

**HERITAGE RANCH
COMMUNITY SERVICES DISTRICT**

BASIC FINANCIAL STATEMENTS
June 30, 2022

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
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June 30, 2022

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FINANCIAL SECTION



Moss, Levy & Hartzheim LLP

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

Opinions

We have audited the accompanying financial statements of the business-type activities and the major fund of the Heritage Ranch Community Services District, as of and for the fiscal year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Heritage Ranch Community Services District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Heritage Ranch Community Services District, as of June 30, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Heritage Ranch Community Services District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Heritage Ranch Community Services District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on page 3 through 11, the schedule of proportionate share of net pension liability on page 31, the schedule of pension contributions on page 32, the schedule of changes in the 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 is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2023, on our consideration of the Heritage Ranch Community Services District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Moss, Remy & Hartgeim LLP

Santa Maria, California
January 10, 2023

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
Fiscal Year Ending June 30, 2022

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, 2022. 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 2022 are as follows:

- Water user fee revenue increased by \$78,055 or 6.4% from last year.
- Sewer user fee revenue increased by \$64,740 or 9.4% from last year.
- The District's non-operating revenue essentially stayed the same with an increase of only \$178 or 0.02% from last year.
- Water and Sewer capacity charge revenue also essentially stayed the same with an increase of only \$793 or 0.97% from last year.
- Solid Waste franchise revenue decreased only slightly by -\$1,418 or -1.7%.
- Total operating expenses increased by \$255,029 or 11.2% from last year.
- Capital assets (less depreciation) increased by \$273,287 or 4%.
- A depreciation expense of \$435,268 is included in the financial statements.
- The District incurred a positive change in net position of \$296,494.

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, 2022

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, 2022, there were 1,972 paid water connections; of these 1,959 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, 2022, there were 1,783 paid sewer connections; of these 1,775 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, 2022

Financial Analysis of the District as a Whole

Table 1 provides a summary of the District's net position for fiscal year 2022 compared to 2021.

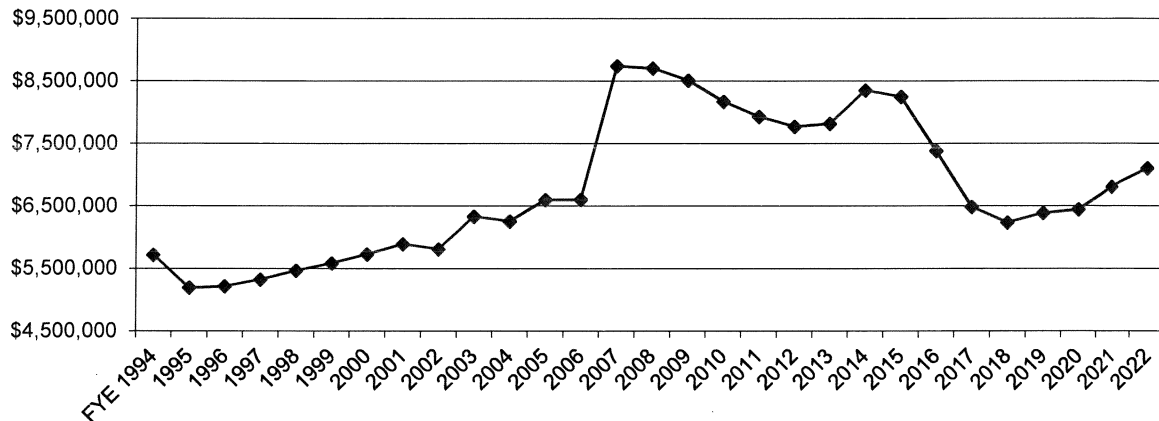
Table 1 Net Position

Table 1 - Net Position			
	FYE 2021	FYE 2022	% Change
Assets			
Cash and equivalents	\$4,881,901	\$4,784,446	-2.00%
Restricted cash and equivalents	113,434	172,406	51.99%
Accounts receivable (net)	189,936	236,475	24.50%
Other	46,218	52,684	13.99%
Capital assets (net of depreciation)	6,900,818	7,174,105	3.96%
Total Assets	12,132,307	12,420,116	2.37%
Deferred outflows of resources	544,277	603,386	10.86%
Liabilities			
Net OPEB liabilities	983,586	546,766	-44.41%
Net pension liabilities	1,237,384	757,308	-38.80%
Long-term liabilities	3,127,172	2,812,161	-10.07%
Current liabilities	213,110	399,771	87.59%
Total Liabilities	5,561,252	4,516,006	-18.80%
Deferred inflows of resources	311,214	1,406,884	352.06%
Net Position			
Net investment in capital assets	4,087,781	4,217,531	3.17%
Restricted for debt service	113,434	172,406	51.99%
Restricted by resolution	2,602,903	2,710,675	4.14%
Total Net Position	\$6,804,118	\$7,100,612	4.36%

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
 Fiscal Year Ending June 30, 2022

Total net position increased between fiscal years 2021 and 2022, by 4.4% to \$7,100,612. All the District's net position is restricted either by the purposes they can be used for or are invested in capital assets. Figure 1 illustrates the change in net position over time.

Figure 1 Change in Net Position



Enterprise Activities

Total operating revenues increased in fiscal year 2022 by 9.9%. Total non-operating revenues increased by 0.02%. Total operating expenses increased by 11.2%. Total net position increased by \$296,494. The water activities experienced an increase of 6.4%, the sewer activities experienced an increase of 9.4%, and the solid waste activities experienced a slight decrease of -1.7%. The water and sewer funds operating expenses stayed about the same and the general fund experienced an increase of about 38% due to the filling of staff positions that were previously vacant.

All these activities continue to experience high operating expenses 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 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, 2022

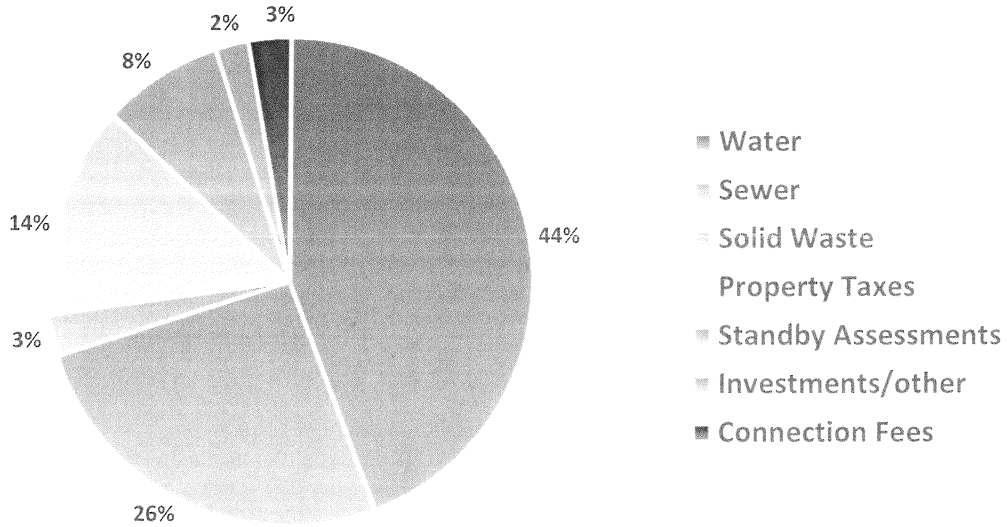
Table 2 Enterprise Activities - Revenues, Expenses, and Change in Net Position

Table 2 Enterprise Activities			
Revenues, Expenses, and Change in Net Position			
	FYE 2021	FYE 2022	% Change
Operating Revenues			
Water fund	\$1,215,840	\$1,293,895	6.42%
Sewer fund	691,871	756,611	9.36%
General fund	178	46,633	26098.31%
Total operating revenues	1,907,889	2,097,139	9.92%
Non-Operating Revenues			
Water fund	362,308	361,070	-0.34%
Sewer fund	153,593	154,886	0.84%
Franchise fees	82,096	80,678	-1.73%
General fund	59,468	60,966	2.52%
Total non-operating revenues	657,465	657,600	0.02%
	\$2,565,354	\$2,754,739	
Capital Contributions			
Capital contributions all funds	0	0	0.00%
Connection fees water & sewer funds	81,766	82,559	0.97%
Total capital contributions	81,766	82,559	0.97%
Operating Expenses			
Water fund	\$1,060,538	\$1,072,060	1.09%
Sewer fund	588,450	587,681	-0.13%
General fund	636,787	881,063	38.36%
Total expenses	2,285,775	2,540,804	11.16%
Increase in net position	361,345	296,494	-17.95%
Total net position – beginning	\$6,442,773	\$6,804,118	5.61%
Total net position – end	\$6,804,118	\$7,100,612	4.36%

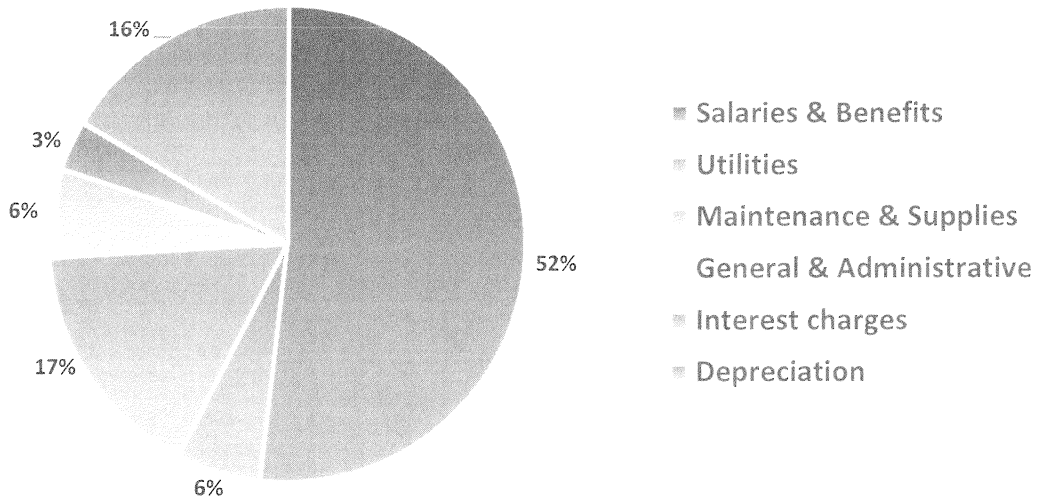
HERITAGE RANCH COMMUNITY SERVICES DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
 Fiscal Year Ending June 30, 2022

Figure 2 Revenues and Expenses

Revenues



Expenses



HERITAGE RANCH COMMUNITY SERVICES DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
 Fiscal Year Ending June 30, 2022

Capital Assets and Debt Administration

At the end of fiscal year 2022, the District had invested \$7,174,105 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 \$273,287 or 3.96% over last fiscal year.

Table 3 Capital Assets

Table 3 Capital Assets at June 30, 2022			
	FYE 2021	FYE 2022	% Change
Land	\$56,938	\$56,938	0.00%
Construction in progress	1,489,839	650,377	-56.35%
Total non depreciable	1,546,777	707,315	-54.27%
Buildings	935,899	2,395,164	155.92%
Plants and facilities	13,386,840	13,392,104	0.04%
Vehicles and equipment	2,126,728	2,132,240	0.26%
Total depreciable	16,449,467	17,919,508	8.94%
Less accumulated depreciation	-11,095,426	-11,452,718	3.22%
Net capital assets	\$6,900,818	\$7,174,105	3.96%

The fiscal year ending June 30, 2022 Budget included projects and equipment replacement. The following is a summary:

- \$192,801 – Vertical Intake Project
- \$1,301,676 – Water Resource Recovery Facility Upgrade
- \$75,000 – Lift Station 1-5 Rehabilitation
- \$329,203 – Photovoltaic System Project
- \$30,000 – Water and wastewater rate study
- \$35,000 – Rebuild treated water pumps at PS 3 & 4
- \$30,000 – Pump Station Covers
- \$200,000 – WTP Filters Renovation
- \$20,000 – Parking lot maintenance
- \$18,000 – Regional Board Expedited Payment Program
- \$255,000 – Equipment replacement

The District's fiscal year ending 2023 capital budget projects spending a total of \$2,102,991 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

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
 Fiscal Year Ending June 30, 2022

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.

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, 2022, principal balance is \$645,798.

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, 2022, principal balance is \$701,776.

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, 2022, principal balance is \$1,609,000.

A summary of long-term liabilities for fiscal year end 2022 is shown below:

FYE	1994 WTP Loan	2015 WTP Loan	2020 PVS Loan	TOTAL DEBT
2022	\$645,798	\$701,776	\$1,609,000	\$2,956,574

More detailed information about the District's long-term liabilities is presented in Notes 5-7 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 significant increases are expected starting in 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 and regulatory requirements.

The District currently has \$2,956,574 in long-term liabilities 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.

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
Fiscal Year Ending June 30, 2022

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, 2022

ASSETS

Current assets:

Cash and investments	\$ 4,784,446
Taxes receivable	14,702
Accounts receivable	236,475
Interest receivable	8,373
Inventory	29,609
	<hr/>
Total current assets	5,073,605

Noncurrent assets:

Restricted cash	172,406
Capital assets	
Land	56,938
Construction in progress	650,377
Property, plant, and equipment	17,919,508
Accumulated depreciation	(11,452,718)
	<hr/>
Net capital assets	7,174,105
	<hr/>
Total noncurrent assets	7,346,511
	<hr/>
Total assets	12,420,116

DEFERRED OUTFLOWS OF RESOURCES

Deferred OPEB	324,196
Deferred pension	279,190
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Total deferred outflows of resources	603,386

LIABILITIES

Current liabilities:

Accounts payable	96,917
Accrued payroll	44,957
Interest payable	18,257
Deposits	100
Current portion of compensated absences	31,677
Current portion of loans payable	106,863
Current portion of capital lease payable	101,000
	<hr/>
Total current liabilities	399,771

Long-term liabilities:

Compensated absences	63,450
Loans payable	1,240,711
Capital lease payable	1,508,000
Net OPEB liability	546,766
Net pension liability	757,308
	<hr/>
Total liabilities	4,516,006

DEFERRED INFLOWS OF RESOURCES

Deferred OPEB	710,409
Deferred pension	696,475
	<hr/>
Total deferred inflows of resources	1,406,884

NET POSITION

Net investment in capital assets	4,217,531
Restricted for debt service	172,406
Unrestricted	2,710,675
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Total net position	\$ 7,100,612

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, 2022

Operating Revenues:	
Service fees	\$ 2,016,167
Turn-on fees	3,875
Hook-up fees	3,700
Late charges and miscellaneous	<u>73,397</u>
Total operating revenues	<u>2,097,139</u>
Operating Expenses:	
Salaries and wages	842,270
Payroll taxes and benefits	518,945
Publicity	1,382
Chemicals and gases	80,841
Engineering	7,744
Fuel and oil	17,839
Lab testing	57,587
Licenses and fees	31,652
Repairs and maintenance	188,444
Small tools and supplies	47,350
Uniforms and laundry	4,237
Alarm	3,728
Dues and publications	17,783
Insurance	36,042
Office expense	18,695
Professional services	73,690
Telephone and utilities	126,700
Training	1,335
Tax collections	6,158
Water purchase	23,114
Depreciation	<u>435,268</u>
Total operating expenses	<u>2,540,804</u>
Net operating income (loss)	<u>(443,665)</u>
Non-Operating Revenues (Expenses):	
Taxes and assessments	412,041
Standby assessments	236,047
Franchise fees	80,678
Investment income	17,857
Interest expense	<u>(89,023)</u>
Total non-operating revenues (expenses)	<u>657,600</u>
Capital Contributions:	
Connection fees	<u>82,559</u>
Change in net position	296,494
Net Position:	
Net position, beginning of fiscal year	<u>6,804,118</u>
Net position, end of fiscal year	<u>\$ 7,100,612</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, 2022

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 2,050,600
Payments to vendors	(706,097)
Payments to employees	<u>(1,181,929)</u>

Net cash provided by operating activities	<u>162,574</u>
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CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Property taxes	410,189
Franchise fees	80,678
Standby fees	<u>236,047</u>

Net cash provided by noncapital financing activities	<u>726,914</u>
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of capital assets	(708,555)
Principal paid on long-term debt	(224,750)
Interest paid on long-term debt	(90,468)
Connection fees	<u>82,559</u>

Net cash used by capital and related financing activities	<u>(941,214)</u>
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CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	<u>13,243</u>
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Net cash provided by investing activities	<u>13,243</u>
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Net decrease in cash and cash equivalents	(38,483)
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Cash and cash equivalents, July 1	<u>4,995,335</u>
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Cash and cash equivalents, June 30	<u>\$ 4,956,852</u>
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Reconciliation to Statement of Net Position:

Cash and investments	\$ 4,784,446
Restricted cash	<u>172,406</u>

Total Cash and investments	<u>\$ 4,956,852</u>
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(Continued)

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

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
STATEMENT OF CASH FLOWS - ENTERPRISE FUND (CONTINUED)
For the Fiscal Year Ended June 30, 2022

**Reconciliation of operating income (loss) to net cash provided
by operating activities:**

Operating income (loss)	\$ (443,665)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	435,268
Change in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:	
Accounts receivable	(46,539)
Deferred outflows	(59,109)
Accounts payables	38,224
Accrued payroll	39,014
Compensated absences	20,607
Net OPEB liability	(436,820)
Net pension liability	(480,076)
Deferred inflows	<u>1,095,670</u>
Net cash provided by operating activities	<u>\$ 162,574</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, 2022

NOTE 1 – REPORTING ENTITY

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Accounting Policies - The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).
- B. Accounting Method - The District is organized as an Enterprise Fund and follows the accrual method of accounting, whereby revenues are recorded as earned, and expenses are recorded when incurred.
- C. Cash and Cash Equivalents - For purpose of the statement of cash flows, cash and cash equivalents include restricted and unrestricted cash and restricted and unrestricted certificates of deposit with original maturities of three months or less.
- D. Prepaid Expenses - Payments made to vendors for services that will benefit periods beyond June 30, 2022, are recorded as prepaid expenses.
- E. Property, Plant, and Equipment - All capital assets are valued at historical cost or fair value if actual costs are not available. Other donated capital assets are valued at their estimated fair market value on the date received. The capitalization threshold for all capital assets is \$5,000. Depreciation has been provided over the estimated useful life of the asset using the straight-line method. Estimated useful lives range from 5 to 100 years.
- F. Depreciation - Capital assets purchased by the District are depreciated over their estimated useful lives (ranging from 5-100 years) under the straight-line method of depreciation.
- G. Receivables - The District did not experience any significant bad debt losses; accordingly, no provision has been made for doubtful accounts, and accounts receivable is shown at full value.
- H. Inventory - The inventory maintained by the water utility consists primarily of water pipe, valves, and fittings. Inventory is valued at cost, determined on a first-in, first-out basis.
- I. Encumbrances - Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is not utilized by the District.
- J. Compensated Absences - Accumulated unpaid employee vacation, compensatory time, and sick leave benefits are recognized as a liability of the District. The amounts are included in current liabilities under compensated absences.
- K. Customer Deposits - The District requires customers to pay an advance deposit for utility services or provide a letter of credit from another utility. It is the District's current policy to hold all deposits for a period of two years. Deposits are then refunded in full and no accrued interest is paid.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

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

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

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. 91	"Conduit Debt Obligations"	The provisions of this statement are effective for fiscal years beginning after December 15, 2021.
Statement No. 93	"Replacement of Interbank Offered Rates"	The provisions 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. 99	"Omnibus 2022"	The provisions of this statement are effective in April 2022 except for the provisions related to leases, PPPs, SBITAs, financial guarantees and derivative instruments. The provisions related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022. The provisions related to financial guarantees and derivative instruments are effective for fiscal years beginning after June 15, 2023.
Statement No. 100	"Accounting Changes and Error Corrections - an amendment of GASB Statement No. 62"	The provisions of this statement are effective for fiscal years beginning after June 15, 2023.
Statement No. 101	"Compensated Absences"	The provisions of this statement are effective for fiscal years beginning after December 15, 2023.

NOTE 3 – CASH AND INVESTMENTS

Investments are carried at fair value in accordance with GASB Statement No. 31. On June 30, 2022, the District had the following cash and investments on hand:

Cash on hand	\$ 300
Cash in banks	484,916
Investments	<u>4,471,636</u>
Total	<u>\$ 4,956,852</u>

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

Cash and investments	\$ 4,784,446
Restricted cash	<u>172,406</u>
Total	<u>\$ 4,956,852</u>

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2022

NOTE 3 – CASH AND INVESTMENTS (Continued)

The District categorizes its fair value measurements within the fair value hierarchy established by the U.S. Generally Accepted Accounting Principles and GASB Statement No. 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 no investments measured at Levels 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 Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
Federal Agency Securities	N/A	None	None
Bankers' Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase and Reverse Repurchase Agreements	92 days	20% of base value	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	5 years	15%	10%
Money Market Mutual Funds	N/A	None	None
Mortgage Pass-Through Securities	N/A	20%	None
County Pooled Investment Fund	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	\$75,000,000
State Registered Warrants, Notes, or Bonds	5 years	None	None
Notes and Bonds of other Local California Agencies	5 years	None	None

Disclosures Relating to Interest Rate Risk

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

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

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Remaining Maturity (in Months)</u>			
		<u>12 Months Or Less</u>	<u>13-24 Months</u>	<u>25-60 Months</u>	<u>More than 60 Months</u>
State investment pool (LAIF)	\$ 4,471,636	\$ 4,471,636	\$ -	\$ -	\$ -
	<u>\$ 4,471,636</u>	<u>\$ 4,471,636</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2022

NOTE 3 – CASH AND INVESTMENTS (Continued)

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)	\$ 4,471,636	N/A	\$ -	\$ -	\$ -	\$ 4,471,636
	<u>\$ 4,471,636</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,471,636</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, 2022, none of the District’s deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts.

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

Investment in State Investment Pool (LAIF)

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

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2022

NOTE 4 – SCHEDULE OF CAPITAL ASSETS

A schedule of changes in capital assets and depreciation for the fiscal year ended June 30, 2022, is shown below:

	Balance					Balance
	July 1, 2021	Additions	Deletions	Transfers		June 30, 2022
Non depreciable						
Land	\$ 56,938	\$ -	\$ -	\$ -	\$ -	\$ 56,938
Construction in progress	1,489,839	708,555		(1,548,017)		650,377
Total non depreciable	<u>\$ 1,546,777</u>	<u>\$ 708,555</u>	<u>\$ -</u>	<u>\$ (1,548,017)</u>		<u>\$ 707,315</u>
Depreciable						
Buildings and structures	\$ 935,899	\$ -	\$ -	\$ 1,459,265	\$ -	\$ 2,395,164
Plant and facilities	13,386,840			5,264		13,392,104
Vehicles and Equipment	2,126,728		(77,976)	83,488		2,132,240
	<u>16,449,467</u>		<u>(77,976)</u>	<u>1,548,017</u>		<u>17,919,508</u>
Less accumulated depreciation						
Buildings and structures	(1,199,163)	(62,060)				(1,261,223)
Plant and facilities	(8,662,667)	(320,006)				(8,982,673)
Vehicles and Equipment	(1,233,596)	(53,202)	77,976			(1,208,822)
	<u>(11,095,426)</u>	<u>(435,268)</u>	<u>77,976</u>			<u>(11,452,718)</u>
Total depreciable	<u>\$ 5,354,041</u>	<u>\$ (435,268)</u>	<u>\$ -</u>	<u>\$ 1,548,017</u>		<u>\$ 6,466,790</u>
Net capital assets	<u>\$ 6,900,818</u>	<u>\$ 273,287</u>	<u>\$ -</u>	<u>\$ -</u>		<u>\$ 7,174,105</u>

Depreciation expense for the fiscal year ended June 30, 2022 was \$435,268.

NOTE 5 – LONG-TERM LIABILITIES

The District obtained a \$2,179,398 loan through direct borrowing from the State of California – Department of Water Resources (DWR) in 1994, under the Safe Drinking Water Bond Law of 1984, for the construction of a water treatment plant and modifications to its well and booster. The loan is secured by the property of the District. In the event of a default, all unpaid balance and interest becomes immediately due and the State would have the right to take over all of the District’s property and operate the water system. The loan is payable over 35 years and bears interest at 3.1775% annually. In October of 1994 the District began making semi-annual payments of principal and interest. Remaining semi-annual principal and interest payments of \$51,814 will be made in October and April through fiscal year 2029. As of June 30, 2022, the District has a balance of \$645,798 remaining with future debt service payments as follows:

Fiscal Year	Fiscal Year			Total
	Ending	Principal	Interest	
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	95,024	8,604	103,628	
2028-2029	199,271	7,987	207,258	
	<u>\$ 645,798</u>	<u>\$ 79,600</u>	<u>\$ 725,398</u>	

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2022

NOTE 5 – LONG-TERM LIABILITIES (Continued)

The District obtained a \$984,090 loan through direct borrowing from the State of California – State Water Resources Control Board in 2015, for the District’s plant construction and modification. The loan is secured by all of the revenue of the Water Fund. In the event of a default all remaining outstanding balance is immediately due and payable and the State has the right to seizure of Water Fund revenue. The loan is payable over 20 years and bears interest at 1.788% annually. In July of 2016 the District began making semiannual principal and interest payments. Remaining semiannual payments of \$29,370 will be made in July and January through fiscal year 2036. As of June 30, 2022, the District has a balance of \$701,776 remaining with future debt service payments as follows:

Fiscal Year			
Ending	Principal	Interest	Total
2023	\$ 23,097	\$ 6,272	\$ 29,369
2024	46,815	11,923	58,738
2025	47,656	11,083	58,739
2026	48,512	10,227	58,739
2027	49,383	9,356	58,739
2028-2032	260,536	33,157	293,693
2033-2036	225,777	9,170	234,947
	<u>\$ 701,776</u>	<u>\$ 91,188</u>	<u>\$ 792,964</u>

The District obtained a \$1,707,000 loan from direct borrowing with the Western Alliance Business Trust on April 1, 2020, for the construction of the District’s solar energy general facilities at the Water and Wastewater Treatment Plants. The loan is secured by the solar equipment. In the event of a default, all remaining loan payments are immediately due and payable. The loan is payable over 15 years and bears interest at 3.26% annually. In October of 2020 the District began making semiannual principal and interest payments. Remaining semiannual payments will be made in October and April through fiscal year 2035. As of June 30, 2022, the District has a balance of \$1,609,000 remaining with future debt service payments as follows:

Fiscal Year			
Ending	Principal	Interest	Total
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	115,000	37,669	152,669
2028-2032	635,000	129,015	764,015
2033-2035	434,000	25,086	459,086
	<u>\$ 1,609,000</u>	<u>\$ 377,899</u>	<u>\$ 1,986,899</u>

NOTE 6 – COMPENSATED ABSENCES

As of June 30, 2022, it is estimated that the District’s employees have \$95,127 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, 2022

NOTE 7 – SCHEDULE OF CHANGES IN LONG-TERM LIABILITIES

The changes in long-term liabilities for the fiscal year ended June 30, 2022, were as follows:

	July 1, 2021	Additions	Retirements	June 30, 2022	Due within one year
Compensated absences	\$ 74,520	\$ 91,418	\$ (70,811)	\$ 95,127	\$ 31,677
State DWR loan payable - direct borrowing	726,965		(81,167)	645,798	83,766
State SWRCB loan payable - direct borrowing	747,359		(45,583)	701,776	23,097
Solar loan payable - direct borrowing	1,707,000		(98,000)	1,609,000	101,000
Net OPEB liability	983,586		(436,820)	546,766	
Net pension liability	1,237,384		(480,076)	757,308	
	<u>\$ 5,476,814</u>	<u>\$ 91,418</u>	<u>\$(1,212,457)</u>	<u>\$ 4,355,775</u>	<u>\$ 239,540</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, 2022, are summarized as follows:

	Miscellaneous		
	Prior to January 1, 2013	Prior to January 1, 2013 (tier 2)	On or after 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%	6.92%	6.75%
Required employer contribution rates	12.20% + \$93,995	10.34% + \$621	7.59% + \$993

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 \$169,359 for the fiscal year ended June 30, 2022.

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2022

NOTE 8 – DEFINED BENEFIT PENSION PLAN (Continued)

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

At June 30, 2022, the District reported a liability of \$757,308 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2020 rolled forward to June 30, 2021 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, 2020, and 2021 was as follows:

	<u>Miscellaneous</u>
Proportion-June 30, 2020	0.02934%
Proportion-June 30, 2021	<u>0.03988%</u>
Change-Increase (Decrease)	<u><u>0.01054%</u></u>

For the fiscal year ended June 30, 2022, the District recognized pension expense of \$347,313. 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, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 169,359	\$ -
Differences between expected and actual experience	84,924	
Net difference between projected and actual earnings on retirement plan investments		661,089
Adjustment due to differences in proportions	24,907	3,714
Difference in actual contributions and proportionate share of contributions		<u>31,672</u>
	<u>\$ 279,190</u>	<u>\$ 696,475</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.

\$169,359 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2023.

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

<u>Fiscal Year Ended June 30</u>	<u>Amount</u>
2023	\$ (122,174)
2024	(131,595)
2025	(150,184)
2026	<u>(182,691)</u>
Total	<u>\$ (586,644)</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, 2020 actuarial valuation was determined using the following actuarial assumptions:

	<u>Miscellaneous</u>
Valuation Date	June 30, 2020
Measurement Date	June 30, 2021
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 Statement 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 it has changed its 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, 2022

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 Strategic Allocation	Real Return Years 1-10(a)	Real Return 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 6.15%	Discount Rate 7.15%	1% Increase 8.15%
District's proportionate share of the net pension plan liability	\$1,397,315	\$ 757,308	\$ 228,224

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, 2022, the District had no amount outstanding for contributions to the pension plan required for the fiscal year ended June 30, 2022.

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.

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2022

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

Funding Policy

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

Employees Covered

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

Active employees	6
Inactive employees or beneficiaries currently receiving benefits	<u>5</u>
Total	<u><u>11</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 \$87,637 to an irrevocable trust to meet the current obligations of this program in the measurement period ending June 30, 2021.

Net OPEB Liability

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

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	5.95%, based on the CERBT Strategy 1 investment policy
Investment Rate of Return	6.20%, based on the CERBT Strategy 1 investment policy
Inflation	2.50%
Salary Increases	3.00%
Mortality Rate	Derived from 2017 CalPERS study
Healthcare Trend Rate	5.80% starting and decreasing to 3.90% by 2076 and beyond

Discount rate. GASB 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 years thereafter, returns were based on historical average index real returns over the last 30 years assuming a similar equity/fixed investment mix and a 2.50 % inflation rate. Investment expenses were assumed to be 10 basis points per year. These returns were matched with cash flows for benefits covered by plan assets and the Bond Buyer 20-Bond General Obligation index was matched with cash flows not covered by plan assets to measure the reasonableness of the choice in discount rate.

	<u>June 30, 2022</u>	<u>June 30, 2021</u>	<u>June 30, 2020</u>
Discount Rate	5.95%	7.00%	6.95%
Bond buyer 20-Bond GO Index	3.50%	3.50%	3.50%

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2022

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

Changes in the OPEB Liability

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability/(Asset)
Balance at June 30, 2020-Measurement Date	\$ 1,475,027	\$ 491,441	\$ 983,586
Changes recognized for the measurement period:			
Service cost	38,672		38,672
Interest	103,826		103,826
Changes of assumptions	112,534		112,534
Difference between expected and actual experience	(467,134)		(467,134)
Contributions - employer		87,637	(87,637)
Net investment income		137,267	(137,267)
Benefit payments	(60,952)	(60,952)	
Administrative expense		(186)	186
Net Changes	(273,054)	163,766	(436,820)
Balance at June 30, 2021-Measurement Date	\$ 1,201,973	\$ 655,207	\$ 546,766

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 (4.95 percent) or 1 percentage-point higher (6.95 percent) than the current discount rate:

	1% Decrease 4.95%	Discount Rate 5.95%	1% Increase 6.95%
Net OPEB Liability	\$ 748,051	\$ 546,766	\$ 386,208

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

	1% Decrease (4.80% decreasing to 2.90%)	Trend Rate (5.80% decreasing to 3.90%)	1% Increase (6.80% decreasing to 4.90%)
Net OPEB Liability	\$ 368,937	\$ 546,766	\$ 776,867

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

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

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

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2022

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, 2022, the District recognized OPEB expense of \$33,598. As of the fiscal year ended June 30, 2022, the District reported deferred outflows and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	\$ 91,886	\$ -
Change in assumptions	232,310	91,661
Difference between expected and actual experience		546,719
Net difference between projected and actual earnings on retirement plan investments		72,029
	<u>\$ 324,196</u>	<u>\$ 710,409</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.

\$91,886 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the fiscal year ended June 30, 2023.

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

<u>Fiscal year Ending June 30,</u>	<u>Amount</u>
2023	\$ (73,758)
2024	(72,896)
2025	(73,219)
2026	(76,464)
2027	(56,077)
Thereafter	(125,685)
	<u>\$ (478,099)</u>

NOTE 10 – CONTINGENCIES

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

REQUIRED SUPPLEMENTARY INFORMATION

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
 Last 10 Years*
 As of June 30, 2022

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

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

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

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
SCHEDULE OF PENSION CONTRIBUTIONS
 Last 10 Years*
 As of June 30, 2022

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

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

*- Fiscal year 2015 was the 1st year of implementation, thus only eight 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, 2022

<u>Fiscal Year Date</u>	<u>6/30/2022</u>	<u>6/30/2021</u>	<u>6/30/2020</u>	<u>6/30/2019</u>	<u>6/30/2018</u>
<u>Measurement Date</u>	<u>6/30/2021</u>	<u>6/30/2020</u>	<u>6/30/2019</u>	<u>6/30/2018</u>	<u>6/30/2017</u>
Total OPEB Liability					
Service cost	\$ 38,672	\$ 42,910	\$ 36,604	\$ 35,538	\$ 34,503
Interest on the total OPEB liability	103,826	98,687	94,721	90,665	88,082
Actual and expected experience difference	(467,134)		(204,342)		
Changes in assumptions	112,534	(118,230)	200,986		
Changes in benefit terms					
Benefit payments	(60,952)	(61,478)	(70,961)	(58,747)	(50,373)
Net change in total OPEB Liability	(273,054)	(38,111)	57,008	67,456	72,212
Total OPEB liability- beginning	1,475,027	1,513,138	1,456,130	1,388,674	1,316,462
Total OPEB liability- ending	\$ 1,201,973	\$ 1,475,027	\$ 1,513,138	\$ 1,456,130	\$ 1,388,674
Plan Fiduciary Net Position					
Contributions - employer	\$ 87,637	\$ 86,478	\$ 95,961	\$ 83,747	\$ 75,373
Net investment income	137,267	16,168	25,223	27,739	30,828
Benefit payments	(60,952)	(61,478)	(70,961)	(58,747)	(50,373)
Administrative expense	(186)	(221)	(86)	(187)	(158)
Other expenses				(461)	
Net change in plan fiduciary net position	163,766	40,947	50,137	52,091	55,670
Plan fiduciary net position- beginning	491,441	450,494	400,357	348,266	292,596
Plan fiduciary net position- ending	\$ 655,207	\$ 491,441	\$ 450,494	\$ 400,357	\$ 348,266
Net OPEB liability - ending	\$ 546,766	\$ 983,586	\$ 1,062,644	\$ 1,055,773	\$ 1,040,408
Covered payroll	\$ 611,761	\$ 719,128	\$ 645,139	\$ 552,532	\$ 602,594
Net OPEB liability as a percentage of covered payroll	89.38%	136.77%	164.72%	191.08%	172.65%

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

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
SCHEDULE OF OPEB CONTRIBUTIONS
 Last 10 Years*
 As of June 30, 2022

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

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

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

SUPPLEMENTARY INFORMATION

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
COMBINING STATEMENT OF NET POSITION - BY ACTIVITY
 June 30, 2022

	<u>Water</u>	<u>Sewer</u>	<u>Solid Waste</u>	<u>General</u>	<u>Total</u>
ASSETS					
Current assets:					
Cash and investments	\$ 2,008,881	\$ 1,741,616	\$ 155,897	\$ 878,052	\$ 4,784,446
Taxes receivable	9,303	3,795	818	786	14,702
Accounts receivable	155,254	81,221			236,475
Interest receivable	6,363	2,010			8,373
Inventory	29,609				29,609
Total current assets	<u>2,209,410</u>	<u>1,828,642</u>	<u>156,715</u>	<u>878,838</u>	<u>5,073,605</u>
Noncurrent assets:					
Restricted cash	172,406				172,406
Capital assets					
Land	56,747	191			56,938
Construction in progress	435,221	215,156			650,377
Property, plant, and equipment	11,935,910	5,520,382		463,216	17,919,508
Accumulated depreciation	(6,838,119)	(4,206,710)		(407,889)	(11,452,718)
Net capital assets	<u>5,589,759</u>	<u>1,529,019</u>		<u>55,327</u>	<u>7,174,105</u>
Total noncurrent assets	<u>5,762,165</u>	<u>1,529,019</u>		<u>55,327</u>	<u>7,346,511</u>
Total assets	<u>7,971,575</u>	<u>3,357,661</u>	<u>156,715</u>	<u>934,165</u>	<u>12,420,116</u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred OPEB	119,953	81,049		123,194	324,196
Deferred pension	97,717	64,214		117,259	279,190
Total deferred outflows of resources	<u>217,670</u>	<u>145,263</u>		<u>240,453</u>	<u>603,386</u>
LIABILITIES					
Current liabilities:					
Accounts payable	33,242	59,623		4,052	96,917
Accrued payroll	10,997	7,330		26,630	44,957
Interest payable	14,942	3,315			18,257
Deposits	100				100
Current portion of compensated absences	7,895	5,261		18,521	31,677
Current portion of loans payable	106,863				106,863
Current portion of capital lease payable	75,467	25,533			101,000
Total current liabilities	<u>249,506</u>	<u>101,062</u>		<u>49,203</u>	<u>399,771</u>
Long-term liabilities:					
Compensated absences	15,813	10,538		37,099	63,450
Loans payable	1,240,711				1,240,711
Capital lease payable	1,126,778	381,222			1,508,000
Net OPEB liability	202,303	136,692		207,771	546,766
Net pension liability	265,058	174,181		318,069	757,308
Total liabilities	<u>3,100,169</u>	<u>803,695</u>		<u>612,142</u>	<u>4,516,006</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred OPEB	262,851	177,602		269,956	710,409
Deferred pension	243,766	160,189		292,520	696,475
Total deferred inflows of resources	<u>506,617</u>	<u>337,791</u>		<u>562,476</u>	<u>1,406,884</u>
NET POSITION					
Net investment in capital assets	3,039,940	1,122,264		55,327	4,217,531
Restricted for debt service	172,406				172,406
Unrestricted	1,370,113	1,239,174	156,715	(55,327)	2,710,675
Total net position	<u>\$ 4,582,459</u>	<u>\$ 2,361,438</u>	<u>\$ 156,715</u>	<u>\$ -</u>	<u>\$ 7,100,612</u>

HERITAGE RANCH COMMUNITY SERVICES DISTRICT

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

For the Fiscal Year Ended June 30, 2022

	Water	Sewer	Solid Waste	General	Total
Operating Revenues:					
Service fees	\$ 1,271,765	\$ 744,402	\$ -	\$ -	\$ 2,016,167
Turn-on fees	2,325	1,550			3,875
Hook-up fees	3,200	500			3,700
Late charges and miscellaneous	16,605	10,159		46,633	73,397
	<u>1,293,895</u>	<u>756,611</u>		<u>46,633</u>	<u>2,097,139</u>
Operating Expenses:					
Salaries and wages	227,885	151,917		462,468	842,270
Payroll taxes and benefits	149,330	98,786		270,829	518,945
Publicity				1,382	1,382
Chemicals and gases	62,094	18,747			80,841
Engineering	4,878	2,866			7,744
Fuel and oil	9,862	6,575		1,402	17,839
Lab testing	24,158	33,429			57,587
Licenses and fees	15,183	10,762		5,707	31,652
Repairs and maintenance	100,394	85,800		2,250	188,444
Small tools and supplies	10,439	5,658		31,253	47,350
Uniforms and laundry	2,542	1,695			4,237
Alarm	932	932		1,864	3,728
Dues and publications	3,156	1,733		12,894	17,783
Insurance	15,138	11,533		9,371	36,042
Office expense				18,695	18,695
Professional services	30,751	8,194		34,745	73,690
Telephone and utilities	84,865	36,491		5,344	126,700
Training	867			468	1,335
Tax collections				6,158	6,158
Water purchase	23,114				23,114
Depreciation	306,472	112,563		16,233	435,268
	<u>1,072,060</u>	<u>587,681</u>		<u>881,063</u>	<u>2,540,804</u>
Total operating expenses					
Net operating income (loss)	<u>221,835</u>	<u>168,930</u>		<u>(834,430)</u>	<u>(443,665)</u>
Non-Operating Revenues (Expenses):					
Taxes and assessments	226,857	124,218		60,966	412,041
Standby assessments	195,919	40,128			236,047
Franchise fees			80,678		80,678
Investment income	13,653	4,204			17,857
Interest expense	(75,359)	(13,664)			(89,023)
Transfers in (out)	(402,201)	(309,386)	(61,877)	773,464	
	<u>(41,131)</u>	<u>(154,500)</u>	<u>18,801</u>	<u>834,430</u>	<u>657,600</u>
Total non-operating revenues (expenses)					
Capital Contributions:					
Connection fees	43,246	39,313			82,559
	<u>43,246</u>	<u>39,313</u>			<u>82,559</u>
Change in net position	223,950	53,743	18,801		296,494
Net position:					
Net position, beginning of fiscal year	4,358,509	2,307,695	137,914		6,804,118
	<u>4,358,509</u>	<u>2,307,695</u>	<u>137,914</u>		<u>6,804,118</u>
Net position, end of fiscal year	<u>\$ 4,582,459</u>	<u>\$ 2,361,438</u>	<u>\$ 156,715</u>	<u>\$ -</u>	<u>\$ 7,100,612</u>

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
COMBINING STATEMENT OF CASH FLOWS - BY ACTIVITY
For the Fiscal Year Ended June 30, 2022

	<u>Water</u>	<u>Sewer</u>	<u>Solid Waste</u>	<u>General</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 1,262,492	\$ 741,475	\$ -	\$ 46,633	\$ 2,050,600
Payments to vendors	(378,011)	(193,990)		(134,096)	(706,097)
Payments to employees	(323,074)	(215,400)		(643,455)	(1,181,929)
Net cash provided (used) by operating activities	<u>561,407</u>	<u>332,085</u>		<u>(730,918)</u>	<u>162,574</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Property taxes	226,053	123,302	(818)	61,652	410,189
Franchise fees			80,678		80,678
Stand by fees	195,919	40,128			236,047
Transfers	(402,201)	(309,386)	(61,877)	773,464	
Net cash provided (used) by noncapital financing activities	<u>19,771</u>	<u>(145,956)</u>	<u>17,983</u>	<u>835,116</u>	<u>726,914</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchase of capital assets	(468,590)	(239,965)			(708,555)
Principal paid on long-term debt	(199,976)	(24,774)			(224,750)
Interest paid on long-term debt	(76,602)	(13,866)			(90,468)
Connection fees	43,246	39,313			82,559
Net cash used by capital and related financing activities	<u>(701,922)</u>	<u>(239,292)</u>			<u>(941,214)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received	10,148	3,095			13,243
Net cash provided by investing activities	<u>10,148</u>	<u>3,095</u>			<u>13,243</u>
Net increase (decrease) in cash and cash equivalents	(110,596)	(50,068)	17,983	104,198	(38,483)
Cash and cash equivalents, July 1	<u>2,291,883</u>	<u>1,791,684</u>	<u>137,914</u>	<u>773,854</u>	<u>4,995,335</u>
Cash and cash equivalents, June 30	<u>\$ 2,181,287</u>	<u>\$ 1,741,616</u>	<u>\$ 155,897</u>	<u>\$ 878,052</u>	<u>\$ 4,956,852</u>
Reconciliation to Statement of Net Position:					
Cash and investments	\$ 2,008,881	\$ 1,741,616	\$ 155,897	\$ 878,052	\$ 4,784,446
Restricted cash	172,406				172,406
Total cash and investments	<u>\$ 2,181,287</u>	<u>\$ 1,741,616</u>	<u>\$ 155,897</u>	<u>\$ 878,052</u>	<u>\$ 4,956,852</u>

(Continued)

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
COMBINING STATEMENT OF CASH FLOWS - BY ACTIVITY (CONTINUED)
For the Fiscal Year Ended June 30, 2022

	<u>Water</u>	<u>Sewer</u>	<u>Solid Waste</u>	<u>General</u>	<u>Total</u>
Reconciliation of operating income (loss) to net cash provided (used)					
by operating activities:					
Operating income (loss)	\$ 221,835	\$ 168,930	\$ -	\$ (834,430)	\$ (443,665)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	306,472	112,563		16,233	435,268
Change in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:					
Accounts receivable	(31,403)	(15,136)			(46,539)
Deferred outflows	(22,059)	(14,965)		(22,085)	(59,109)
Accounts payables	10,362	30,425		(2,563)	38,224
Accrued payroll	9,354	6,238		23,422	39,014
Compensated absences	4,071	2,708		13,828	20,607
Net OPEB liability	(161,624)	(109,205)		(165,991)	(436,820)
Net pension liability	(168,026)	(110,417)		(201,633)	(480,076)
Deferred inflows	392,425	260,944		442,301	1,095,670
Net cash provided (used) by operating activities	<u>\$ 561,407</u>	<u>\$ 332,085</u>	<u>\$ -</u>	<u>\$ (730,918)</u>	<u>\$ 162,574</u>