SANTA LUCIA COMMUNITY SERVICES DISTRICT

BASIC FINANCIAL STATEMENTS,
INDEPENDENT AUDITOR'S REPORT
AND MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED
JUNE 30, 2022

SANTA LUCIA COMMUNITY SERVICES DISTRICT

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SANTA LUCIA COMMUNITY SERVICES DISTRICT

Board of Directors and Officers

June 30, 2022

Mark Boitano	Chairman
Barbara Santry	Vice-Chairman
Mike Saeidi	Treasurer / Financial Officer
Forrest Arthur	Secretary / General Manager
Scot Smythe	Director
Melissa Thorme	Director
Cary Whitfield	Director
Robert Latta	Advisor

INDEPENDENT AUDITORS' REPORT

Board of Directors
Santa Lucia Community Services District
Carmel, California

Opinion

We have audited the accompanying financial statements of the business-type activities of the Santa Lucia Community Services District (the District), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the 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 financial position of the business-type activities of the Santa Lucia Community Services District, as of June 30, 2022, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Santa Lucia 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 opinion.

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 Santa Lucia Community Services District's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' 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 auditors' report that includes our opinion. 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 GAAS 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 GAAS, 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 Santa Lucia 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 Santa Lucia 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 pages 4 through 9 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 conducted for the purpose of forming an opinion on the financial statements as a whole. The Board of Directors and Officers, which is the responsibility of management, is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

CliftonLarsonAllen LLP

ClitonLarsonAllen LLP

Salinas, California
February 10, 2023

SANTA LUCIA COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2022

This section of the Santa Lucia Community Services District's (the District) annual financial report presents a discussion and analysis of the District's performance during the year that ended June 30, 2022. Please read it in conjunction with the District's financial statements, which follow this section.

The District, located at 1 Rancho San Carlos Road, Carmel, County of Monterey, California is a community services district formed in 1998 to provide services related to water supply and distribution; wastewater treatment; storm water collection; garbage collection; security; road and bridge maintenance; and broadband deployment.

The Monterey County Local Agency Formation Commission, pursuant to the Cortese-Knox Local Government Reorganization Act of 1985, established the District on July 13, 1998. The District was established for the benefit of the Santa Lucia Preserve residential community.

FINANCIAL HIGHLIGHTS

- Operating revenues increased from fiscal year end 2021 by 10.29% to $7,495,241 in fiscal year end 2022 and operating expenses exclusive of depreciation and amortization increased by 9.05% to $6,653,072.
- In fiscal year end 2022 operating revenues increased over operating revenues from fiscal year end 2021 by $699,386.
- Operating expenses exclusive of depreciation and amortization for fiscal year end 2022 increased from fiscal year end 2021 by $552,354.

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of three parts: management's discussion and analysis (this section), the basic financial statements and the notes to the financial statements.

The financial statements provide both long-term and short-term information about the District's financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

The District's financial statements are prepared on an accrual basis in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. Under this basis of accounting, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation and amortization of assets is recognized in the Statement of Revenues, Expenses, and Changes in Net Position. All assets and liabilities associated with the operation of the District are included in the Statement of Net Position.

COMPARATIVE ANALYSIS

Net Position

The Statement of Net Position, the difference between the District's assets and liabilities, is one way to measure the District's financial health or position. Net position is reported in two categories: net investment in capital assets and unrestricted. Capital assets are the cost of the District's buildings, equipment, and infrastructure after deducting depreciation and amortization. Unrestricted assets are funds available for future operational and capital expenditures.

Summary of Net Position

	2022	2021	% Change
Current assets	$ 7,790,582	$ 7,932,613	(1.79%)
Capital assets – net	33,762,895	33,965,191	(0.60%)
Total assets	41,553,477	41,897,804	(0.82%)
Current liabilities	3,891,047	3,333,921	16.71%
Noncurrent liabilities	1,122,504	1,150,946	(2.47%)
Total liabilities	5,013,551	4,484,867	11.79%
Net investment in capital assets	32,794,791	32,873,579	(0.24%)
Unrestricted	3,745,135	4,539,358	(17.50%)
Total net position	$ 36,539,926	$ 37,412,937	(2.33%)

The District's net position at June 30, 2022 decreased by 2.33% compared to June 30, 2021. Total assets decreased by 0.82% to $41,553,477 due primarily to construction in progress of $805,736 and capital additions of $711,691 being offset by $1,721,264 in depreciation and amortization. Total liabilities increased 11.79% to $5,013,551 due to the timing on payments to affiliate being offset by payments on long-term debt.

Changes in Net Position

Operating revenues increased by $699,386 to $7,495,241. Operating revenues increased over the prior fiscal year due to an adjustment each year in property related fees, continuing through fiscal year 2021–2022 based on election results approving up to a 4% increase each year and an assessment for brush management and fire safety of $445,872. Property related fees are inclusive of water, wastewater, roads and security. This increase was offset by a reduction in residential water sales. Lower sales attributed to water conservation efforts in a drought year. The Road and Drainage Maintenance Department revenues were also impacted from the drought as lot mowing requests were lower than in past years due to a very dry spring.

Operating expenses exclusive of depreciation and amortization increased by $552,354 to $6,653,072. Overall expenses for water service, wastewater collection and treatment, security operations and gate house operations had minor increases or decreases compared to the prior year. Those activities contributed to an overall increase in expenses of $68,306. Road and storm drain maintenance expenses increased by $118,623 due to increased road repairs. General and administrative expenses increased by $169,958 primarily due to expenses attributed to increased audit expenses, property and liability insurance, legal and professional fees and Preserve Company administrative cost reimbursements. Preserve Company reimbursement expenses included impacts from legal expenses, higher compensation in payroll expenses, and an increase in property and liability insurance. Operating expenses also increased by $195,467 due to the addition of brush management and fire safety and trash services.

COMPARATIVE ANALYSIS (Continued)

Summary of Changes in Net Position

	2022	2021	% Change
Operating revenues:			
Property related fees	$ 6,762,156	$ 6,071,343	11.38%
Water usage	461,583	487,561	(5.33%)
Other community revenue	220,846	192,351	14.81%
Miscellaneous income	35,656	36,600	(2.58%)
Meter connection charges	15,000	8,000	87.50%
Total operating revenues	7,495,241	6,795,855	10.29%
Operating expenses:			
Water service	1,585,321	1,607,050	(1.35%)
Wastewater collection and treatment	192,130	216,121	(11.10%)
Road and storm drain maintenance	1,563,882	1,445,259	8.21%
Security operations	766,493	707,724	8.30%
Gatehouse operations	607,905	552,648	10.00%
Brush management and fire safety	192,920	–	100.00%
Trash service	2,547	–	100.00%
General and administrative	1,741,874	1,571,916	10.81%
Total operating expenses before depreciation and amortization	6,653,072	6,100,718	9.05%
Operating income (loss) before depreciation and amortization	842,169	695,137	21.15%
Depreciation and amortization	1,719,723	1,715,918	0.22%
Operating income (loss)	(877,554)	(1,020,781)	14.03%
Nonoperating revenues (expenses):			
Interest revenue	45,841	22,010	108.27%
Gain/(loss) on sale of investments	(36,427)	(3,927)	827.60%
Gain/(loss) on sale of assets	36,010	43,500	(17.22%)
Interest expense	(40,881)	(40,946)	(0.16%)
Total nonoperating revenues (expenses)	4,543	20,637	(77.99%)
Change in net position	(873,011)	(1,000,144)	12.71%
Net position – beginning of year	37,412,937	38,413,081	(2.60%)
Net position – end of year	$ 36,539,926	$ 37,412,937	(2.33%)

COMPARATIVE ANALYSIS (Continued)

	Operating Revenues			Operating Expenses			Operating Income (Loss)		
	2022	2021	% Change	2022	2021	% Change	2022	2021	% Change
Water service	$ 2,679,093	$ 2,604,776	2.85%	$ 1,585,321	$ 1,607,050	(1.35%)	$1,093,772	$ 997,726	9.63%
Wastewater collection and treatment	401,822	384,512	4.50%	192,130	216,121	(11.10%)	209,692	168,391	24.53%
Road and storm drain maintenance	1,900,505	1,834,375	3.61%	1,563,882	1,445,259	8.21%	336,623	389,116	(13.49%)
Security operations	1,159,215	1,116,042	3.87%	766,493	707,724	8.30%	392,722	408,318	(3.82%)
Gatehouse operations	889,473	856,150	3.89%	607,905	552,648	10.00%	281,568	303,502	(7.23%)
Brush management and fire safety	465,133	–	100.00%	192,920	–	100.00%	272,213	–	100.00%
Trash service	–	–	0.00%	2,547	–	100.00%	(2,547)	–	100.00%
General and administrative	–	–	0.00%	1,741,874	1,571,916	10.81%	(1,741,874)	(1,571,916)	(10.81%)
Total	$ 7,495,241	$ 6,795,855	10.29%	$ 6,653,072	$ 6,100,718	9.05%	$ 842,169	$ 695,137	21.15%

- Administration includes senior management, administrative, purchasing, human resources, information technology, and accounting staff, along with organization wide supplies and services, such as outsourced payroll processing and 401k plan administration, computer network and telephone systems, and other professional fees.

- Operating expenses above do not include depreciation and amortization.

BUDGET HIGHLIGHTS

The District budgeted operating revenues, excluding reimbursements for intercompany charges related to road and storm drain maintenance department services provided to other functions of the District, of $7.6 million for the fiscal year 2022. The District ended the fiscal year with approximately $116,000 less than budget for operating revenues as a result of the Water department, which experienced lower water meter charges and the Roads and Drainage department experiencing decreased revenues from lot mowing services.

The District's budget projected operating expenses, excluding depreciation and amortization, of $7.1 million for fiscal year 2022. The District ended the fiscal year with approximately $125,000 less than budget for total expenses primarily as a result of approved salary adjustments including a new mechanic position, higher than budgeted administrative cost reimbursements offset by decreased contract labor expenses for brush management and fire safety and increased equipment maintenance and repairs and maintenance in the road and storm drain maintenance department.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District's capital assets, net of accumulated depreciation and amortization, at June 30, 2022 totaled $33,762,895. This amount represents a net decrease of $202,296, which is capital additions being offset by depreciation and amortization expense, or 0.60% from 2021.

This year's capital asset additions:

- Construction in progress for $805,736
- Roads and bridges for $70,547
- Buildings for $12,267
- Machinery and equipment for $193,381
- Vehicles for $287,130
- Right-to-use leased equipment for $148,366

Capital Assets – Net of Accumulated Depreciation and amortization

	2022	2021	% Change
Roads and bridges	$ 13,570,677	$ 14,205,588	(4.47%)
Water system	11,983,965	12,591,392	(4.82%)
Wastewater system	2,512,133	2,609,839	(3.74%)
Buildings	2,884,413	2,873,912	0.37%
Machinery and equipment	816,367	613,196	33.13%
Furniture and fixtures	18,517	21,630	(14.39%)
Vehicles	444,331	252,317	76.10%
Communication lines	124,836	129,973	(3.95%)
Right-to-use leased equipment	138,475	–	100.00%
Construction in progress	990,143	388,306	154.99%
Land	279,038	279,038	0.00%
Total	$ 33,762,895	$ 33,965,191	(0.60%)

Debt Administration

At June 30, 2022, the District had $847,323 in long-term debt related to the construction of a corporate yard and outstanding lease commitments of $120,781.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Budget for the fiscal year ending 2023, despite a modest increase, reflects the following impacts. Water rates for the District are not anticipated to change for the fiscal year 2023 budget cycle. In fiscal year end 2023, property related fees are anticipated to increase for water, roads, security, and sewer services over fiscal year end 2022 by 4%, which is an increase of approximately $179,000. Expenses are budgeted to increase by approximately 11% due to a rise in employee compensation and other inflationary impacts.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Mike Saeidi, Chief Financial Officer, at (831) 620-6706.

BASIC FINANCIAL STATEMENTS

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SANTA LUCIA COMMUNITY SERVICES DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2022

	Enterprise Fund
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 7,363,974
Accounts receivable:	
Property related fees	153,900
Other receivable – net	48,809
Prepaid expenses	204,751
Inventory	19,148
Total current assets	7,790,582
CAPITAL ASSETS – NET	33,762,895
TOTAL ASSETS	$ 41,553,477
LIABILITIES	
CURRENT LIABILITIES:	
Accounts payable	$ 446,220
Affiliate payable	3,024,463
Accrued liabilities	221,949
Accrued compensated absences	169,824
Lease liability – current portion	28,591
Total current liabilities	3,891,047
NONCURRENT LIABILITIES:	
Accrued compensated absences	72,782
Deferred revenue	110,209
Lease liability	92,190
Long-term debt	847,323
Total noncurrent liabilities	1,122,504
TOTAL LIABILITIES	$ 5,013,551
NET POSITION	
Net investment in capital assets	$ 32,794,791
Unrestricted	3,745,135
TOTAL NET POSITION	$ 36,539,926

See Notes to Basic Financial Statements.

SANTA LUCIA COMMUNITY SERVICES DISTRICT
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2022

	Enterprise Activities								
	Water Service	Wastewater Collection and Treatment	Road and Storm Drain Maintenance	Security Operations	Gatehouse Operations	Brush Management and Fire Safety	Trash Service	General and Administrative	Total
OPERATING REVENUES:									
Property related fees	$ 2,187,360	$ 401,208	$ 1,699,008	$ 1,141,330	$ 887,378	$ 445,872	$ –	$ –	$ 6,762,156
Water usage:									
Preserve Golf Club	220,400	–	–	–	–	–	–	–	220,400
Residential	204,901	–	–	–	–	–	–	–	204,901
Ranch Club	36,282	–	–	–	–	–	–	–	36,282
Other community revenue	9,102	–	193,294	–	–	18,450	–	–	220,846
Miscellaneous income	6,048	614	8,203	17,885	2,095	811	–	–	35,656
Meter connection charges	15,000	–	–	–	–	–	–	–	15,000
Total operating revenues	2,679,093	401,822	1,900,505	1,159,215	889,473	465,133	–	–	7,495,241
OPERATING EXPENSES:									
Salaries and wages	768,587	52,098	693,241	471,752	346,192	130,094	–	391,226	2,853,190
Employee Benefits	95,251	11,314	115,033	69,020	59,347	10,232	–	66,993	427,190
Management fee	–	–	–	–	–	–	–	913,556	913,556
Auto lease and expense	14,785	2,448	22,205	1,175	533	1,208	–	–	42,354
Chemicals	64	7,322	-	-	-	-	–	–	7,386
Contract labor	21,132	17,156	5,096	9,220	38,168	6,417	–	–	97,189
Education and seminars	7,165	331	1,661	-	–	1,432	–	2,775	13,364
Equipment expense	7,888	878	34,926	11,142	–	53	–	10	54,897
Fees and collection charges	–	–	–	–	–	–	–	27,238	27,238
Fuel, oil and propane	38,073	5,231	55,854	31,739	–	3,965	–	3,941	138,803
Gate operating expense	–	–	–	13,878	7,498	–	–	–	21,376
Gatehouse overhead	–	–	–	–	34,412	–	–	–	34,412
Insurance	–	–	–	–	–	6,397	–	130,422	136,819
Legal and professional fees	–	–	–	–	–	–	–	68,084	68,084
Miscellaneous	32,258	–	1,279	2,742	24	1,839	–	58,744	96,886
Office expenses	8,791	–	843	2,765	627	3,109	–	2,053	18,188
Payroll taxes	57,032	4,060	49,821	32,506	27,038	9,894	–	20,459	200,810
Pension - 401(k) match	30,425	–	18,265	5,554	7,351	–	–	12,553	74,148
Permits and fees	5,261	8,758	10,702	–	–	–	–	–	24,721
Radios and pagers	10	–	1,345	145	–	782	–	–	2,282
Recruitment	299	–	–	–	–	–	–	–	299
Refuse removal	8,701	6,784	8,554	–	–	–	–	–	24,039
Repairs and maintenance	106,369	8,818	510,601	21,669	30,468	–	–	12,277	690,202
Residential lot projects	–	–	1,112	–	–	–	–	–	1,112
Total forward	$ 1,202,091	$ 125,198	$ 1,530,538	$ 673,307	$ 551,658	$ 175,422	$ –	$ 1,710,331	$ 5,968,545

See Notes to Basic Financial Statements.

SANTA LUCIA COMMUNITY SERVICES DISTRICT
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2022

	Enterprise Activities								
	Water Service	Wastewater Collection and Treatment	Road and Storm Drain Maintenance	Security Operations	Gatehouse Operations	Brush Management and Fire Safety	Trash Service	General and Administrative	Total
Total forward	$ 1,202,091	$ 125,198	$ 1,530,538	$ 673,307	$ 551,658	$ 175,422	$ –	$ 1,710,331	$ 5,968,545
Road maintenance	–	–	10,974	–	–	–	–	–	10,974
SCADA improvements	5,002	–	–	–	–	–	–	–	5,002
Septic maintenance	–	27,729	–	–	–	–	–	–	27,729
Small tools and equipment	10,435	–	5,633	–	–	11,283	–	–	27,351
Supplies	80,626	10,149	4,256	3,569	2,791	1,183	2,547	2,666	107,787
Telephone	11,586	1,587	4,796	69,897	38,675	1,618	–	24,251	152,410
Testing	13,696	13,301	–	–	–	–	–	–	26,997
Uniforms	7,059	538	6,834	1,517	2,253	2,126	–	4,256	24,583
Utilities	229,875	13,628	851	18,203	10,330	1,288	–	370	274,545
Vehicle I.D. expense	–	–	–	–	2,198	–	–	–	2,198
Water meter expenses	24,951	–	–	–	–	–	–	–	24,951
General and administrative allocation	631,405	72,735	417,474	294,902	229,285	96,073	–	(1,741,874)	–
Total operating expenses before depreciation	2,216,726	264,865	1,981,356	1,061,395	837,190	288,993	2,547	–	6,653,072
OPERATING INCOME (LOSS) BEFORE DEPRECIATION AND AMORTIZATION	462,367	136,957	(80,851)	97,820	52,283	176,140	(2,547)	–	842,169
DEPRECIATION AND AMORTIZATION	685,738	100,666	795,908	72,705	49,732	13,006	1,968	–	1,719,723
OPERATING INCOME (LOSS)	(223,371)	36,291	(876,759)	25,115	2,551	163,134	(4,515)	–	(877,554)
NONOPERATING REVENUES (EXPENSES):									
Interest revenue	16,617	1,914	10,987	7,761	6,034	2,528	–	–	45,841
Gain/(loss) on sale of investments	(13,205)	(1,521)	(8,730)	(6,167)	(4,795)	(2,009)	–	–	(36,427)
Gain/(loss) on sale of assets	–	–	29,500	6,510	–	–	–	–	36,010
Interest expense	(12,857)	(1,481)	(8,500)	(6,004)	(4,668)	(7,371)	–	–	(40,881)
Total nonoperating revenues (expenses)	(9,445)	(1,088)	23,257	2,100	(3,429)	(6,852)	–	–	4,543
CHANGE IN NET POSITION	(232,816)	35,203	(853,502)	27,215	(878)	156,282	(4,515)	–	(873,011)
NET POSITION, BEGINNING OF YEAR	15,385,970	1,778,922	15,896,083	3,384,259	967,703	–	–	–	37,412,937
NET POSITION, END OF YEAR	$15,153,154	$ 1,814,125	$15,042,581	$ 3,411,474	$ 966,825	$ 156,282	$ (4,515)	$ –	$36,539,926

See Notes to Basic Financial Statements.

SANTA LUCIA COMMUNITY SERVICES DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2022

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash receipts from residents and customers	$ 7,593,234
Cash payments to employees	(3,549,399)
Cash payments to suppliers for goods and services	(2,473,715)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	1,570,120
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Payments on leased equipment	(27,585)
Payments on long-term debt	(244,289)
Additions to capital assets	(1,369,061)
Proceeds from disposition of capital assets	36,010
Interest paid	(40,881)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(1,645,806)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Realized gain (loss) on investments	(36,427)
Interest income received	45,841
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	9,414
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(66,272)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	7,430,246
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 7,363,974
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating income (loss)	$ (877,554)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation and amortization	1,719,723
(Increase) decrease in:	
Property related fees receivable	78,984
Other receivable	19,009
Prepaid expenses	(11,777)
Inventory	(10,457)
Increase (decrease) in:	
Accounts payable	38,419
Affiliate payable	592,397
Accrued liabilities	9,040
Accrued compensated absences	12,336
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ 1,570,120
Schedule of non-cash capital and related financing:	
Right-to-use leased equipment	$ 148,366

See Notes to Basic Financial Statements.

NOTE 1. THE FINANCIAL REPORTING ENTITY

Reporting Entity – The Santa Lucia Community Services District (the District) was established on July 13, 1998 by the Monterey County Local Agency Formation Commission, pursuant to the Cortese-Knox Local Government Reorganization Act of 1985. The District was established for the benefit of the Santa Lucia Preserve (the Preserve) residential community.

The District, which exclusively incorporates the 31 square miles of the Preserve, oversees all of the infrastructure services to the Settled Lands, either directly or through sub-contractors. The District provides water for domestic, irrigation and fire protection uses through a Preserve-wide, pressurized water system supplied from well clusters across the property. The District maintains all sewer and septic systems. It maintains, repairs and replaces the roadways, culverts and drainage systems. The District's annual budget is primarily funded from a direct assessment on the annual real property tax bill for all parcels within the settled lands.

Component Units – Accounting principles generally accepted in the United States of America require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria provided in Government Accounting Standards have been considered and there are no agencies or entities which should be presented with the District as component units. However, the District is affiliated with the following organizations:

The Santa Lucia Preserve Company (the Preserve Company) – The Preserve Company was established to provide professional, coordinated management and services for the District and the Santa Lucia Preserve Association. It contracts with these entities to deliver their services and fulfill their obligations to the residents of the Preserve. It also contracts with The Preserve Golf Club, Inc. and The Ranch Club, Inc. to manage their respective facilities at the direction of the respective Boards of Directors of the clubs.

The Ranch Club, Inc. (the Ranch Club) – The community's activity focus is at the historic grand Hacienda and surrounding facilities that make up the Ranch Club. The Ranch Club is the place where residents gather as a community – the heart of the Preserve community; where residents, their families and guests gather to dine, lodge, enjoy cultural programs and use the tennis, health and fitness facilities. The Ranch Club also offers an equestrian center, 100 miles of hiking, riding and cycling trails, as well as camping and fishing at Moore's Lake. The District provides security, road maintenance, water supply, wastewater disposal and solid waste disposal to the Ranch Club.

NOTE 1. THE FINANCIAL REPORTING ENTITY (Continued)

The Preserve Golf Club, Inc. (the Golf Club) – The Golf Club is a private 18-hole golf course and clubhouse. The course, designed by Tom Fazio, is located in the sunny coastal foothills of the 20,000-acre Preserve. The clubhouse overlooks the first tee, the 18th green and the surrounding hills, ridges and mountains of the Santa Lucia Preserve. The District provides security, road maintenance, water supply, wastewater disposal and solid waste disposal to the Golf Club.

The Santa Lucia Preserve Association (the Association) – The Association is comprised of all Preserve property owners. The Association was organized on November 24, 1998 with the recording of the Declaration of Protective Restrictions at the office of Official Records of Monterey County. The Association derives its authority and responsibilities from this Declaration. The Association was incorporated as a nonprofit mutual benefit corporation on December 4, 1998. It administers and enforces the Covenants, Conditions and Restrictions, particularly the Design Guidelines. Through its Design Review Board and its Design and Construction Services Group, the Association assures that all structures comply with the principles of subordination to and compatibility with the landscape and the architectural traditions of the central California coast. The District provides construction monitoring through security services to the Association.

Santa Lucia Preserve Housing, LLC (SLPH) – SLPH was established to acquire lots for employee and inclusionary housing. Employee housing is located on lot 61 and consists of four single family homes. These units are restricted to employees of the Preserve Company and are market rate housing. Inclusionary housing is located on lot 62 and is income restricted property. Current inclusionary housing consists of the six units located on lot 62 and two additional units above the equestrian center that are under title to the Ranch Club. The District manages the employee and inclusionary housing units which house Preserve Company employees.

The Santa Lucia Conservancy (the Conservancy) – The Conservancy has been established as a non-profit, tax-exempt California corporation to ensure that approximately 90% of the Preserve, including its most environmentally sensitive acres, remains natural and is never subdivided. The Conservancy will protect and manage 18,000 private acres for recreation, grazing, environmental research, and wildlife habitat for the community. The Conservancy manages, restores and enhances the Preserve lands. The District and the Conservancy work together to share information for the benefit of the Preserve.

Basis of Presentation – In accordance with Generally Accepted Accounting Principles (GAAP) applicable to governmental units, the accounts of the District are organized into a single proprietary type fund, the Enterprise Fund.

NOTE 2. <u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</u>

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that costs (expenses, including depreciation and amortization) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The District accounts for its operations in a single enterprise fund. However, in accordance with government accounting standards, the District reports the statement of revenues, expenses and changes in net assets by *different identifiable activities*. The different identifiable activities of the District are water service, wastewater collection and treatment, road and storm drain maintenance, security operations, gatehouse operations, brush management and fire safety and trash service.

Method of Allocating Revenue and Expenses – The District allocates property related fees revenue that is not specific to wastewater collection and treatment or brush management and fire safety to the remaining activities of the District. The property related fees revenue and property administrative costs are allocated to the various activities based on budgeted costs. Administrative costs are comprised of the General Manager's salary and related benefits, personnel services provided by the Preserve Company, insurance, legal, corporate yard overhead and various other general and administrative expenses that are not directly charged to one of the District's activities.

Measurement Focus and Basis of Accounting – The financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under this method, revenues are recognized in the accounting period in which they are earned, and expenses are recognized in the accounting period in which the liability is incurred, regardless of the timing of related cash flows.

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 an enterprise fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Cash and Cash Equivalents – The District considers all highly liquid assets with an original maturity of three months or less when purchased and pooled cash as cash equivalents. Cash and cash equivalents are comprised of cash in checking, money market accounts, certificates of deposit, amounts in the California State Treasurer's Investment Fund, known as the Local Agency Investment Fund (LAIF), amounts in the CalTrust Investment Pool and United States treasury bills and notes. The CalTrust Investment Pool includes certain investments with longer maturities, however, the pooled funds are considered readily available for immediate use and, therefore, are included with cash equivalents.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value – The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The District uses valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. 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. For the fiscal year ended June 30, 2022, the application of valuation techniques applied to the District's financial statements has been consistent.

Receivables – All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. The allowance is based on an assessment of the current status of individual accounts. At June 30, 2022, the allowance was estimated to be $43,940.

Affiliate Receivable/Payable – Under the management agreement with the Preserve Company, all District vendor invoices are paid by the Preserve Company. Additionally, all billings are performed by the Preserve Company. The District and the Preserve Company maintain reciprocal intercompany payable and receivable accounts that reflect these transactions. For example, when the District is invoiced by a vendor, the payable is recorded on the Preserve Company's books and a corresponding entry is made to increase the intercompany payable from the District to the Preserve Company. The balance in affiliate payable represents amounts payable to the Preserve Company from the District.

Prepaid Expenses – Prepaid expenses are capitalized and amortized ratably over the period of benefit.

Inventory – Inventory is valued at lower of cost or net realizable value. Cost is determined by the first-in, first-out method.

Capital Assets – Capital Assets are accounted for at historical cost or estimated historical cost if actual historical cost is not known. It is the policy of the District to capitalize assets with an initial individual cost of more than $2,000 (computer equipment), $5,000 (other equipment) and $10,000 (land and facilities improvements) and an estimated useful life in excess of one year. Capital assets are depreciated on a straight-line basis over their estimated useful life.

The useful lives used to depreciate capital assets, by asset class, are as follows:

Vehicles	5	Years
Furniture and fixtures	5	Years
Machinery and equipment	5	Years
Right-to-use leased equipment	15	Years
Roads and bridges	20 – 40	Years
Water System	40	Years
Wastewater System	40	Years
Communication Lines	40	Years
Buildings	40	Years

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expenditures for maintenance and repairs are charged to operating expenses as incurred. Renewals, betterments, and major improvements which significantly increase values, change capacities or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation and amortization are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

Accrued Compensated Absences – Since all employees are employed by the Preserve Company, the District records an estimated liability for accrued compensated absences. There is no estimated liability for unpaid accumulated sick leave since there is not a policy to pay amounts when employees separate from service with the Preserve Company. All vacation pay is accrued when earned. All full-time employees accrue personal leave, or compensated absences, by a prescribed formula based on length of service. Employees may accumulate up to two times their annual current accrual rate. If the earned, but unused vacation hours reach this maximum, additional benefits will not accrue until unused benefits are used or otherwise reduced as allowed by the vacation policy. Upon termination of employment, all unused and un-forfeited vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the financial statements.

Leases – The District is a lessee for a noncancellable lease of equipment. The District recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the financial statements. The District recognizes lease liabilities with an initial, individual value of $10,000 or more.

At the commencement of a lease, the District initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases include how the District determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The District uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the District generally uses its estimated incremental borrowing rate as the discount rate for leases.

- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and the purchase option price that the District is reasonably certain to exercise.

The District monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Lease assets are reported with other capital assets and lease liabilities are reported as lease liabilities on the statement of net position.

Property Related Fees – The County is responsible for the assessment and collection of property related fees for all taxing jurisdictions, including the District. The District is responsible for determining the amount of property related fees and the County is responsible for the collection and apportionment. Property related fees are payable in equal installments, November 1st and February 1st, and become delinquent on December 10th and April 10th, respectively. The assessment date is July 1st of each year. Property related fees are recognized in the fiscal year in which the assessments have been levied.

Other Community Revenue – The District provides services to property owners of the Preserve. The provision of these services are sanctioned under the District's by-laws, are billed to property owners at arms-length and include the following types of services: fire clearing, erosion control, pasture preparation, lot mowing, lot cleanup, poison oak spraying, driveway maintenance, carpentry, mechanical services and other operations.

Capital Contributions – Capital assets are capitalized at cost, which approximates fair value at the time of the District's acquisition and are recorded as capital contributions when they are placed in service.

Net Position – Net position represents the difference between assets and liabilities and is classified into the following net position categories:

Net Investment in Capital Assets – Investment in capital assets consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position invested in capital assets, excludes unspent debt proceeds.

Restricted Net Positions – Restricted net positions result when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted – Unrestricted net positions consist of assets that do not meet the definition of the two preceding categories. Unrestricted net position includes net position that has been designated by management to be used for other than general operating purposes.

When restricted and other fund balance resources are available for use, it is the District's policy to use restricted resources first.

Income Taxes – Santa Lucia Community Services District is a California local governmental unit and is exempt from both Federal and State income taxes.

Use of Estimates – The preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Effects of New Pronouncements – In June 2017, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 87, Leases. This standard requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this standard, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

The District adopted the requirements of the guidance effective July 1, 2021 and has applied the provisions of this standard to the beginning of the period of adoption.

In January 2020, GASB issued Statement No. 92 Omnibus 2020. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The adoption of this standard had no significant impact on the financial statements.

Subsequent Events – Subsequent events have been evaluated through February 10, 2023, which is the date the financial statements were available to be issued.

NOTE 3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at June 30, 2022 consisted of the following:

CalTrust Investment Pool	$ 1,166,872
Deposits with financial institutions	6,086,006
Local Agency Investment Fund	111,096
Total	$ 7,363,974

Custodial Credit Risk – Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a depositor 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 counter party (e.g., broker-dealer) to a transaction, a depositor will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provisions for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governments units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The value of each participating dollar equals the fair value divided by the amortized cost. The District's fair value of the position in the pool is the same as the value of the pool shares.

The District maintains its cash accounts in commercial banks located in Monterey, California. Accounts are guaranteed by the Federal Depository Insurance Corporation (FDIC), the Securities Investment Protection Corporation (SIPC), or collateralized by the pledging institution under the California Government Code and unsecured and uncollateralized deposits in the California State Treasurer's Investment Pool (LAIF) and the CalTrust Investment Pool.

As of June 30, 2022, the District's deposits with financial institutions are either insured by the FDIC, SIPC or collateralized with pledged securities held in the trust department of the financial institutions not in the District's name. The total amount which the District's deposits exceeded insured limits at June 30, 2022 was $5,778,024.

NOTE 3. CASH AND CASH EQUIVALENTS (Continued)

Authorized Investments – The table below identifies the investment types that are authorized by the District's Investment Policy and are authorized by California Government Code. Maturities of investments will be selected based on liquidity requirements to minimize interest rate risk and maximize earnings.

Authorized Investment Type	Maximum Percentage of Portfolio
Investment Trust of California (CaITRUST)	100%
The Local Agency Investment Fund (LAIF)	50%
Certificates of Deposit insured by the FDIC	50%
United States Treasury Securities	50%
Triple A rated money market mutual funds regulated by the SEC	100%
FDIC insured deposits in banks	50%
Other prudent investment instruments authorized by CA Gov Code	50%

The District's general policy is to apply the prudent-investor rule: Investments are made as a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the District.

Investment in State Investment Pools – 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 and the CalTrust Joint Powers Authority under the oversight of the Wachovia Portfolio Services. The investment of state pooled funds is governed by state law, by policies adopted by the Pooled Money Investment Board (PMIB) and by accepted norms for prudent fiduciary management of investments. PMIB funds may be invested in a wide range of interest-bearing securities, such as Treasury notes, prime commercial paper, certain California municipal and agency obligations, highly rated corporate bonds, obligations of such agencies as Fannie Mae, and negotiable certificates of deposit. Also allowed are time deposits in California banks, savings and loans, and credit unions that have no less than a "satisfactory" CRA rating.

Deposits in LAIF are invested by the State Treasurer to realize the maximum return consistent with prudent treasury management. All earnings of the fund, less a reimbursement of management costs incurred not to exceed on quarter of one percent of earnings, are distributed to the contributing agencies in their relative share each quarter. The value of each participating dollar equals the fair value divided by the amortized cost. The District's fair value position in the pool is the same as the value of the pool shares. The District relied upon information provided by the State Treasurer in estimating the District's fair value position of its holding in LAIF. The District's deposits with LAIF are accounted for at cost which approximates fair value. The District's deposits with CalTrust are stated at fair market value. Increases or decreases in fair market value are recognized in the period in which they occur.

NOTE 4. CAPITAL ASSETS

Capital assets consist of the following at June 30:

	2021	ADDITIONS	TRANSFERS/ DELETIONS	2022
Capital assets being depreciated/amortized:				
Roads and bridges	$ 31,058,053	$ 70,547	$ –	$ 31,128,600
Water system	23,616,342	–	–	23,616,342
Wastewater system	4,343,339	–	–	4,343,339
Buildings	3,721,110	12,267	91,669	3,825,046
Machinery and equipment	1,319,818	193,381	16,129	1,529,328
Furniture and fixtures	368,297	–	1,663	369,960
Vehicles	910,817	287,130	(7,038)	1,190,909
Communication lines	205,500	–	–	205,500
Right-to-use leased equipment	–	148,366	–	148,366
Total cost	65,543,276	711,691	102,423	66,357,390
Accumulated depreciation/amortization:				
Roads and bridges	16,852,465	705,458	–	17,557,923
Water system	11,024,950	607,427	–	11,632,377
Wastewater system	1,733,500	97,706	–	1,831,206
Buildings	847,198	93,435	–	940,633
Machinery and equipment	706,622	100,777	(94,438)	712,961
Furniture and fixtures	346,667	4,776	–	351,443
Vehicles	658,500	95,116	(7,038)	746,578
Communication lines	75,527	5,137	–	80,664
Right-to-use leased equipment	–	9,891	–	9,891
Less accumulated depreciation and amortization	32,245,429	1,719,723	(101,476)	33,863,676
Total capital assets, being depreciated, net of depreciation/amortization	33,297,847	(1,008,032)	203,899	32,493,714
Capital assets not being depreciated:				
Construction in progress	388,306	805,736	(203,899)	990,143
Land	279,038	–	–	279,038
Total capital assets not being depreciated	667,344	805,736	(203,899)	1,269,181
Total capital assets, net of depreciation/amortization	$ 33,965,191	$ (202,296)	$ –	$ 33,762,895

NOTE 5. LEASES

The District leases a John Deere Bulldozer, Peterbilt and dozer trailer equipment under long term, non-cancelable lease agreement. The lease expires August 1, 2026. The annual principal and interest payments are $33,000 with interest at 3.65% per annum.

The future minimum lease payments are as follows:

Fiscal year ended June 30:	Principal	Interest	Total
2023	$ 28,591	$ 4,409	$ 33,000
2024	29,635	3,365	33,000
2025	30,717	2,283	33,000
2026	31,838	1,162	33,000
Total	$ 120,781	$ 11,219	$ 132,000

Right-to-use asset acquired through outstanding leases are shown below:

Equipment	$	148,366
Less accumulated amortization		9,891
Total		$ 138,475

NOTE 6. LONG–TERM DEBT

Long-term debt consists of the following at June 30, 2022:

Note payable to the Municipal Finance Corporation in the original amount of $1,821,000. The note bears interest at 3.65% per annum to be paid July 15 each year until maturity on July 15, 2028. The note is unsecured.	$ 847,323
Less current portion	–
Long-term debt	$ 847,323

Long-term debt repayments are as follows:

Fiscal year ended June 30:	Principal	Interest	Total
2024	$ 128,873	$ 30,927	$ 159,800
2025	133,576	26,224	159,800
2026	138,452	21,348	159,800
2027	143,505	16,295	159,800
2028 – 2029	302,917	16,683	319,600
Total	$ 847,323	$ 111,477	$ 958,800

NOTE 6. LONG–TERM DEBT (Continued)

A summary of the changes in long-term debt for the year ending June 30, 2022, is as follows:

	Beginning Balance 6/30/21	Additions	Payments	Ending Balance 6/30/22	Due Within One Year
Leases payable	$ –	$ 148,366	$ 27,585	$ 120,781	$ 28,591
Notes payable	1,091,612	–	244,289	847,323	–
Total	$1,091,612	$ 148,366	$ 271,874	$ 968,104	$ 28,591

NOTE 7. UNRESTRICTED NET POSITION

Unrestricted net position includes reserve funds set aside by management for specific uses. The balance of the unrestricted net position is available for spending at the District's discretion. Designations are established by actions of the District's board of directors and management and can be increased, reduced, or eliminated by similar actions.

The District currently has a policy in place to accumulate reserves for the replacement and improvement of the District's capital assets and for seasonal or emergency working capital requirements. Reserves are funded based on the existence of an operating surplus at fiscal year-end, before depreciation and amortization and net of any capital reserves spent. As of June 30, 2022, the entire unrestricted net position of $3,745,135 is designated for reserves.

NOTE 8. PROPERTY RELATED FEES

The District receives property related fees from the County of Monterey. The property related fees are charged to the individual lot owners in three components. One component is for wastewater collection and treatment. One component is for brush management and fire safety. The next component is to cover the other activities of the District. This part of the assessment is allocated to the other activities of the District based on budgeted expenses. The breakdown for 2022 is as follows:

Water Service	$ 2,187,360
Wastewater Collection and Treatment	401,208
Road and Storm Drain Maintenance	1,699,008
Security Operations	1,141,330
Gatehouse Operations	887,378
Brush Management and Fire Safety	445,872
Total property related fees	$ 6,762,156

The total number of parcels that were assessed in 2022 was 319. This total includes 297 full year residential parcels, 4 Ranch Club parcels, 3 Golf Club parcels, 12 employee housing parcels and 3 District parcels.

The District assesses for septic maintenance in the amount of $701 annually and sewer service in the amount of $2,948 annually. In 2022, $68,037 in assessments was made by the District for septic and $333,171 was made for sewer. These assessments are included in the property related fees above.

NOTE 9. TRANSACTIONS WITH AFFILIATED ORGANIZATIONS

The affiliate payable balance of $3,024,463 is due to the Santa Lucia Preserve Company.

The District provides potable water and irrigation to the Golf Club from a combination of recycled domestic wastewater, recycled golf course irrigation, and pumping from wells. The charge for water usage provided by the District for the Golf Club for the year ended June 30, 2022 was $220,400.

The District provides potable water and irrigation to the Ranch Club from a combination of recycled domestic wastewater and pumping from wells. The charge for water usage provided by the District for the Ranch Club for the year ended June 30, 2022 was $36,282.

The District contracts with the Preserve Company for personnel services. Salaries and related payroll expenses for the year ended June 30, 2022 directly charged to the District by the Preserve Company were $3,516,815.

The Preserve Company receives funds from the District for monthly operating expenses. The total of all funds received by the Preserve Company for the year ended June 30, 2022 was $6,900,000.

The District has a management services agreement with the Preserve Company. The District reimburses the Preserve Company for operating expenses incurred. Administrative costs for the year ended June 30, 2022 were $913,556.

The District contracts with Santa Lucia Preserve Housing, LLC to manage the employee and inclusionary housing units. The District receives a management fee of $7,200 per year for such services.

The District uses and operates equipment which are leased by the Preserve Company. The District's obligation is to pay the lessor directly for leases pertaining to equipment utilized by the District. The District expenses all lease payments. Lease expense for the year ended June 30, 2022 was $2,390. The current leased equipment terms are on a month-to-month basis.

NOTE 10. RISK MANAGEMENT

The District is insured against various risks of loss related to torts, thefts of, damage or destruction of assets; errors and omissions; work-related injuries to employees and natural disasters through participation in a joint venture under a joint powers agreement (JPA) with the Special District Risk Management Authority (SDRMA). The relationship between the District and the JPA is such that the JPA is not a component unit of the District for financial reporting purposes. The insurance carried by the District includes policies for workers' compensation, general liability, errors and omissions, and vehicular liability.

There have not been any significant reductions in insurance coverage as compared to the previous year. Settled claims from these risks have not exceeded commercial coverage.

NOTE 10. RISK MANAGEMENT (Continued)

SDRMA was formed under a joint powers agreement pursuant to California Government Code Section 6500 et seq. effective August 1, 1986 to provide general liability, comprehensive/collision liability and property damage, and errors and omissions risk financing for the member districts. SDRMA is administered by a Board of Directors, consisting of one member appointed by the California Special Districts Association and five members elected by the districts participating. The board controls the operations of the JPA, including selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to their participation in the JPA.

The SDRMA did not have long-term debt outstanding at June 30, 2022, other than claims liabilities and lease obligations. The District's share of year-end assets, liabilities and risk margin has not been calculated by the SDRMA.

NOTE 11. JOINT POWERS AGREEMENTS

The District participates in a joint venture under a joint powers agreement (JPA) with the Monterey County Regional Fire District (Fire District). The Fire District provides fire protection and paramedic services to Carmel Valley and surrounding areas. The Fire District provides paramedic coverage, fire protection planning and fire response services on the Preserve per its separate funding sources which are primarily made up of county tax assessments. The two special districts cooperate on many programs and several District personnel are volunteers with the Fire District. The District and the Fire District contract or reimburse each other for certain services or equipment as needed.

The District participates in a joint venture under a joint powers agreement (JPA) with the Investment Trust of California (CalTrust). CalTrust is a Joint Powers Authority created by public agencies to provide a convenient method for public agencies to pool their assets for investment purposes. CalTrust is governed by a Board of Trustees made up of experienced local agency treasurers and investment officers. The Board sets overall policies for the program and selects and supervises the activities of the investment manager and other agents. The purpose of CalTrust is to consolidate investment activities of the Participants and thereby reduce duplication, achieve economies of scale and carry out coherent and consolidated investment strategies.

NOTE 12. COMMITMENTS

The District's signed commitments for the year ended June 30, 2022 are as follows:

Vendor/Contractor	Project	Contract Limit	Outstanding at June 30, 2022
BlackWater Consulting Engineers	Water Treatment Plant	$ 133,857	$ 56,322
Justin Pauly Architects	Fire Building	$ 28,500	$ 3,233
Pureflow Filtration Division	Water Filtration	$ 348,587	$ 122,180
Granite Drilling	New Wells	$ 286,505	$ 206,505

NOTE 13. **AUTHORITATIVE PRONOUNCEMENTS ISSUED BUT NOT YET ADOPTED**

On April 2022, GASB issued GASB Statement No. 99, *Omnibus 2022.* The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The requirements of this Statement that are effective as follows:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance.

- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

Earlier application is encouraged and is permitted by the topic. At this time the District is not certain of the effect the adoption of Statement No. 99 will have on the accompanying financial statements.

In June 2022, GASB issued GASB Statement No. 101, *Compensated Absences:* The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged. At this time the District is not certain of the effect the adoption of Statement No. 101 will have on the accompanying financial statements.