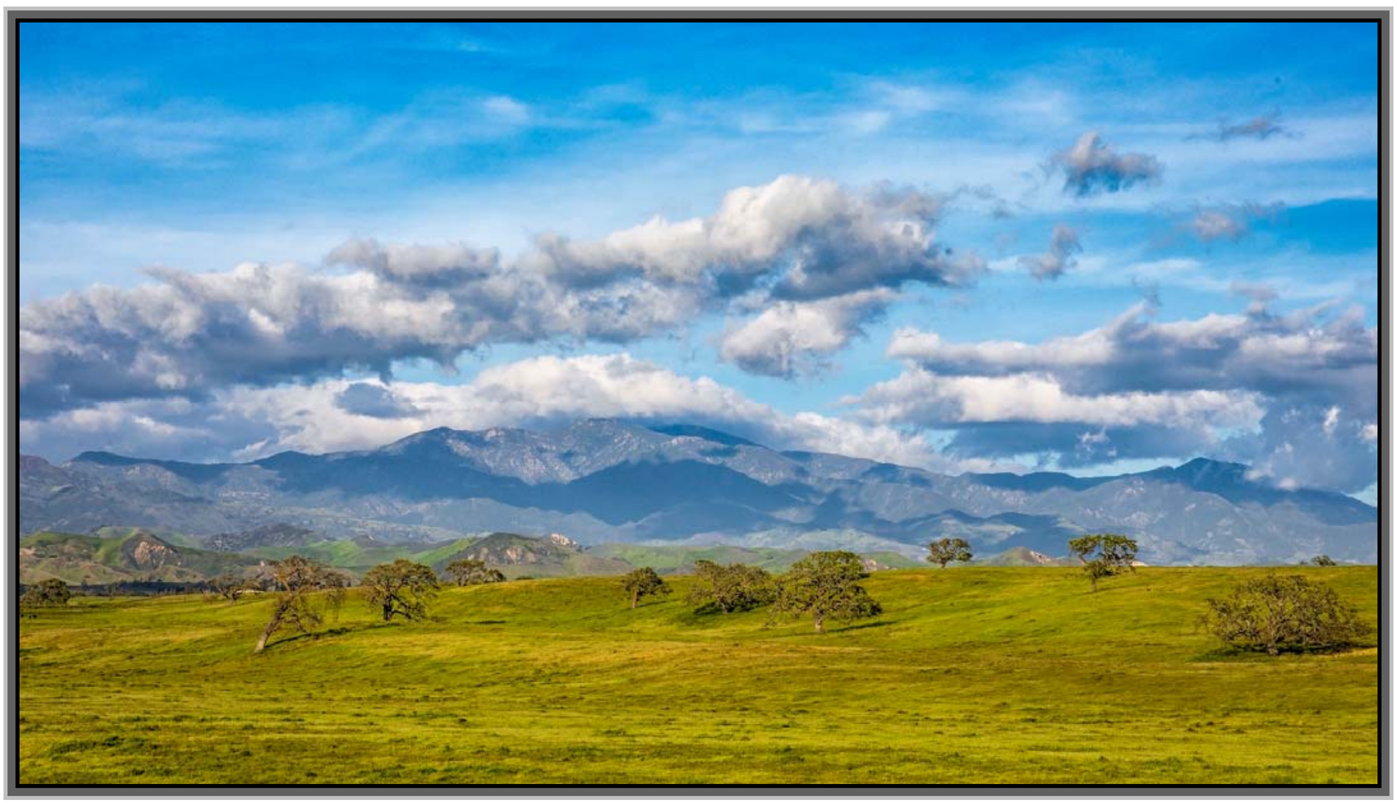
Santa Ynez Community Services District

Annual Financial Report

June 30, 2020 and 2019



Our Mission Statement

The Santa Ynez Community Services District is a public agency whose goal is to efficiently provide wastewater collection services to Santa Ynez residents, with a commitment to customer service. The District strives to protect the groundwaters of the Santa Ynez Valley. We are here to serve you.

Board of Directors as of June 30, 2020

Name	Title	Elected/ Appointed	Term Expires
Karen Jones	President	Elected	12/20
Frank Mueller	Vice-President	Elected	12/20
David Beard	Director	Elected	12/22
Bob D'Ambra	Director	Elected	12/22
Frank Redfern	Director	Elected	12/20

Santa Ynez Community Services District
Jose Acosta, General Manager
1070 Faraday Street
Santa Ynez, California 93460
(805) 688-3008 – www.sycsd.com

Santa Ynez Community Services District

Annual Financial Report

For the Fiscal Years Ended June 30, 2020 and 2019

Santa Ynez Community Services District
Annual Financial Report
For the Fiscal Years Ended June 30, 2020 and 2019

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Fedak & Brown LLP
Certified Public Accountants

Charles Z. Fedak, CPA, MBA
Christopher J. Brown, CPA, CGMA
Andy Beck, CPA

Cypress Office:
6081 Orange Avenue
Cypress, California 90630
(657) 214-2307
FAX (714) 527-9154

Riverside Office:
1945 Chicago Avenue, Suite C-1
Riverside, California 92507
(951) 783-9149

Independent Auditor's Report

Board of Directors
Santa Ynez Community Services District
Santa Ynez, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Santa Ynez Community Services District (District) as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits 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; and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Santa Ynez Community Services District as of June 30, 2020 and 2019, and the respective changes in financial position for the year's then ended in conformity with accounting principles generally accepted in the United States of America.

Independent Auditor's Report, continued

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated December 16, 2020, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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. This report can be found on pages 29 and 30.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
December 16, 2020

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Santa Ynez Community Services District (District) provides an introduction to the financial statements of the District for the fiscal years ended June 30, 2020 and 2019. We encourage readers to consider the information presented here in conjunction with the basic financial statements and related notes, which follow this section.

Financial Highlights

- In 2020, the District's net position decreased 0.001% or $77 to $7,878,663, due to the decrease in net position of $21,693 from ongoing operations which was offset by an increase of $21,616 in capital contributions. In 2019, the District's net position increased 7.03% or $517,194 to $7,878,740, due to the change in net position of $377,360 from ongoing operations and $139,834 in capital contributions.
- In 2020, the District's total revenues decreased 0.37% or $7,491 to $2,011,115. In 2019, the District's total revenue increased 7.88% or $147,406 to $2,018,606.
- In 2020, the District's operating revenues increased 3.49% or $41,090 to $1,217,532. In 2019, the District's operating revenues increased 7.49% or $81,991 to $1,176,442.
- In 2020, the District's non-operating revenues decreased 5.77% or $48,581 to $793,583. In 2019, the District's non-operating revenues increased 8.42% or $65,415 to $842,164.
- In 2020, the District's total expenses (including depreciation) increased 23.86% or $391,562 to $2,032,808. In 2019, the District's total expenses (including depreciation) increased 0.74% or $12,064 to $1,641,246.
- In 2020, the District's operating expenses (before depreciation) increased 29.09% or $278,655 to $1,236,717. In 2019, the District's operating expenses (before depreciation) decreased 1.48% or $14,366 to $958,062.
- In 2020, the District's depreciation increased 0.67% or $1,083 to $162,783. In 2019, the District's depreciation increased 0.32% or $509 to $161,700.
- In 2020, the District's non-operating expenses increased 21.44% or $111,824 to $633,308. In 2019, the District's non-operating expenses increased 5.23% or $25,921 to $521,484.
- In 2020, the District's capital contributions decreased 84.54% or $118,218 to $21,616. In 2019, the District's capital contributions increased 62.29% or $53,671 to $139,834.

Required Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

The Statement of Net Position includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges.

Required Financial Statements, continued

This statement can also be used to evaluate the District's reserves and credit worthiness. The final required financial statement is the Statement of Cash Flows, which provides information about the District's cash receipts, and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of the District

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the District in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's *net position* and changes in them. You can think of the District's net position – the difference between assets and liabilities – as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position are one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 12 through 28.

Statements of Net Position

Condensed Statements of Net Position

	2020	2019	Change	2018	Change
Assets:					
Current assets	$ 4,397,253	4,068,726	328,527	3,412,060	656,666
Capital assets, net	3,566,295	3,868,912	(302,617)	4,008,992	(140,080)
Total assets	7,963,548	7,937,638	25,910	7,421,052	516,586
Liabilities:					
Current liabilities	84,885	58,898	25,987	59,506	(608)
Total liabilities	84,885	58,898	25,987	59,506	(608)
Net position:					
Net investment in capital assets	3,566,295	3,868,912	(302,617)	4,008,992	(140,080)
Unrestricted	4,312,368	4,009,828	302,540	3,352,554	657,274
Total net position	$ 7,878,663	7,878,740	(77)	7,361,546	517,194

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets of the District exceeded liabilities by $7,878,663 and $7,878,740, as of June 30, 2020 and 2019, respectively.

Statements of Net Position, continued

At the end of fiscal years 2020 and 2019, the District showed a positive balance in its unrestricted net position of $4,312,369 and $4,009,828, respectively, which may be utilized in future years.

Statements of Revenues, Expenses and Changes in Net Position

Condensed Statements of Revenues, Expenses and Changes in Net Position

	2020	2019	Change	2018	Change
Revenue:					
Operating revenue	$ 1,217,532	1,176,442	41,090	1,094,451	81,991
Non-operating revenue	793,583	842,164	(48,581)	776,749	65,415
Total revenue	2,011,115	2,018,606	(7,491)	1,871,200	147,406
Expense:					
Operating expense	1,236,717	958,062	278,655	972,428	(14,366)
Depreciation	162,783	161,700	1,083	161,191	509
Non-operating expense	633,308	521,484	111,824	495,563	25,921
Total expense	2,032,808	1,641,246	391,562	1,629,182	12,064
Net income before capital	(21,693)	377,360	(399,053)	242,018	135,342
Capital contributions:	21,616	139,834	(118,218)	86,163	53,671
Change in net position	(77)	517,194	(517,271)	328,181	189,013
Net position, beginning of year	7,878,740	7,361,546	517,194	7,033,365	328,181
Net position, end of year	$ 7,878,663	7,878,740	(77)	7,361,546	517,194

The statement of revenues, expenses and changes of net position shows how the District's net position changed during the fiscal years. In the case of the District, net position decreased by $77 and increased $517,194 for the fiscal years ended June 30, 2020 and 2019, respectively.

A closer examination of the sources of changes in net position reveals that:

In 2020, the District's operating revenues increased 3.49% or $41,090 to $1,217,532 due primarily to increases of $35,461 in sewer service charges and $5,400 in other charges for services. In 2019, the District's operating revenues increased 7.49% or $81,991 to $1,176,442, due primarily to increases of $70,033 in sewer service charges and $11,648 in other charges for services.

In 2020, the District's non-operating revenues decreased 5.77% or $48,581 to $793,583 due primarily to decreases of $58,538 in Indian reservation contract sewage and collection and wastewater treatment revenue and $6,182 in annexation fees, which were offset by increases of $9,365 in property taxes and $6,774 in investment earnings. In 2019, the District's non-operating revenues increased 8.42% or $65,415 to $842,164, due primarily to increases of $37,410 in investment earnings, $33,984 in Indian reservation contract sewage and collection and wastewater treatment revenue, and $12,059 in annexation fees which were offset by a decrease of $18,038 in property taxes.

Statements of Revenues, Expenses and Changes in Net Position, continued

In 2020, the District's operating expenses (before depreciation) increased 29.09% or $278,655 to $1,236,717, due primarily to increases of $216,090 in general and administrative expenses, $50,565 in sewage collection expenses, and $12,000 in sewage treatment expenses. In 2019, the District's operating expenses decreased 1.48% or $14,366 to $958,062, due to increases of $60,294 and offset by increases of $42,760 in sewage collection expenses.

In 2020, the District's non-operating expenses increased 21.44% or $111,824 to $633,308, due to an increase of $170,558 in loss on asset disposal which was offset by decreases of $41,817 in Indian reservation contract sewage collection expense and $16,917 in the Indian reservation contract wastewater treatment plant operations expense. In 2019, the District's non-operating expenses increased 5.23% or $25,921 to $521,484, due to an increase of $38,261 in Indian reservation contract sewage collection expense which was offset by a decrease of $12,340 in the Indian reservation contract wastewater treatment plant operations expense.

In 2020, the District's capital contributions decreased 84.54% or $118,218 to $21,616, due to decreases of $91,848 in connection fees and $26,370 in Westside extension debt service. In 2019, the District's capital contributions increased 66.29% or $53,671 to $139,834, due to increases of $86,664 in connection fees and $27,370 in Westside extension debt service, which were offset by decreases of $37,500 in the State Water Resource Control Board grant and $21,863 in the California Office of Emergency Services grant.

In 2020, the District's depreciation increased 0.67% or $1,083 to $162,783. In 2019, the District's depreciation increased 0.32% or $509 to $161,700.

Capital Asset Administration

Changes in capital asset amounts for 2020 were as follows:

	Balance 2019	Additions	Transfers/ Deletions	Balance 2020
Capital assets:				
Non-depreciable assets	$ 810,243	30,724	(170,558)	670,409
Depreciable assets	6,718,670	-	-	6,718,670
Accumulated depreciation	(3,660,001)	(162,783)	-	(3,822,784)
Total capital assets, net	$ 3,868,912	(132,059)	(170,558)	3,566,295

Changes in capital asset amounts for 2019 were as follows:

	Balance 2018	Additions/ Additions	Transfers/ Deletions	Balance 2019
Capital assets:				
Non-depreciable assets	$ 802,026	8,217	-	810,243
Depreciable assets	6,705,268	13,402	-	6,718,670
Accumulated depreciation	(3,498,302)	(161,699)	-	(3,660,001)
Total capital assets, net	$ 4,008,992	(140,080)	-	3,868,912

At the end of fiscal year's 2020 and 2019, the District's investment in capital assets amounted to $3,566,295 and $3,868,912, respectively, (net of accumulated depreciation). This investment in capital assets includes land, structures and improvements, and equipment. (See note 3 for further information)

Conditions Affecting Current Financial Position

The COVID-19 pandemic in the United States has caused business disruption through mandated and voluntary closings of businesses. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings. However, the related financial impact on the District and the duration cannot be estimated at this time.

Management is unaware of any other conditions which could have a significant impact on the District's current financial position, net position, or operating results in terms of past, present and future.

Requests for Information

This financial report is designed to provide the District's funding sources, customers, stakeholders, and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's General Manager at 1070 Faraday Street, Santa Ynez, CA 93460 – (805) 688-3008.

Basic Financial Statements

Santa Ynez Community Services District
Statements of Net Position
June 30, 2020 and 2019

		2020	2019
Current assets:			
Cash and cash equivalents (note 2)	$	4,344,236	3,691,925
Investments (note 2)		-	310,706
Accrued interest receivable		543	1,743
Accounts receivable – sewer and other services		46,469	57,495
Prepaid expenses and other deposits		6,005	6,857
Total current assets		4,397,253	4,068,726
Non-current assets:			
Capital assets – not being depreciated (note 3)		670,409	810,243
Capital assets, net – being depreciated (note 3)		2,895,886	3,058,669
Total non-current assets		3,566,295	3,868,912
Total assets		7,963,548	7,937,638
Current liabilities:			
Accounts payable and accrued expenses		60,732	29,251
Customer deposits		2,200	2,150
Compensated absences (note 4)		21,953	27,497
Total current liabilities		84,885	58,898
Total liabilities		84,885	58,898
Net position: (note 5)			
Net investment in capital assets		3,566,295	3,868,912
Unrestricted		4,312,368	4,009,828
Total net position	$	7,878,663	7,878,740

See accompanying notes to the basic financial statements

Santa Ynez Community Services District
Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended June 30, 2020 and 2019

	2020	2019
Operating revenues:		
Sewer service charge	$ 1,149,614	1,114,153
Sewer benefit fees	38,829	38,600
Other charges for services	29,089	23,689
Total operating revenues	1,217,532	1,176,442
Operating expenses:		
Sewage collection	577,406	526,841
Sewage treatment	240,000	228,000
General and administrative	419,311	203,221
Total operating expenses	1,236,717	958,062
Operating (loss) income before depreciation expense	(19,185)	218,380
Depreciation expense – capital recovery	(162,783)	(161,700)
Operating (loss) income	(181,968)	56,680
Non-operating revenue(expense):		
Property taxes – ad valorum	190,750	182,698
Voter-approved taxes	1,799	486
Annexation fees	8,762	14,944
Investment earnings	74,729	67,955
Indian reservation contract:		
Sewage collection and wastewater treatment plant operation	517,543	576,081
Sewage collection	(35,931)	(77,748)
Wastewater treatment plant operations	(426,819)	(443,736)
Loss on asset disposal	(170,558)	-
Total non-operating revenue, net	160,275	320,680
Net (loss) income before capital contributions	(21,693)	377,360
Capital contributions:		
Sewer extension fees	-	26,370
Connection fees	21,616	113,464
Total capital contributions	21,616	139,834
Change in net position	(77)	517,194
Net position, beginning of year	7,878,740	7,361,546
Net position, end of year	$ 7,878,663	7,878,740

See accompanying notes to the basic financial statements

Santa Ynez Community Services District
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2020 and 2019

		2020	2019
Cash flows from operating activities:			
Cash receipts from customers for sewer services	$	1,292,113	1,266,368
Cash paid to employees for salaries and wages		(769,848)	(660,802)
Cash paid to vendors and suppliers for materials and services		(440,030)	(293,693)
Net cash provided by operating activities		82,235	311,873
Cash flows from non-capital financing activities:			
Property taxes – ad valorum		190,750	182,698
Net cash provided by non-capital financing activities		190,750	182,698
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets		(30,724)	(21,620)
Capital contributions		21,616	139,834
Voter-approved taxes		1,799	486
Net cash (used in) provided by capital and related financing activities		(7,309)	118,700
Cash flows from investing activities:			
Purchase of investments – certificates-of-deposits		310,706	(6,400)
Investment earnings		75,929	66,942
Net cash provided by investing activities		386,635	60,542
Net increase in cash and cash equivalents		652,311	673,813
Cash and cash equivalents, beginning of year		3,691,925	3,018,112
Cash and cash equivalents, end of year	$	4,344,236	3,691,925
Reconciliation of cash and cash equivalents to statement of financial position:			
Cash and cash equivalents	$	4,344,236	3,691,925
Total cash and cash equivalents	$	4,344,236	3,691,925

Continued on next page

See accompanying notes to the basic financial statements

Santa Ynez Community Services District
Statements of Cash Flows continued
For the Fiscal Years Ended June 30, 2020 and 2019

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

		2020	2019
Operating (loss) income	$	(181,968)	56,680
Adjustments to reconcile operating (loss) to net cash provided by operating activities:			
Depreciation		162,783	161,700
Annexation fees		8,762	14,944
Indian reservation contract		54,793	54,597
Changes in assets and liabilities:			
(Increase)decrease in assets:			
Accounts receivable – sewer and other services		11,026	(17,115)
Accounts receivable – grants		-	37,500
Prepaid expenses and other deposits		852	4,175
Increase(decrease) in liabilities:			
Accounts payable and accrued expenses		31,481	(7,216)
Customer deposits		50	(50)
Compensated absences		(5,544)	6,658
Total adjustments		264,203	255,193
Net cash provided by operating activities	$	82,235	311,873

See accompanying notes to the basic financial statements

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Santa Ynez Community Services District (District) is an independent governmental unit within the unincorporated area of the County of Santa Barbara and derives its decision-making capabilities from State legislation. The District was formed in 1971, pursuant to Section 61000, Title 6, Division 2 of the Community Services District Law of the State of California. The primary purposes of the District are the collection, treatment, and disposal of sewage for inhabitants of the District.

B. Basis of Accounting and Measurement Focus

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs (including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges (dispatching fees). Revenues and expenses are recognized on the accrual basis. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Operating revenues and expenses are generated and incurred through the sewage collection services performed by the District. Operating expenses include sewage collection and general and administrative expenses as well as depreciation expense. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

C. Financial Reporting

The District's basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to enterprise funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District solely operates as a special-purpose government which means it is only engaged in business-type activities; accordingly, activities are reported in the District's proprietary fund.

The District has adopted the following GASB pronouncement in the current year:

Governmental Accounting Standards Board Statement No. 95

In May 2020, the GASB issued Statement No. 95 – *Postponement of the Effective Dates of Certain Authoritative Guidance.* The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

D. Assets, Liabilities and Net Position

1. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in the District's net position during the reporting period. Actual results could differ from those estimates.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Liabilities and Net Position, continued

2. Uncertainty

The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings. However, the related financial impact on District and the duration cannot be estimated at this time.

3. Cash and Cash Equivalents

Substantially all of District's cash is invested in interest bearing cash accounts. The District considers all highly liquid investments with initial maturities of three months or less to be cash equivalents.

4. Investments and Investment Policy

The District has adopted an investment policy to deposit funds in financial institutions. Investments are to be made in the following areas:

- Passbook checking and savings accounts
- Certificates of deposit (non-negotiable)
- Local Agency Investment Fund (LAIF)

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

5. Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on valuation inputs used to measure the fair value of the asset, as follows:

- **Level 1** – Valuation is based on quoted prices in active markets for identical assets.
- **Level 2** – Valuation is based on directly observable and indirectly observable inputs. These inputs are derived principally from or corroborated by observable market data through correlation or market-corroborated inputs. The concept of market-corroborated inputs incorporates observable market data such as interest rates and yield curves that are observable at commonly quoted intervals.
- **Level 3** – Valuation is based on unobservable inputs where assumptions are made based on factors such as prepayment rates, probability of defaults, loss severity and other assumptions that are internally generated and cannot be observed in the market.

6. Prepaids

Certain payments to vendors reflect costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Liabilities and Net Position, continued

7. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. The District's policy has set the capitalization threshold for reporting capital assets at $5,000. Contributed assets are recorded at acquisition value at the date of donation and/or historical cost. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

- Structures and improvements – 30 to 50 years
- Furniture and equipment – 5 to 20 years

8. Compensated Absences

The District's policy is to permit employees to accumulate an amount of earned vacation pay and sick leave benefits.

9. Net Position

The financial statements utilize a net position presentation. Net position is categorized as follows:

- **Net Investment in Capital Assets** – This component of net position consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt outstanding against the acquisition, construction or improvement of those assets.

- **Restricted Net Position –** This component of net position consists of constraints placed on net position use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

- **Unrestricted Net Position** – This component of net position consists of net position that does not meet the definition of *restricted* or *net investment in capital assets*.

10. Taxes and Special Assessment Revenues

The Santa Barbara County Assessor's Office assesses all real and personal property within the County each year. The Santa Barbara County Tax Collector's Offices bills and collects the District's share of property taxes and assessments. The Santa Barbara County Treasurer's Office remits current and delinquent property tax collections to the District throughout the year. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations.

The property tax calendar is as follows:

Lien date	March 1
Levy date	July 1
Due dates	November 1 and March 1
Collection dates	December 10 and April 10

11. Capital Contributions

Capital contributions represent cash, capital grants and capital asset additions contributed to the District by outside parties.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Liabilities and Net Position, continued

12. Budgetary Policies

The District adopts an annual non-appropriated budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period. Encumbrance accounting is not used to account for commitments related to unperformed contracts for construction and services.

13. Reclassification

The District has reclassified certain prior year information to conform with current year presentation

(2) Cash and Investments

Cash and investments as of June 30, are classified in the accompanying financial statements as follows:

		2020	2019
Cash and cash equivalents	$	4,344,236	3,691,925
Investments		-	310,706
Total cash and investments	$	4,344,236	4,002,631

Cash and cash equivalents as of June 30, consist of the following:

		2020	2019
Cash on hand	$	150	150
Deposits with financial institutions		41,103	53,010
Investments		4,302,983	3,949,471
Total cash and cash equivalents	$	4,344,236	4,002,631

Investments Authorized by the California Government Code and the District's Investment Policy

The table below identifies the investment types that are authorized for the District by the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy

(2) Cash and Investments, continued

Investments Authorized by the California Government Code and the District's Investment Policy, continued

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio *	Maximum Investment in One Issuer
State and Local Agency Bonds	5 years	100%	None
U.S. Treasury Obligations	5 years**	100%	None
U.S. Agency Securities	5 years**	100%	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	40%	10%
Non-negotiable Certificates of Deposit	1 year	30%	None
Negotiable Certificates of Deposit	5 years	30%	None
Medium-Term Notes	5 years	30%	None
Repurchase agreements	30 days	100%	None
Money Market Mutual Funds	N/A	20%	10%
California Local Agency Investment Fund (LAIF)	N/A	100%	None
California Asset Management Program (CAMP)	N/A	100%	None

* Excluding amounts held by bond trustee that are not subject to California Government Code.

** Except when authorized by the District's legislative body in accordance with Government Code Section 53601

Authorized Deposits and Investments

The District's investment policy only authorizes deposits and investments in certain items as listed in Note 1(D)(4) to the financial statements The District's investment policy does not contain any specific provisions intended to limit its exposure to interest rate risk, credit risk, custodial risk, and concentration of credit risk.

Investment in State Investment Pool

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.

The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by GASB 79 for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost. LAIF does not have any legally binding guarantees of share values. LAIF does not impose liquidity fees or redemption gates on participant withdrawals.

(2) Cash and Investments, continued

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. Of the bank balance, up to $250,000 is federally insured at each institution.

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 District's investment policy does not contain any legal and/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 the Local Agency Investment Fund).

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The longer the maturity an investment has the greater its fair value has sensitivity to changes in market interest rates. The District's investment policy does not discuss interest rate risk.

Investments at June 30, 2020 consisted of the following:

		Remaining Maturity (in Months)	
Investment Type	**Amount**	**12 months or less**	**13 to 24 months**
Local Agency Investment Fund	$ 161,893	161,893	-
Money market mutual fund – Rabobank	836,967	836,967	-
Money market mutual fund – Fivestar	3,304,123	3,304,123	-
Total	$ 4,302,983	4,302,983	-

Investments at June 30, 2019 consisted of the following:

		Remaining Maturity (in Months)	
Investment Type	**Amount**	**12 months or less**	**13 to 24 months**
Local Agency Investment Fund	$ 157,666	157,666	-
Certificates-of-deposit	310,706	310,706	-
Money market mutual fund – Rabobank	707,402	707,402	-
Money market mutual fund – Fivestar	2,773,697	2,773,697	-
Total	$ 3,949,471	3,949,471	-

(2) Cash and Investments, continued

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Credit ratings at June 30, 2020, consisted of the following:

Investment Type		Amount	Minimum Legal Rating	Exempt From Disclosure	Ratings AAA to AA-
Local Agency Investment Fund	$	161,893	N/A	161,893	-
Money market mutual funds		4,141,090	Aaa	-	4,141,090
Total	$	4,302,983		161,893	4,141,090

Credit ratings at June 30, 2019, consisted of the following:

Investment Type		Amount	Minimum Legal Rating	Exempt From Disclosure	Ratings AAA to AA-
Local Agency Investment Fund	$	157,666	N/A	157,666	-
Certificates-of-deposit		310,706	N/A	310,706	-
Money market mutual funds		3,481,099	Aaa	-	3,481,099
Total	$	3,949,471		468,372	3,481,099

Concentration of Credit Risk

The District's investment policy contains various limitations on the amount that can be invested in any one governmental agency or non-governmental issuer as stipulated by the California Government Code. The District's deposit portfolio with governmental agencies, LAIF, is 4% as of June 30, 2020, and 2019, respectively, of the District's total depository and investment portfolio.

Fair Value Measurements

Investments measured at fair value on a recurring and non-recurring basis, are as follows:

Investments at June 30, 2020:

Investment Type		Total	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market mutual fund – Rabobank		836,967	-	836,967	-
Money market mutual fund– Fivestar	$	3,304,123	-	3,304,123	-
Total investments measured at fair value		4,141,090	-	4,141,090	-
Investments measured at amortized cost:					
Local Agency Investment Fund (LAIF)		161,893			
Total	$	4,302,983			

(2) Cash and Investments, continued

Fair Value Measurements, continued

Investments at June 30, 2019:

Investment Type		Total	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Certificates-of-deposit		310,706	-	310,706	-
Money market mutual fund – Rabobank		707,402	-	707,402	-
Money market mutual fund – Fivestar	$	2,773,697	-	2,773,697	-
Total investments measured at fair value		3,791,805	-	3,791,805	-
Investments measured at amortized cost:					
Local Agency Investment Fund (LAIF)		157,666			
Total	$	3,949,471			

(3) Capital Assets

Changes in capital assets for the year ended June 30, 2020, were as follows:

		Balance 2019	Additions	Deletions/ Transfers	Balance 2020
Non-depreciable assets:					
Land and land rights	$	149,109	-	-	149,109
Construction-in-process		661,134	30,724	(170,558)	521,300
Total non-depreciable assets		810,243	30,724	(170,558)	670,409
Depreciable assets:					
Structures and improvements		6,450,163	-	-	6,450,163
Furniture and equipment		268,507	-	-	268,507
Total depreciable assets		6,718,670	-	-	6,718,670
Accumulated depreciation:					
Structures and improvements		(3,443,727)	(153,035)	-	(3,596,762)
Furniture and equipment		(216,274)	(9,748)	-	(226,022)
Total accumulated depreciation		(3,660,001)	(162,783)	-	(3,822,784)
Total depreciable assets, net		3,058,669	(162,783)	-	2,895,886
Total capital assets, net	$	3,868,912			3,566,295

(3) Capital Assets, continued

Changes in capital assets for the year ended June 30, 2019, were as follows:

	Balance 2018	Additions	Deletions/ Transfers	Balance 2019
Non-depreciable assets:				
Land and land rights	$ 149,109	-	-	149,109
Construction-in-process	652,917	8,217	-	661,134
Total non-depreciable assets	802,026	8,217	-	810,243
Depreciable assets:				
Structures and improvements	6,436,761	13,402	-	6,450,163
Furniture and equipment	268,507	-	-	268,507
Total depreciable assets	6,705,268	13,402	-	6,718,670
Accumulated depreciation:				
Structures and improvements	(3,291,776)	(151,951)	-	(3,443,727)
Furniture and equipment	(206,526)	(9,748)	-	(216,274)
Total accumulated depreciation	(3,498,302)	(161,699)	-	(3,660,001)
Total depreciable assets, net	3,206,966	(148,297)	-	3,058,669
Total capital assets, net	$ 4,008,992			3,868,912

(4) Compensated Absences

Changes in compensated absences for 2020 were as follows:

Balance 2019	Earned	Taken	Balance 2020
$ 27,497	37,474	(43,018)	21,953

Changes in compensated absences for 2019 were as follows:

Balance 2018	Earned	Taken	Balance 2019
$ 20,839	32,764	(26,106)	27,497

(5) Net Position

Calculation of net position at June 30 was as follows:

		2020	2019
Net investment in capital assets:			
Capital assets – not being depreciated	$	670,409	810,243
Capital assets, net – being depreciated		2,895,886	3,058,669
Total net investment in capital assets		3,566,295	3,868,912
Unrestricted net position:			
Non-spendable net position:			
Prepaid expenses and other deposits		6,005	6,857
Total non-spendable net position		6,005	6,857
Spendable net position are designated as follows:			
Operating reserve		4,306,363	4,002,971
Total spendable net position		4,306,363	4,002,971
Total unrestricted net position		4,312,368	4,009,828
Total unrestricted net position	$	7,878,663	7,878,740

(6) Deferred Compensation Plan

For the benefit of its employees, the District participates in a 457 Deferred Compensation Program and a 401a Deferred Compensation Program (Programs). The purpose of the two Programs is to provide deferred compensation for public employees that elect to participate in the Program. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death or unforeseeable emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes.

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation. Under the section 457 plan, employee and employer contributions are based on 6.2% of regular wages, and under the section 40la plan, employee and employer contributions are based on 7.65% of regular wages. Therefore, these assets are not the legal property of the District and are not subject to claims of the District's general creditors. Market value of the net plan assets held in trust at June 30, 2020 and 2019, was $1,885,893 and $1,652,150 respectively.

(7) Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Special District Risk Management Authority (SDRMA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California special districts. The purpose of the SDRMA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage.

(7) Risk Management, continued

At June 30, 2020, the District participated in the liability and property programs of the SDRMA as follows:

- General and auto liability, public officials and employees' errors and omissions: Total risk financing self-insurance limits of $5,000,000, combined single limit at $5,000,000 per occurrence.

In addition to the above, the District also has the following insurance coverage:

- Employee dishonesty coverage up to $1,000,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverage's.
- Property loss is paid at the replacement cost for property on file, if replaced within two years after the loss, otherwise paid on an actual cash value basis, to a combined total of $1 billion per occurrence, subject to a $1,000 deductible per occurrence for third-party auto liability property damage and a $500 deductible for third-party general liability property damage.
- Boiler and machinery coverage for the replacement cost up to $100 million per occurrence, subject to a $1,000 deductible per occurrence.
- Public officials personal liability up to $500,000 each occurrence, with an annual aggregate of $500,000 per each elected/appointed official to which this coverage applies, subject to the terms, conditions and exclusions as provided in the Memorandum of Coverage, with a deductible of $500 per claim.
- Workers' compensation coverage of statutory limits per occurrence and Employer's Liability Coverage up to $5 million per occurrence subject to the terms, conditions and exclusions as provided in the Memorandum of Coverage.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years. There were no reductions in insurance coverage in fiscal year 2020, 2019, and 2018. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2020, 2019, and 2018.

(8) Governmental Accounting Standards Board Statements

Newly Issued Accounting Pronouncements, But Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2020, that has effective dates that may impact future financial presentations.

The following pronouncement implementation dates have been delayed due to the COVID-19 pandemic

Governmental Accounting Standards Board Statement No. 84

In January 2017, the GASB issued Statement No. 84 – *Fiduciary Activities.* The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

(8) Governmental Accounting Standards Board Statements

Newly Issued Accounting Pronouncements, But Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 84, continued

The requirements of this Statement were effective for reporting periods beginning after December 15, 2018; however, in light of the COVID-19 pandemic, the effective date has been postponed by one year. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 87

In June 2017, the GASB issued Statement No. 87 – *Leases.* The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources 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 Statement, 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, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The requirements of this Statement were effective for reporting periods beginning after December 15, 2019; however, in light of the COVID-19 pandemic, the effective date has been postponed by 18 months. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 89

In June 2018, the GASB issued Statement No. 89 – *Accounting for Interest Cost incurred Before the End of a Construction Period.* The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of this Statement were effective for reporting periods beginning after December 15, 2019; however, in light of the COVID-19 pandemic, the effective date has been postponed by one year. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

(8) Governmental Accounting Standards Board Statements

Newly Issued Accounting Pronouncements, But Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 90

In August 2018, the GASB issued Statement No. 90 – *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment.

A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement were effective for reporting periods beginning after December 15, 2018; however, in light of the COVID-19 pandemic, the effective date has been postponed by one year.

Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

Governmental Accounting Standards Board Statement No. 91

In May 2019, the GASB issued Statement No. 91 – *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

(8) Governmental Accounting Standards Board Statements

Newly Issued Accounting Pronouncements, But Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 91, continued

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

The requirements of this Statement were effective for reporting periods beginning after December 15, 2020; however, in light of the COVID-19 pandemic, the effective date has been postponed by one year. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 92

In January 2020, the 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 requirements of this Statement were as follows: (1) The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance; (2) The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2020; (3) The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2020; and (4) The requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2020; however, in light of the COVID-19 pandemic, the effective date has been postponed by one year. Earlier application is encouraged and is permitted by topic.

Governmental Accounting Standards Board Statement No. 93

In March 2020, the GASB issued Statement No. 93 – *Replacement of Interbank Offered Rates*. The objective of this Statement is to address accounting and financial reporting implications that result from the replacement of an IBOR. This Statement achieves that objective by: (1) Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment; (2) Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate; (3) Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable; (4) Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap; (5) Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap;(6) Clarifying the definition of reference rate, as it is used in Statement 53, as amended; and (7) Providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend.

The requirements of this Statement were effective as follows: (1) The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021; and (2) All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020; however, in light of the COVID-19 pandemic, the effective dates have been postponed by one year. Earlier application is encouraged.

(8) Governmental Accounting Standards Board Statements

Newly Issued Accounting Pronouncements, But Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 94

In March 2020, the GASB issued Statement No. 94 – *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 96

In May 2020, the GASB issued Statement No. 96 – *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

(8) Governmental Accounting Standards Board Statements

Newly Issued Accounting Pronouncements, But Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 97

In June 2020, the GASB issued Statement No. 97 – *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 41 and No. 84, and a supersession of GASB Statement No. 32.* The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately.

The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement. The Board considered the effective dates for the requirements of this Statement in light of the COVID-19 pandemic and in concert with Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance.

(9) Commitments and Contingencies

Grant Awards

Grant funds received by the District are subject to an audit by the grantor agencies. Such an audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the District believes that such disallowances, if any, would not be significant. The District has not received grant funding at June 30, 2020 and 2019, respectively.

Litigation

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

(9) Commitments and Contingencies, continued

COVID-19 Pandemic

In December 2019, a novel strain of coronavirus has spread around the world resulting in business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The operations and business results of the District could potentially be adversely affected by this global pandemic. The extent to which the coronavirus may impact business activity or investment results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions required to contain the coronavirus. The District has not included any contingencies in the financial statements specific to this issue.

(10) Subsequent Events

Events occurring after June 30, 2020, have been evaluated for possible adjustment to the financial statements or disclosure as of December 16, 2020, which is the date the financial statements were available to be issued. The District is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

Report on Compliance and Internal Controls

Fedak & Brown LLP
Certified Public Accountants

Charles Z. Fedak, CPA, MBA
Christopher J. Brown, CPA, CGMA
Andy Beck, CPA

Cypress Office:
6081 Orange Avenue
Cypress, California 90630
(657) 214-2307
FAX (714) 527-9154

Riverside Office:
1945 Chicago Avenue, Suite C-1
Riverside, California 92507
(951) 783-9149

Independent Auditor's Report on Internal Control Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Santa Ynez Community Services District
Santa Ynez, California

We have audited, in accordance with the 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, the financial statements of the Santa Ynez Community Services District (District) as of and for the year ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated December 16, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Independent Auditor's Report on Internal Control Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
December 16, 2020