>        |
| Total net position               | \$ 6,804,118 |

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

**HERITAGE RANCH COMMUNITY SERVICES DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -**  
**ENTERPRISE FUND**  
**For the Fiscal Year Ended June 30, 2021**

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**Operating Revenues:**

|                                |                      |
|--------------------------------|----------------------|
| Service fees                   | \$ 1,878,812         |
| Turn-on fees                   | 4,000                |
| Hook-up fees                   | 3,700                |
| Late charges and miscellaneous | <u>21,377</u>        |
| <br>Total operating revenues   | <br><u>1,907,889</u> |

**Operating Expenses:**

|                              |                      |
|------------------------------|----------------------|
| Salaries and wages           | 617,688              |
| Payroll taxes and benefits   | 440,167              |
| Publicity                    | 2,173                |
| Chemicals and gases          | 81,154               |
| Engineering                  | 19,261               |
| Fuel and oil                 | 10,009               |
| Lab testing                  | 37,210               |
| Licenses and fees            | 29,380               |
| Repairs and maintenance      | 130,296              |
| Small tools and supplies     | 42,434               |
| Uniforms and laundry         | 2,596                |
| Alarm                        | 3,356                |
| Dues and publications        | 14,742               |
| Insurance                    | 41,369               |
| Office expense               | 17,073               |
| Professional services        | 69,668               |
| Telephone and utilities      | 273,943              |
| Training                     | 1,962                |
| Tax collections              | 5,838                |
| Water purchase               | 23,114               |
| Bad debt                     | 13,925               |
| Depreciation                 | <u>408,417</u>       |
| <br>Total operating expenses | <br><u>2,285,775</u> |

|                             |                  |
|-----------------------------|------------------|
| Net operating income (loss) | <u>(377,886)</u> |
|-----------------------------|------------------|

**Non-Operating Revenues (Expenses):**

|   |                    |
|---|--------------------|
| Taxes and assessments                       | 398,032            |
| Standby assessments                         | 242,145            |
| Franchise fees                              | 82,096             |
| Investment income                           | 26,957             |
| Interest expense                            | <u>(91,765)</u>    |
| <br>Total non-operating revenues (expenses) | <br><u>657,465</u> |

**Capital Contributions:**

|                            |               |
|----------------------------|---------------|
| Connection fees            | <u>81,766</u> |
| <br>Change in net position | <br>361,345   |

**Net Position:**

|  |                         |
|--|-------------------------|
| Net position, beginning of fiscal year | <u>6,442,773</u>        |
| <br>Net position, end of fiscal year   | <br><u>\$ 6,804,118</u> |

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

**HERITAGE RANCH COMMUNITY SERVICES DISTRICT**  
**STATEMENT OF CASH FLOWS - ENTERPRISE FUND**  
For the Fiscal Year Ended June 30, 2021

|   |                     |
|---|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                     |                     |
| Receipts from customers   | \$ 1,877,411        |
| Payments to vendors   | (814,044)           |
| Payments to employees   | <u>(952,369)</u>    |
| Net cash provided by operating activities                       | <u>110,998</u>      |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>          |                     |
| Property taxes  | 400,806             |
| Franchise fees  | 82,096              |
| Stand by fees   | <u>242,145</u>      |
| Net cash provided by noncapital financing activities            | <u>725,047</u>      |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b> |                     |
| Purchase of capital assets                                      | (901,293)           |
| Principal paid on long-term debt                                | (123,476)           |
| Interest paid on long-term debt                                 | (90,211)            |
| Connection fees   | <u>81,766</u>       |
| Net cash used by capital and related financing activities       | <u>(1,033,214)</u>  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                     |                     |
| Interest received   | <u>39,027</u>       |
| Net cash provided by investing activities                       | <u>39,027</u>       |
| Net decrease in cash and cash equivalents                       | (158,142)           |
| Cash and cash equivalents, July 1                               | <u>5,153,477</u>    |
| Cash and cash equivalents, June 30                              | <u>\$ 4,995,335</u> |
| Reconciliation to Statement of Net Position:                    |                     |
| Cash and investments  | \$ 4,881,901        |
| Restricted cash   | <u>113,434</u>      |
| Total Cash and investments                                      | <u>\$ 4,995,335</u> |

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

**HERITAGE RANCH COMMUNITY SERVICES DISTRICT**  
**STATEMENT OF CASH FLOWS - ENTERPRISE FUND**  
For the Fiscal Year Ended June 30, 2021

|   |                   |
|---|-------------------|
| <b>Reconciliation of operating income to net cash used</b>  |                   |
| <b>by operating activities:</b>   |                   |
| Operating income (loss)   | \$ (377,886)      |
| Adjustments to reconcile operating income to net cash used by operating activities:               |                   |
| Depreciation  | 408,417           |
| Change in assets, deferred outflows of resources, liabilities, and deferred inflows of resources: |                   |
| Accounts receivable   | (17,061)          |
| Inventory   | (5,734)           |
| Deferred outflows   | 26,962            |
| Accounts payables   | (2,124)           |
| Accrued payroll   | 3,845             |
| Compensated absences  | 2,738             |
| Deposits  | (100)             |
| Net OPEB liability  | (79,058)          |
| Net pension liability   | 104,487           |
| Deferred inflows  | 46,512            |
|   | <hr/>             |
| Net cash provided by operating activities   | <u>\$ 110,998</u> |

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

**HERITAGE RANCH COMMUNITY SERVICES DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
June 30, 2021

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**NOTE 1 – REPORTING ENTITY**

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

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

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

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- A. Accounting Policies - The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).
- B. Accounting Method - The District is organized as an Enterprise Fund and follows the accrual method of accounting, whereby revenues are recorded as earned, and expenses are recorded when incurred.
- C. Cash and Cash Equivalents - For purpose of the statement of cash flows, cash and cash equivalents include restricted and unrestricted cash and restricted and unrestricted certificates of deposit with original maturities of three months or less.
- D. Prepaid Expenses - Payments made to vendors for services that will benefit periods beyond June 30, 2021, are recorded as prepaid expenses.
- E. Property, Plant, and Equipment - All capital assets are valued at historical cost or fair value if actual costs are not available. Other donated capital assets are valued at their estimated fair market value on the date received. The capitalization threshold for all capital assets is \$5,000. Depreciation has been provided over the estimated useful life of the asset using the straight-line method. Estimated useful lives range from 5 to 100 years.
- F. Depreciation - Capital assets purchased by the District are depreciated over their estimated useful lives (ranging from 5-100 years) under the straight-line method of depreciation.
- G. Receivables - The District did not experience any significant bad debt losses; accordingly, no provision has been made for doubtful accounts, and accounts receivable is shown at full value.
- H. Inventory - The inventory maintained by the water utility consists primarily of water pipe, valves, and fittings. Inventory is valued at cost, determined on a first-in, first-out basis.
- I. Encumbrances - Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is not utilized by the District.
- J. Accrued Compensation - Accumulated unpaid employee vacation, compensatory time, and sick leave benefits are recognized as a liability of the District. The amounts are included in current liabilities under compensated absences.
- K. Customer Deposits - The District requires customers to pay an advance deposit for utility services or provide a letter of credit from another utility. It is the District's current policy to hold all deposits for a period of two years. Deposits are then refunded in full and no accrued interest is paid.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- L. Pensions - For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Heritage Ranch Community Services District's California Public Employee's Retirement System (CalPERS) plan (Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.
- M. Other Post-Employment Benefits (OPEB) - For purposes of measuring the net OPEB liability and deferred outflows/inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District's plan (OPEB Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.
- N. Deferred Outflows and Inflows of Resources - Pursuant to GASB Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,*" and GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities,*" the District recognizes deferred outflows and inflows of resources.

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

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

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

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

- P. Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, as prescribed by the GASB and the AICPA, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
- Q. Annual Appropriations Limit - The District is exempt from the annual appropriations limit required by Senate Bill 813 (Chapter 1025, Statutes of 1987), in accordance with California Constitution Article XIII B. This exemption is based on a tax rate not greater than 12.5 cents per \$100 of the assessed valuation in 1978 when the District was operated as a San Luis Obispo County Service Area.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

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

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

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

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

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

- S. Fund financial statements - Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the enterprise fund's principal ongoing operations. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

**HERITAGE RANCH COMMUNITY SERVICES DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
 June 30, 2021

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

GASB Statements listed below will be implemented in future financial statements:

|                  |  |   |
|------------------|--|---|
| Statement No. 87 | "Leases"   | The provisions of this statement are effective for fiscal years beginning after June 15, 2021.  |
| Statement No. 89 | "Accounting for Interest Cost Incurred before the End of a Construction Period"  | The provisions of this statement are effective for fiscal years beginning after December 15, 2020.  |
| Statement No. 91 | "Conduit Debt Obligations"   | The provisions of this statement are effective for fiscal years beginning after December 15, 2021.  |
| Statement No. 92 | "Omnibus 2020"   | The provisions of this statement are effective for fiscal years beginning after June 15, 2021.  |
| Statement No. 93 | "Replacement of Interbank Offered Rates"   | The provision of this statement except for paragraphs 11b, 13, and 14 are effective for fiscal years beginning after June 15, 2020. Paragraph 11b is effective for fiscal years beginning after December 31, 2021. Paragraphs 13 and 14 are effective for fiscal years beginning after June 15, 2021. |
| Statement No. 94 | "Public-Private and Public-Public Partnerships and Availability Payment Arrangements"  | The provisions of this statement are effective for fiscal years beginning after June 15, 2022.  |
| Statement No. 96 | "Subscription-Based Information Technology Arrangements"   | The provisions of this statement are effective for fiscal years beginning after June 15, 2022.  |
| Statement No. 97 | "Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32" | The provision of this statement except for paragraphs 6-9 are effective for fiscal years beginning after December 15, 2019. Paragraph 6-9 is effective for fiscal years beginning after June 15, 2021.  |

**NOTE 3 – CASH AND INVESTMENTS**

Investments are carried at fair value in accordance with GASB Statement No. 31. On June 30, 2021, the District had the following cash and investments on hand:

|               |                     |
|---------------|---------------------|
| Cash on hand  | \$ 300              |
| Cash in banks | 336,132             |
| Investments   | <u>4,658,903</u>    |
| Total         | <u>\$ 4,995,335</u> |



**HERITAGE RANCH COMMUNITY SERVICES DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
June 30, 2021

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**NOTE 3 – CASH AND INVESTMENTS (Continued)**

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

|                      |                     |
|----------------------|---------------------|
| Cash and investments | \$ 4,881,901        |
| Restricted cash      | 113,434             |
| Total                | <u>\$ 4,995,335</u> |

The District categorizes its fair value measurements within the fair value hierarchy established by the U.S. Generally Accepted Accounting Principles GASB Statement No. 75. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District had investments in the Local Agency Investment Fund, however, the external investment pool is not measured under Level 1, 2 or 3.

Investments Authorized by the California Government Code

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

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

Disclosures Relating to Interest Rate Risk

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

**HERITAGE RANCH COMMUNITY SERVICES DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
June 30, 2021

**NOTE 3 – CASH AND INVESTMENTS (Continued)**

Disclosures Relating to Interest Rate Risk (Continued)

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

| Investment Type              | Carrying Amount     | Remaining Maturity (in Months) |              |              |                     |
|------------------------------|---------------------|--------------------------------|--------------|--------------|---------------------|
|                              |                     | 12 Months Or Less              | 13-24 Months | 25-60 Months | More than 60 Months |
| State investment pool (LAIF) | \$ 4,658,903        | \$ 4,658,903                   | \$ -         | \$ -         | \$ -                |
|                              | <u>\$ 4,658,903</u> | <u>\$ 4,658,903</u>            | <u>\$ -</u>  | <u>\$ -</u>  | <u>\$ -</u>         |

Disclosures Relating to Credit Risk

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

| Investment Type              | Carrying Amount     | Minimum Legal Rating | Rating as of Fiscal Year End |             |             |                     |
|------------------------------|---------------------|----------------------|------------------------------|-------------|-------------|---------------------|
|                              |                     |                      | AAA                          | AA-         | Baa         | Not Rated           |
| State investment pool (LAIF) | \$ 4,658,903        | N/A                  | \$ -                         | \$ -        | \$ -        | \$ 4,658,903        |
|                              | <u>\$ 4,658,903</u> |                      | <u>\$ -</u>                  | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 4,658,903</u> |

Concentration of Credit Risk

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

Custodial Credit Risk

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

As of June 30, 2021, none of the District’s deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government’s indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

**HERITAGE RANCH COMMUNITY SERVICES DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
 June 30, 2021

**NOTE 3 – CASH AND INVESTMENTS (Continued)**

Investment in State Investment Pool (LAIF)

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

**NOTE 4 – SCHEDULE OF CAPITAL ASSETS**

A schedule of changes in capital assets and depreciation for the fiscal year ended June 30, 2021, is shown below:

|                                      | Balance             |                     |             |                    | Balance             |
|--------------------------------------|---------------------|---------------------|-------------|--------------------|---------------------|
|                                      | July 1, 2020        | Additions           | Deletions   | Transfers          | June 30, 2021       |
| <b>Non depreciable</b>               |                     |                     |             |                    |                     |
| Land                                 | \$ 56,938           | \$ -                | \$ -        | \$ -               | \$ 56,938           |
| Construction in progress             | 599,468             | 901,293             |             | (10,922)           | 1,489,839           |
| Total non depreciable                | <u>\$ 656,406</u>   | <u>\$ 901,293</u>   | <u>\$ -</u> | <u>\$ (10,922)</u> | <u>\$ 1,546,777</u> |
| <b>Depreciable</b>                   |                     |                     |             |                    |                     |
| Buildings and structures             | \$ 935,899          | \$ -                | \$ -        | \$ -               | \$ 935,899          |
| Plant and facilities                 | 13,375,918          |                     |             | 10,922             | 13,386,840          |
| Vehicles and Equipment               | 2,126,728           |                     |             |                    | 2,126,728           |
|                                      | 16,438,545          |                     |             | 10,922             | 16,449,467          |
| <b>Less accumulated depreciation</b> |                     |                     |             |                    |                     |
| Buildings and structures             | (860,895)           | (338,268)           |             |                    | (1,199,163)         |
| Plant and facilities                 | (8,645,203)         | (17,464)            |             |                    | (8,662,667)         |
| Vehicles and Equipment               | (1,180,911)         | (52,685)            |             |                    | (1,233,596)         |
|                                      | (10,687,009)        | (408,417)           |             |                    | (11,095,426)        |
| Total depreciable                    | <u>\$ 5,751,536</u> | <u>\$ (408,417)</u> | <u>\$ -</u> | <u>\$ 10,922</u>   | <u>\$ 5,354,041</u> |
| Net capital assets                   | <u>\$ 6,407,942</u> | <u>\$ 492,876</u>   | <u>\$ -</u> | <u>\$ -</u>        | <u>\$ 6,900,818</u> |

Depreciation expense for the fiscal year ended June 30, 2021 was \$408,417.

**NOTE 5 – LONG-TERM LIABILITIES**

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. As of June 30, 2021, the District has a balance of \$726,965 remaining with future debt service payments as follows:

| Fiscal Year | Ending            | Principal         | Interest          | Total |
|-------------|-------------------|-------------------|-------------------|-------|
| 2022        | \$ 81,167         | \$ 22,462         | \$ 103,629        |       |
| 2023        | 83,766            | 19,862            | 103,628           |       |
| 2024        | 86,415            | 17,213            | 103,628           |       |
| 2025        | 89,247            | 14,381            | 103,628           |       |
| 2026        | 92,075            | 11,553            | 103,628           |       |
| 2027-2029   | 294,295           | 16,590            | 310,885           |       |
|             | <u>\$ 726,965</u> | <u>\$ 102,061</u> | <u>\$ 829,026</u> |       |

**HERITAGE RANCH COMMUNITY SERVICES DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
 June 30, 2021

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**NOTE 5 – LONG-TERM LIABILITIES (Continued)**

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 semiannual principal and interest payments. Remaining semiannual payments of \$29,370 will be made in July and January through fiscal year 2036. As of June 30, 2021, the District has a balance of \$747,359 remaining with future debt service payments as follows:

| Fiscal Year |                   |                   |                   |
|-------------|-------------------|-------------------|-------------------|
| Ending      | Principal         | Interest          | Total             |
| 2022        | \$ 22,690         | \$ 6,679          | \$ 29,369         |
| 2023        | 45,990            | 12,749            | 58,739            |
| 2024        | 46,815            | 11,923            | 58,738            |
| 2025        | 47,656            | 11,083            | 58,739            |
| 2026        | 48,512            | 10,227            | 58,739            |
| 2027-2031   | 255,940           | 37,752            | 293,692           |
| 2032-2036   | 279,756           | 13,937            | 293,693           |
|             | <u>\$ 747,359</u> | <u>\$ 104,350</u> | <u>\$ 851,709</u> |

The District obtained a \$1,707,000 capital lease from the Western Alliance Business Trust on April 1, 2020, for the construction of the District’s solar energy general facilities at the Water and Wastewater Treatment Plants. The lease is payable over 15 years and bears interest at 3.26% annually. In October of 2020 the District began making semiannual principal and interest payments. Remaining semiannual payments will be made in October and April through fiscal year 2035. As of June 30, 2021, the District has a balance of \$1,707,000 remaining with future debt service payments as follows:

| Fiscal Year |                     |                   |                     |
|-------------|---------------------|-------------------|---------------------|
| Ending      | Principal           | Interest          | Total               |
| 2022        | \$ 98,000           | \$ 54,850         | \$ 152,850          |
| 2023        | 101,000             | 51,638            | 152,638             |
| 2024        | 105,000             | 48,313            | 153,313             |
| 2025        | 108,000             | 44,858            | 152,858             |
| 2026        | 111,000             | 41,320            | 152,320             |
| 2027-2031   | 615,000             | 149,227           | 764,227             |
| 2032-2035   | 569,000             | 42,543            | 611,543             |
|             | <u>\$ 1,707,000</u> | <u>\$ 432,749</u> | <u>\$ 2,139,749</u> |

**NOTE 6 – COMPENSATED ABSENCES**

As of June 30, 2021, it is estimated that the District’s employees have \$74,520 of accumulated vested vacation time and sick leave. Accumulated unpaid employee vacation and sick leave benefits are recognized as liabilities of the District. The accumulated benefits will be liquidated in future years as employees elect to use them.

**HERITAGE RANCH COMMUNITY SERVICES DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
 June 30, 2021

**NOTE 7 – SCHEDULE OF CHANGES IN LONG-TERM LIABILITIES**

The changes in long-term liabilities for the fiscal year ended June 30, 2021, were as follows:

|                          | July 1, 2020        | Additions         | Retirements         | June 30, 2021       | Due within<br>one year |
|--------------------------|---------------------|-------------------|---------------------|---------------------|------------------------|
| Compensated absences     | \$ 71,782           | \$ 62,775         | \$ (60,037)         | \$ 74,520           | \$ 24,815              |
| State DWR loan payable   | 805,663             |                   | (78,698)            | 726,965             | 81,167                 |
| State SWRCB loan payable | 792,137             |                   | (44,778)            | 747,359             | 22,690                 |
| Solar capital lease      | 1,707,000           |                   |                     | 1,707,000           | 98,000                 |
| Net OPEB liability       | 1,062,644           | 141,818           | (220,876)           | 983,586             |                        |
| Net pension liability    | 1,132,897           | 241,567           | (137,080)           | 1,237,384           |                        |
|                          | <u>\$ 5,572,123</u> | <u>\$ 446,160</u> | <u>\$ (541,469)</u> | <u>\$ 5,476,814</u> | <u>\$ 226,672</u>      |

**NOTE 8 – DEFINED BENEFIT PENSION PLAN**

**A. General Information about the Pension Plans**

Plan Descriptions

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

Benefits Provided

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

The Plans' provisions and benefits in effect at June 30, 2021, are summarized as follows:

|   | Miscellaneous               |                                      |                                |
|---|-----------------------------|--------------------------------------|--------------------------------|
|   | Prior to<br>January 1, 2013 | Prior to January 1,<br>2013 (tier 2) | On or after<br>January 1, 2013 |
| Hire Date   |                             |                                      |                                |
| Benefit formula                                   | 2.0% @ 55                   | 2.0% @ 55                            | 2% @ 62                        |
| Benefit vesting schedule                          | 5 years service             | 5 years service                      | 5 years service                |
| Benefit payments                                  | monthly for life            | monthly for life                     | monthly for life               |
| Retirement age                                    | 50-63                       | 50-63                                | 52-67                          |
| Monthly benefits, as a % of eligible compensation | 2.0% to 2.7%                | 2.0% to 2.7%                         | 1.0% to 2.5%                   |
| Required employee contribution rates              | 8.00%                       | 8.00%                                | 6.75%                          |
| Required employer contribution rates              | 12.361% + \$79,713          | 10.484% + \$3,001                    | 7.732% + \$197                 |

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Contributions to the pension plan from the District were \$143,659 for the fiscal year ended June 30, 2021.

**HERITAGE RANCH COMMUNITY SERVICES DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
June 30, 2021

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**NOTE 8 – DEFINED BENEFIT PENSION PLAN (Continued)**

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

At June 30, 2021, the District reported a liability of \$1,237,384 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019 rolled forward to June 30, 2020 using standard update procedures. The District’s proportion of the net pension liability was based on a projection of the District’s long-term share of contributions to the pension plan relative to the projected contributions of all Pension Plan participants, actuarially determined. The District’s proportionate share of net pension liability for the miscellaneous plan as of June 30, 2019, and 2020 was as follows:

|                            |                      |
|----------------------------|----------------------|
|                            | <u>Miscellaneous</u> |
| Proportion-June 30, 2019   | 0.02829%             |
| Proportion-June 30, 2020   | <u>0.02934%</u>      |
| Change-Increase (Decrease) | <u>0.00105%</u>      |

For the year ended June 30, 2021, the District recognized pension expense of \$227,065. Pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits. At June 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

|   | <u>Deferred Outflows<br/>of Resources</u> | <u>Deferred Inflows of<br/>Resources</u> |
|---|---|--|
| Pension contributions subsequent to measurement date                                | \$ 143,659                                | \$ -                                     |
| Differences between expected and actual experience                                  | 63,766                                    |  |
| Changes in assumptions  |   | 8,826                                    |
| Net difference between projected and actual earnings on retirement plan investments | 36,758                                    |  |
| Adjustment due to differences in proportions  | 44,408                                    |  |
| Difference in actual contributions and proportionate share of contributions         |   | 39,021                                   |
|   | <u>\$ 288,591</u>                         | <u>\$ 47,847</u>                         |

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

\$143,659 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2022.

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

| <u>Fiscal Year<br/>Ended June 30</u> | <u>Amount</u>    |
|--------------------------------------|------------------|
| 2022                                 | \$ 13,771        |
| 2023                                 | 36,335           |
| 2024                                 | 29,349           |
| 2025                                 | <u>17,630</u>    |
| Total                                | <u>\$ 97,085</u> |

**NOTE 8 – DEFINED BENEFIT PENSION PLAN (Continued)**

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

Actuarial Assumptions

The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions:

|                                  | Miscellaneous   |
|----------------------------------|---|
| Valuation Date                   | June 30, 2019   |
| Measurement Date                 | June 30, 2020   |
| Actuarial Cost Method            | Entry-Age Normal Cost Method  |
| Actuarial Assumptions:           |   |
| Discount Rate                    | 7.15%   |
| Inflation                        | 2.50%   |
| Projected Salary Increase        | Varies by Entry Age and Service   |
| Investment Rate of Return        | 7.0% Net of Pension Plan Investment and Administrative Expenses; includes Inflation                                       |
| Mortality Rate Table (1)         | Derived using CalPERS' Membership Data for all Funds  |
| Post Retirement Benefit Increase | Contract COLA up to 2.50% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter |

- (1) The mortality table used was developed based on CalPERS' specific data. The table includes 15 years of mortality improvements using 90% Scale MP 2016 published by the Society of Actuaries. For more details on this table please refer to the 2017 experience study report.

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. To determine whether the municipal bond rate should be used in the calculation of the discount rate for public agency plans (including PERF C), CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the current 7.15 percent discount rate is appropriate, and the use of municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15 percent is applied to all plans in the Public Employees Retirement Fund, including PERF C. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB No. 68 section.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2022. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB No. 67 and No. 68 calculations through at least the 2021-22 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

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 pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations 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.

**HERITAGE RANCH COMMUNITY SERVICES DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
 June 30, 2021

**NOTE 8 – DEFINED BENEFIT PENSION PLAN (Continued)**

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

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

| Asset Class         | New<br>Strategic<br>Allocation | Real Return<br>Years 1-10(a) | Real Return<br>Years 11+(b) |
|---------------------|--------------------------------|------------------------------|-----------------------------|
| Global Equity       | 50.0%                          | 4.80%                        | 5.98%                       |
| Global Fixed Income | 28.0%                          | 1.00%                        | 2.62%                       |
| Inflation Sensitive | 0.0%                           | 0.77%                        | 1.81%                       |
| Private Equity      | 8.0%                           | 6.30%                        | 7.23%                       |
| Real Estate         | 13.0%                          | 3.75%                        | 4.93%                       |
| Liquidity           | 1.0%                           | 0.00%                        | -0.92%                      |
| Total               | 100.0%                         |                              |                             |

(a) An expected inflation of 2.00% used for this period.

(b) An expected inflation of 2.92% used for this period.

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

The following represents the District's proportionate share of the net pension liability calculated using the discount rate of 7.15 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.15 percent) or 1- percentage point higher (8.15 percent) than the current rate:

|  | 1% Decrease<br>6.15% | Discount Rate<br>7.15% | 1% Increase<br>8.15% |
|--|----------------------|------------------------|----------------------|
| District's proportionate share of the net pension plan liability | \$ 1,886,486         | \$ 1,237,384           | \$ 701,052           |

Pension Plan Fiduciary Net Position

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

**C. Payable to the Pension Plan**

At June 30, 2021, the District had no amount outstanding for contributions to the pension plan required for the fiscal year ended June 30, 2021.

**NOTE 9 – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS**

Plan Description

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



**HERITAGE RANCH COMMUNITY SERVICES DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
 June 30, 2021

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

Funding Policy

In 2009, the District joined the CalPERS medical program. In 2020, the District contributed the full cost of retiree and spousal coverage, up to the cost of PERS Choice coverage in comparison to the "unequal contribution" approach that was used at the inception of the CalPERS medical program. The District's contribution will be based on each retiree's age and enrollment status. The contribution requirements of plan members and the District are established and may be amended by the District and the employee associations. Currently, contributions are not required from plan members.

Employees Covered

As of June 30, 2019, actuarial valuation, the following current and former employees were covered by the benefit terms under the District's Plan:

|  |                  |
|--|------------------|
| Active employees   | 8                |
| Inactive employees or beneficiaries currently receiving benefits | <u>5</u>         |
| Total  | <u><u>13</u></u> |

Contributions

The District's funding policy is to fund 100% of the actuarially determined contribution determined through the California Employers' Retiree Benefit Trust (CERBT). Based on this valuation, the District contributed \$86,478 to an irrevocable trust to meet the current obligations of this program in the measurement period ending June 30, 2020.

Net OPEB Liability

The District's Net OPEB Liability was measured as of June 30, 2020 and the total OPEB liability used to calculate the Net OPEB Liability was determined by an actuarial valuation as of June 30, 2019.

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

|                           |  |
|---------------------------|--|
| Discount Rate             | 7.00%, based on the CERBT Strategy 1 investment policy |
| Investment Rate of Return | 7.00%, based on the CERBT Strategy 1 investment policy |
| Inflation                 | 2.50%  |
| Salary Increases          | 3.00%  |
| Mortality Rate            | Derived from 2017 CalPERS study                        |
| Healthcare Trend Rate     | 6.50% starting decreasing to 5.00% by 2024 and beyond  |

*Discount rate.* GASB 75 requires a discount rate that reflects the following:

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

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

The arithmetic long-term expected real rates of return by asset class for the next 10 years as provided in a report by JP Morgan shown in the Investments portion of this Note. For year thereafter, returns were based on historical average index real returns over the last 30 years assuming a similar equity/fixed investment mix and a 2.26% inflation rate. Investment expenses were assumed to be 10 basis points per year. These returns were matched with cash flows for benefits covered by plan assets and the Bond Buyer 20-Bond General Obligation index was matched with cash flows not covered by plan assets to measure the reasonableness of the choice in discount rate.

|                             | <u>June 30, 2021</u> | <u>June 30, 2020</u> | <u>June 30, 2019</u> |
|-----------------------------|----------------------|----------------------|----------------------|
| Discount Rate               | 7.00%                | 6.95%                | 7.00%                |
| Bond buyer 20-Bond GO Index | 3.50%                | 3.50%                | 3.87%                |

**HERITAGE RANCH COMMUNITY SERVICES DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
June 30, 2021

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

Changes in the OPEB Liability

|   | Total<br>OPEB<br>Liability | Plan<br>Fiduciary<br>Net Position | Net<br>OPEB<br>Liability/(Asset) |
|---|----------------------------|-----------------------------------|----------------------------------|
| Balance at June 30, 2019-Measurement Date         | \$ 1,513,138               | \$ 450,494                        | \$ 1,062,644                     |
| Changes recognized for the measurement period:    |                            |                                   |                                  |
| Service cost                                      | 42,910                     |                                   | 42,910                           |
| Interest  | 98,687                     |                                   | 98,687                           |
| Changes of assumptions                            | (118,230)                  |                                   | (118,230)                        |
| Difference between expected and actual experience |                            |                                   |                                  |
| Contributions - employer                          |                            | 86,478                            | (86,478)                         |
| Net investment income                             |                            | 16,168                            | (16,168)                         |
| Benefit payments                                  | (61,478)                   | (61,478)                          |                                  |
| Administrative expense                            |                            | (221)                             | 221                              |
| Net Changes                                       | (38,111)                   | 40,947                            | (79,058)                         |
| Balance at June 30, 2020-Measurement Date         | \$ 1,475,027               | \$ 491,441                        | \$ 983,586                       |

*Sensitivity of the net OPEB liability to changes in the discount rate.* The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.00 percent) or 1-percentage-point higher (8.00 percent) than the current discount rate:

|                    | 1% Decrease<br>6.00% | Discount Rate<br>7.00% | 1% Increase<br>8.00% |
|--------------------|----------------------|------------------------|----------------------|
| Net OPEB Liability | \$ 1,227,816         | \$ 983,586             | \$ 796,101           |

*Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates.* The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (5.50 percent decreasing to 5.00 percent) or 1-percentage-point higher (7.50 percent decreasing to 5.00 percent) than the current healthcare cost trend rates:

|                    | 1% Decrease<br>(5.50% decreasing<br>to 5.0%) | Trend Rate<br>(6.50% decreasing<br>to 5.0%) | 1% Increase<br>(7.50% decreasing<br>to 5.0%) |
|--------------------|--|---|--|
| Net OPEB Liability | \$ 754,165                                   | \$ 983,586                                  | \$ 1,278,037                                 |

Investments

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

| Asset Classification          | Target<br>Allocation | Rate of Return                 | Rate of Return                |
|-------------------------------|----------------------|--------------------------------|-------------------------------|
|                               |                      | Expected Real<br>Years 1-10(a) | Expected Real<br>Years 11+(b) |
| Global Equity                 | 59.0%                | 4.80%                          | 5.98%                         |
| Fixed Income                  | 25.0%                | 1.10%                          | 2.62%                         |
| REITs                         | 8.0%                 | 3.20%                          | 5.00%                         |
| Treasury Protected Securities | 5.0%                 | 0.25%                          | 1.46%                         |
| Commodities                   | 3.0%                 | 1.50%                          | 2.87%                         |
| Total:                        | 100.0%               |                                |                               |

(a) An expected inflation of 2.00% was used for this period.

(b) An expected inflation of 2.92% was used for this period.

**HERITAGE RANCH COMMUNITY SERVICES DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
 June 30, 2021

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

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

For the fiscal year ended June 30, 2021, the District recognized OPEB expense of \$98,462. As of the fiscal year ended June 30, 2021, the District reported deferred outflows and deferred inflows of resources related to OPEB from the following sources:

|   | Deferred Outflows<br>of Resources | Deferred Inflows of<br>Resources |
|---|-----------------------------------|----------------------------------|
| OPEB contributions subsequent to measurement date                                   | \$ 87,637                         | \$ -                             |
| Change in assumptions   | 155,820                           | 104,945                          |
| Difference between expected and actual experience                                   |                                   | 158,422                          |
| Net difference between projected and actual earnings on retirement plan investments | 12,229                            |                                  |
|   | <u>\$ 255,686</u>                 | <u>\$ 263,367</u>                |

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

\$87,637 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2022.

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

| Fiscal year Ending June 30, | Amount             |
|-----------------------------|--------------------|
| 2022                        | \$ (10,954)        |
| 2023                        | (10,954)           |
| 2024                        | (10,092)           |
| 2025                        | (10,415)           |
| 2026                        | (13,661)           |
| Thereafter                  | (39,242)           |
|                             | <u>\$ (95,318)</u> |

**NOTE 10 – CONTINGENCIES**

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

**NOTE 11 – SUBSEQUENT EVENTS**

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the District’s financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the District is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity as of the date of issuance of these financial statements.

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**REQUIRED SUPPLEMENTARY INFORMATION**



**HERITAGE RANCH COMMUNITY SERVICES DISTRICT**  
**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY**  
 Last 10 Years\*  
 As of June 30, 2021

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

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

**Notes to Schedule:**

Changes in assumptions

In 2018, inflation was changed from 2.75 percent to 2.50 percent and individual salary increases and overall payroll growth was reduced from 3.00 percent to 2.75 percent.

In 2017, as part of the Asset Liability Management review cycle, the discount rate was changed from 7.65 percent to 7.15 percent.

In 2016, the discount rate was changed from 7.5 percent (net of administrative expense) to 7.65 percent to correct for an adjustment to exclude administrative expense.

In 2015, amounts reported as changes in assumptions resulted primarily from adjustments to expected ages of general employees.

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

**HERITAGE RANCH COMMUNITY SERVICES DISTRICT**  
**SCHEDULE OF PENSION CONTRIBUTIONS**  
 Last 10 Years\*  
 As of June 30, 2021

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

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

**Notes to Schedule**

|                        |   |
|------------------------|---|
| <b>Valuation Date:</b> | <b>6/30/2014</b>  |
| Actuarial cost method  | Entry Age Normal  |
| Asset valuation method | 5-year smoothed market  |
| Amortization method    | The unfunded actuarial accrued liability is amortized over an open 17 year period as a level percentage of payroll.   |
| Discount rate          | 7.50%   |
| Payroll growth rate    | 3.00%   |
| Price inflation        | 2.75%   |
| Salary increases       | 2.75% plus merit component based on employee classification and years of service  |
| Mortality              | Sex distinct RP-2000 Combined Mortality projected to 2010 using Scale AA with a 2 year setback for males and a 4 year setback for females.  |
| <b>Valuation Date:</b> | <b>6/30/2015</b>  |
| Discount Rate          | 7.65%   |
| <b>Valuation Date:</b> | <b>6/30/2016</b>  |
| Discount Rate          | 7.375%  |
| <b>Valuation Date:</b> | <b>6/30/2017</b>  |
| Discount Rate          | 7.150%  |
| <b>Valuation Date:</b> | <b>6/30/2018</b>  |
| Payroll growth rate    | 2.75%   |
| Price inflation        | 2.50%   |
| Mortality              | The CalPERS mortality table includes 15 years of mortality improvements using 90% Scale MP 2016 published by the Society of Actuaries. For more details on this table please refer to the 2017 experience study report. |

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



**HERITAGE RANCH COMMUNITY SERVICES DISTRICT**  
**SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS**  
Last 10 Years\*  
As of June 30, 2021

| <u>Fiscal Year Date</u>                                      | <u>6/30/2021</u>    | <u>6/30/2020</u>    | <u>6/30/2019</u>    | <u>6/30/2018</u>    |
|--|---------------------|---------------------|---------------------|---------------------|
| <u>Measurement Date</u>                                      | <u>6/30/2020</u>    | <u>6/30/2019</u>    | <u>6/30/2018</u>    | <u>6/30/2017</u>    |
| <b>Total OPEB Liability</b>                                  |                     |                     |                     |                     |
| Service cost   | \$ 42,910           | \$ 36,604           | \$ 35,538           | \$ 34,503           |
| Interest on the total OPEB liability                         | 98,687              | 94,721              | 90,665              | 88,082              |
| Actual and expected experience difference                    |                     | (204,342)           |                     |                     |
| Changes in assumptions                                       | (118,230)           | 200,986             |                     |                     |
| Changes in benefit terms                                     |                     |                     |                     |                     |
| Benefit payments   | (61,478)            | (70,961)            | (58,747)            | (50,373)            |
| <b>Net change in total OPEB Liability</b>                    | <b>(38,111)</b>     | <b>57,008</b>       | <b>67,456</b>       | <b>72,212</b>       |
| <b>Total OPEB liability- beginning</b>                       | <b>1,513,138</b>    | <b>1,456,130</b>    | <b>1,388,674</b>    | <b>1,316,462</b>    |
| <b>Total OPEB liability- ending</b>                          | <b>\$ 1,475,027</b> | <b>\$ 1,513,138</b> | <b>\$ 1,456,130</b> | <b>\$ 1,388,674</b> |
| <b>Plan Fiduciary Net Position</b>                           |                     |                     |                     |                     |
| Contributions - employer                                     | \$ 86,478           | \$ 95,961           | \$ 83,747           | \$ 75,373           |
| Net investment income  | 16,168              | 25,223              | 27,739              | 30,828              |
| Benefit payments   | (61,478)            | (70,961)            | (58,747)            | (50,373)            |
| Administrative expense                                       | (221)               | (86)                | (187)               | (158)               |
| Other expenses   |                     |                     | (461)               |                     |
| <b>Net change in plan fiduciary net position</b>             | <b>40,947</b>       | <b>50,137</b>       | <b>52,091</b>       | <b>55,670</b>       |
| <b>Plan fiduciary net position- beginning</b>                | <b>450,494</b>      | <b>400,357</b>      | <b>348,266</b>      | <b>292,596</b>      |
| <b>Plan fiduciary net position- ending</b>                   | <b>\$ 491,441</b>   | <b>\$ 450,494</b>   | <b>\$ 400,357</b>   | <b>\$ 348,266</b>   |
| <b>Net OPEB liability - ending</b>                           | <b>\$ 983,586</b>   | <b>\$ 1,062,644</b> | <b>\$ 1,055,773</b> | <b>\$ 1,040,408</b> |
| <b>Covered payroll</b>                                       | <b>\$ 719,128</b>   | <b>\$ 645,139</b>   | <b>\$ 552,532</b>   | <b>\$ 602,594</b>   |
| <b>Net OPEB liability as a percentage of covered payroll</b> | <b>136.77%</b>      | <b>164.72%</b>      | <b>191.08%</b>      | <b>172.65%</b>      |

\*- Fiscal year 2018 was the 1st year of implementation, therefore only four years are shown.

**HERITAGE RANCH COMMUNITY SERVICES DISTRICT**  
**SCHEDULE OF OPEB CONTRIBUTIONS**  
 Last 10 Years\*  
 As of June 30, 2021

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

|   | 2021             | 2020            | 2019              | 2018            |
|---|------------------|-----------------|-------------------|-----------------|
| Contractually required contribution<br>(actuarially determined)         | \$ 98,553        | \$ 95,878       | \$ 88,399         | \$ 88,399       |
| Contribution in relation to the actuarially<br>determined contributions | (87,637)         | (86,478)        | (95,961)          | (83,747)        |
| Contribution deficiency (excess)  | <u>\$ 10,916</u> | <u>\$ 9,400</u> | <u>\$ (7,562)</u> | <u>\$ 4,652</u> |
| Covered payroll   | \$ 611,761       | \$ 719,128      | \$ 645,139        | \$ 552,532      |
| Contributions as a percentage of covered payroll                        | 14.33%           | 12.03%          | 14.87%            | 15.16%          |

**Notes to Schedule**

|                             |  |  |  |  |
|-----------------------------|--|--|--|--|
| Valuation Date:             | 6/30/2019  | 6/30/2019  | 6/30/2017  | 6/30/2017  |
| Actuarial Cost Method       | Entry Age Normal<br>Level % of Pay   | Entry Age Normal<br>Level % of Pay   | Entry Age Normal<br>Level % of Pay   | Entry Age Normal<br>Level % of Pay   |
| Amortization Method         | Level Dollar Pmts<br>Closed 30 Yr Period   | Level Dollar Pmts<br>Closed 30 Yr Period   | Level Dollar Pmts<br>Closed 20 Yr Period   | Level Dollar Pmts<br>Closed 20 Yr Period   |
| Amortization Period         | 30 Years Remain  | 30 Years Remain  | 19 Years Remain  | 20 Years Remain  |
| Asset Valuation Method      | Market Value   | Market Value   | Market Value   | Market Value   |
| Inflation                   | 2.50%  | 2.50%  | N/A  | N/A  |
| Healthcare Cost Trend Rates | Medical: 6.5%<br>starting in 2021<br>grading down to<br>5.0% by 2025 and<br>beyond           | Medical: 6.5%<br>starting in 2021<br>grading down to<br>5.0% by 2025 and<br>beyond           | Medical: 6.0%<br>starting in 2017<br>grading down to<br>5.0% by 2018 and<br>later; Dental/Vision:<br>4% per year | Medical: 6.0%<br>starting in 2017<br>grading down to<br>5.0% by 2018 and<br>later; Dental/Vision:<br>4% per year |
| Salary Increases            | 3.00%  | 3.00%  | 3.00%  | 3.00%  |
| Investment Rate of Return   | 7.0% for the explicit<br>liability (prefunded);<br>2.79% for the impact<br>liability (PAYGO) | 7.0% for the explicit<br>liability (prefunded);<br>2.79% for the impact<br>liability (PAYGO) | 6.50%  | 6.50%  |
| Retirement Age              | 55 to 70   | 55 to 70   | 55 to 65   | 55 to 65   |
| Mortality                   | 2017 CalPERS<br>Experience Study   | 2017 CalPERS<br>Experience Study   | RP-2014  | RP-2014  |
| Mortality Improvement       | MW Scale 2018  | MW Scale 2018  | No Projection  | No Projection  |

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

**SUPPLEMENTARY INFORMATION**



**HERITAGE RANCH COMMUNITY SERVICES DISTRICT**  
**COMBINING STATEMENT OF NET POSITION - BY ACTIVITY**  
 June 30, 2021

|   | Water               | Sewer               | Solid<br>Waste    | General        | Total               |
|---|---------------------|---------------------|-------------------|----------------|---------------------|
| <b>ASSETS</b>                               |                     |                     |                   |                |                     |
| Current assets:                             |                     |                     |                   |                |                     |
| Cash and investments                        | \$ 2,178,449        | \$ 1,791,684        | \$ 137,914        | \$ 773,854     | \$ 4,881,901        |
| Taxes receivable                            | 8,499               | 2,879               |                   | 1,472          | 12,850              |
| Accounts receivable                         | 123,851             | 66,085              |                   |                | 189,936             |
| Interest receivable                         | 2,857               | 902                 |                   |                | 3,759               |
| Inventory                                   | 29,609              |                     |                   |                | 29,609              |
| <b>Total current assets</b>                 | <b>2,343,265</b>    | <b>1,861,550</b>    | <b>137,914</b>    | <b>775,326</b> | <b>5,118,055</b>    |
| Noncurrent assets:                          |                     |                     |                   |                |                     |
| Restricted cash                             | 113,434             |                     |                   |                | 113,434             |
| Capital assets                              |                     |                     |                   |                |                     |
| Land  | 56,747              | 191                 |                   |                | 56,938              |
| Construction in progress                    | 1,031,167           | 458,672             |                   |                | 1,489,839           |
| Property, plant and equipment               | 10,900,560          | 5,085,691           |                   | 463,216        | 16,449,467          |
| Accumulated depreciation                    | (6,560,833)         | (4,142,937)         |                   | (391,656)      | (11,095,426)        |
| <b>Net capital assets</b>                   | <b>5,427,641</b>    | <b>1,401,617</b>    |                   | <b>71,560</b>  | <b>6,900,818</b>    |
| <b>Total noncurrent assets</b>              | <b>5,541,075</b>    | <b>1,401,617</b>    |                   | <b>71,560</b>  | <b>7,014,252</b>    |
| <b>Total assets</b>                         | <b>7,884,340</b>    | <b>3,263,167</b>    | <b>137,914</b>    | <b>846,886</b> | <b>12,132,307</b>   |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>       |                     |                     |                   |                |                     |
| Deferred OPEB                               | 94,604              | 63,922              |                   | 97,160         | 255,686             |
| Deferred pensions                           | 101,007             | 66,376              |                   | 121,208        | 288,591             |
| <b>Total deferred outflows of resources</b> | <b>195,611</b>      | <b>130,298</b>      |                   | <b>218,368</b> | <b>544,277</b>      |
| <b>LIABILITIES</b>                          |                     |                     |                   |                |                     |
| Current Liabilities:                        |                     |                     |                   |                |                     |
| Accounts payable                            | 22,880              | 29,198              |                   | 6,615          | 58,693              |
| Accrued payroll                             | 1,643               | 1,092               |                   | 3,208          | 5,943               |
| Interest payable                            | 16,185              | 3,517               |                   |                | 19,702              |
| Deposits                                    | 100                 |                     |                   |                | 100                 |
| Current portion of compensated absences     | 6,539               | 4,359               |                   | 13,917         | 24,815              |
| Current portion of loans payable            | 103,857             |                     |                   |                | 103,857             |
| Current portion of capital lease payable    | 73,226              | 24,774              |                   |                | 98,000              |
| <b>Total current liabilities</b>            | <b>224,430</b>      | <b>62,940</b>       |                   | <b>23,740</b>  | <b>311,110</b>      |
| Long-Term Liabilities:                      |                     |                     |                   |                |                     |
| Compensated absences                        | 13,098              | 8,732               |                   | 27,875         | 49,705              |
| Loans payable                               | 1,370,467           |                     |                   |                | 1,370,467           |
| Capital lease payable                       | 1,202,244           | 406,756             |                   |                | 1,609,000           |
| Net OPEB liability                          | 363,927             | 245,897             |                   | 373,762        | 983,586             |
| Net pension liability                       | 433,084             | 284,598             |                   | 519,702        | 1,237,384           |
| <b>Total liabilities</b>                    | <b>3,607,250</b>    | <b>1,008,923</b>    |                   | <b>945,079</b> | <b>5,561,252</b>    |
| <b>DEFERRED INFLOWS OF RESOURCES</b>        |                     |                     |                   |                |                     |
| Deferred OPEB                               | 97,446              | 65,842              |                   | 100,079        | 263,367             |
| Deferred pension                            | 16,746              | 11,005              |                   | 20,096         | 47,847              |
| <b>Total deferred inflows of resources</b>  | <b>114,192</b>      | <b>76,847</b>       |                   | <b>120,175</b> | <b>311,214</b>      |
| <b>NET POSITION</b>                         |                     |                     |                   |                |                     |
| Net investment in capital assets            | 3,032,570           | 983,651             |                   | 71,560         | 4,087,781           |
| Restricted for debt service                 | 113,434             |                     |                   |                | 113,434             |
| Unrestricted                                | 1,212,505           | 1,324,044           | 137,914           | (71,560)       | 2,602,903           |
| <b>Total net position</b>                   | <b>\$ 4,358,509</b> | <b>\$ 2,307,695</b> | <b>\$ 137,914</b> | <b>\$ -</b>    | <b>\$ 6,804,118</b> |

**HERITAGE RANCH COMMUNITY SERVICES DISTRICT**

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

For the Fiscal Year Ended June 30, 2021

|   | <u>Water</u>        | <u>Sewer</u>        | <u>Solid<br/>Waste</u> | <u>General</u>   | <u>Total</u>        |
|---|---------------------|---------------------|------------------------|------------------|---------------------|
| <b>Operating Revenues:</b>                |                     |                     |                        |                  |                     |
| Service fees                              | \$ 1,196,976        | \$ 681,836          | \$ -                   | \$ -             | \$ 1,878,812        |
| Turn-on fees                              | 2,400               | 1,600               |                        |                  | 4,000               |
| Hook-up fees                              | 3,200               | 500                 |                        |                  | 3,700               |
| Late charges and miscellaneous            | 13,264              | 7,935               |                        | 178              | 21,377              |
|   |                     |                     |                        |                  | <u>178</u>          |
| Total operating revenues                  | <u>1,215,840</u>    | <u>691,871</u>      |                        | <u>178</u>       | <u>1,907,889</u>    |
| <b>Operating Expenses:</b>                |                     |                     |                        |                  |                     |
| Salaries and wages                        | 204,253             | 136,169             |                        | 277,266          | 617,688             |
| Payroll taxes and benefits                | 129,489             | 86,033              |                        | 224,645          | 440,167             |
| Publicity                                 |                     |                     |                        | 2,173            | 2,173               |
| Chemicals and gases                       | 60,019              | 21,135              |                        |                  | 81,154              |
| Engineering                               | 10,658              | 8,603               |                        |                  | 19,261              |
| Fuel and oil                              | 5,359               | 3,668               |                        | 982              | 10,009              |
| Lab testing                               | 19,114              | 18,096              |                        |                  | 37,210              |
| Licenses and fees                         | 12,394              | 9,778               |                        | 7,208            | 29,380              |
| Repairs and maintenance                   | 64,841              | 61,914              |                        | 3,541            | 130,296             |
| Small tools and supplies                  | 11,852              | 3,188               |                        | 27,394           | 42,434              |
| Uniforms and laundry                      | 1,558               | 1,038               |                        |                  | 2,596               |
| Alarm                                     | 839                 | 839                 |                        | 1,678            | 3,356               |
| Dues and publications                     | 3,152               | 1,390               |                        | 10,200           | 14,742              |
| Insurance                                 | 17,375              | 13,238              |                        | 10,756           | 41,369              |
| Office expense                            |                     |                     |                        | 17,073           | 17,073              |
| Professional services                     | 31,462              | 17,014              |                        | 21,192           | 69,668              |
| Telephone and utilities                   | 180,792             | 84,455              |                        | 8,696            | 273,943             |
| Training                                  | 1,681               | 189                 |                        | 92               | 1,962               |
| Tax collections                           |                     |                     |                        | 5,838            | 5,838               |
| Water purchase                            | 23,114              |                     |                        |                  | 23,114              |
| Bad debt                                  | 7,890               | 5,427               |                        | 608              | 13,925              |
| Depreciation                              | 274,696             | 116,276             |                        | 17,445           | 408,417             |
|   |                     |                     |                        |                  | <u>17,445</u>       |
| Total operating expenses                  | <u>1,060,538</u>    | <u>588,450</u>      |                        | <u>636,787</u>   | <u>2,285,775</u>    |
| Net operating income (loss)               | <u>155,302</u>      | <u>103,421</u>      |                        | <u>(636,609)</u> | <u>(377,886)</u>    |
| <b>Non-Operating Revenues (Expenses):</b> |                     |                     |                        |                  |                     |
| Taxes and assessments                     | 219,014             | 119,550             |                        | 59,468           | 398,032             |
| Standby assessments                       | 200,980             | 41,165              |                        |                  | 242,145             |
| Franchise fees                            |                     |                     | 82,096                 |                  | 82,096              |
| Investment income                         | 20,558              | 6,399               |                        |                  | 26,957              |
| Interest expense                          | (78,244)            | (13,521)            |                        |                  | (91,765)            |
| Transfers in (out)                        | (300,114)           | (230,856)           | (46,171)               | 577,141          |                     |
|   |                     |                     |                        |                  | <u>577,141</u>      |
| Total non-operating revenues (expenses)   | <u>62,194</u>       | <u>(77,263)</u>     | <u>35,925</u>          | <u>636,609</u>   | <u>657,465</u>      |
| <b>Capital Contributions:</b>             |                     |                     |                        |                  |                     |
| Connection fees                           | <u>42,889</u>       | <u>38,877</u>       |                        |                  | <u>81,766</u>       |
| Change in net position                    | 260,385             | 65,035              | 35,925                 |                  | 361,345             |
| <b>Net position:</b>                      |                     |                     |                        |                  |                     |
| Net position, beginning of fiscal year    | <u>4,098,124</u>    | <u>2,242,660</u>    | <u>101,989</u>         |                  | <u>6,442,773</u>    |
| Net position, end of fiscal year          | <u>\$ 4,358,509</u> | <u>\$ 2,307,695</u> | <u>\$ 137,914</u>      | <u>\$ -</u>      | <u>\$ 6,804,118</u> |

**HERITAGE RANCH COMMUNITY SERVICES DISTRICT**  
**STATEMENT OF CASH FLOWS - BY ACTIVITY**  
For the Fiscal Year Ended June 30, 2021

|   | <u>Water</u>        | <u>Sewer</u>        | <u>Solid<br/>Waste</u> | <u>General</u>    | <u>Total</u>        |
|---|---------------------|---------------------|------------------------|-------------------|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                     |                     |                     |                        |                   |                     |
| Receipts from customers   | \$ 1,196,764        | \$ 680,469          | \$ -                   | \$ 178            | \$ 1,877,411        |
| Payments to vendors   | (457,936)           | (238,157)           |                        | (117,951)         | (814,044)           |
| Payments to employees   | (304,626)           | (203,020)           |                        | (444,723)         | (952,369)           |
| Net cash provided (used) by operating activities                | <u>434,202</u>      | <u>239,292</u>      |                        | <u>(562,496)</u>  | <u>110,998</u>      |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>          |                     |                     |                        |                   |                     |
| Property taxes  | 220,445             | 120,242             |                        | 60,119            | 400,806             |
| Franchise fees  |                     |                     | 82,096                 |                   | 82,096              |
| Stand by fees   | 200,980             | 41,165              |                        |                   | 242,145             |
| Transfers   | (300,114)           | (230,856)           | (46,171)               | 577,141           |                     |
| Net cash provided (used) by noncapital financing activities     | <u>121,311</u>      | <u>(69,449)</u>     | <u>35,925</u>          | <u>637,260</u>    | <u>725,047</u>      |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b> |                     |                     |                        |                   |                     |
| Purchase of capital assets                                      | (636,698)           | (264,595)           |                        |                   | (901,293)           |
| Principal paid on long-term debt                                | (123,476)           |                     |                        |                   | (123,476)           |
| Interest paid on long-term debt                                 | (77,237)            | (12,974)            |                        |                   | (90,211)            |
| Connection fees   | 42,889              | 38,877              |                        |                   | 81,766              |
| Net cash used by capital and related financing activities       | <u>(794,522)</u>    | <u>(238,692)</u>    |                        |                   | <u>(1,033,214)</u>  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                     |                     |                     |                        |                   |                     |
| Interest received   | 29,730              | 9,297               |                        |                   | 39,027              |
| Net cash provided by investing activities                       | <u>29,730</u>       | <u>9,297</u>        |                        |                   | <u>39,027</u>       |
| Net increase in cash and cash equivalents                       | (209,279)           | (59,552)            | 35,925                 | 74,764            | (158,142)           |
| Cash and cash equivalents, July 1                               | <u>2,501,162</u>    | <u>1,851,236</u>    | <u>101,989</u>         | <u>699,090</u>    | <u>5,153,477</u>    |
| Cash and cash equivalents, June 30                              | <u>\$ 2,291,883</u> | <u>\$ 1,791,684</u> | <u>\$ 137,914</u>      | <u>\$ 773,854</u> | <u>\$ 4,995,335</u> |
| Reconciliation to Statement of Net Position:                    |                     |                     |                        |                   |                     |
| Cash and investments  | \$ 2,178,449        | \$ 1,791,684        | \$ 137,914             | \$ 773,854        | \$ 4,881,901        |
| Restricted cash   | 113,434             |                     |                        |                   | 113,434             |
| Total cash and investments                                      | <u>\$ 2,291,883</u> | <u>\$ 1,791,684</u> | <u>\$ 137,914</u>      | <u>\$ 773,854</u> | <u>\$ 4,995,335</u> |

HERITAGE RANCH COMMUNITY SERVICES DISTRICT  
STATEMENT OF CASH FLOWS - BY ACTIVITY  
For the Fiscal Year Ended June 30, 2021

|   | <u>Water</u>      | <u>Sewer</u>      | <u>Solid<br/>Waste</u> | <u>General</u>      | <u>Total</u>      |
|---|-------------------|-------------------|------------------------|---------------------|-------------------|
| <b>Reconciliation of operating income to net cash provided (used)</b>                             |                   |                   |                        |                     |                   |
| <b>by operating activities:</b>   |                   |                   |                        |                     |                   |
| Operating income (loss)   | \$ 155,302        | \$ 103,421        | \$ -                   | \$ (636,609)        | \$ (377,886)      |
| Adjustments to reconcile operating income to net cash provided by operating activities:           |                   |                   |                        |                     |                   |
| Depreciation  | 274,696           | 116,276           |                        | 17,445              | 408,417           |
| Change in assets, deferred outflows of resources, liabilities, and deferred inflows of resources: |                   |                   |                        |                     |                   |
| Accounts receivable   | (11,086)          | (5,975)           |                        |                     | (17,061)          |
| Inventory   | (5,734)           |                   |                        |                     | (5,734)           |
| Deferred outflows   | 9,714             | 6,478             |                        | 10,770              | 26,962            |
| Accounts payables   | (7,992)           | 6,388             |                        | (520)               | (2,124)           |
| Accrued payroll   | 1,245             | 827               |                        | 1,773               | 3,845             |
| Compensated absences  | (7,054)           | (4,703)           |                        | 14,495              | 2,738             |
| Deposits  | (100)             |                   |                        |                     | (100)             |
| Net OPEB liability  | (29,251)          | (19,764)          |                        | (30,043)            | (79,058)          |
| Net pension liability   | 36,570            | 24,032            |                        | 43,885              | 104,487           |
| Deferred inflows  | 17,892            | 12,312            |                        | 16,308              | 46,512            |
| Net cash provided (used) by operating activities  | <u>\$ 434,202</u> | <u>\$ 239,292</u> | <u>\$ -</u>            | <u>\$ (562,496)</u> | <u>\$ 110,998</u> |