



**Santa Ynez Community Services District**  
**Annual Financial Report**  
**June 30, 2018 and 2017**





## 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.*

<u>Name</u>	<u>Title</u>	<u>Elected/ Appointed</u>	<u>Term Expires</u>
David Seymour	President	Elected	12/18
Frank Mueller	Vice-President	Elected	12/20
Carl Maler	Director	Elected	12/20
David Higgins	Director	Elected	12/18
Karen Jones	Director	Elected	12/20

**Santa Ynez Community Services District  
Jeff Hodge, General Manager  
1070 Faraday Street  
Santa Ynez, California 93460  
(805) 688-3008 – [www.sycsd.com](http://www.sycsd.com)**



**Santa Ynez Community Services District**

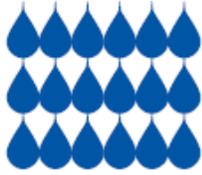
**Annual Financial Report**

**For the Fiscal Years Ended June 30, 2018 and 2017**

**Santa Ynez Community Services District  
Annual Financial Report  
For the Fiscal Years Ended June 30, 2018 and 2017**

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## 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, 2018 and 2017, 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, 2018 and 2017, 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 January 16, 2019, 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 24 and 25.

*Fedak & Brown LLP*

**Fedak & Brown LLP**  
Cypress, California  
January 16, 2019

**Santa Ynez Community Services District**  
*Management's Discussion and Analysis*  
**For the Fiscal Years Ended June 30, 2018 and 2017**

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, 2018 and 2017. 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 2018, the District's net position increased 4.67% or \$328,181 to \$7,361,546 as a result of ongoing operations. In 2017, the District's net position increased 4.43% or \$298,128 to \$7,033,365 as a result of ongoing operations.
- In 2018, the District's operating revenues increased 6.92% or \$70,830 to \$1,094,451, due primarily to an increase of \$68,341 in sewer service charges and \$2,086 in other charges for services. In 2017, the District's operating revenues increased 10.78% or \$99,605 to \$1,023,621, due primarily to an increase of \$104,031 in sewer service charges, which was offset by a decrease of \$4,345 in other revenue.
- In 2018, the District's operating expenses increased 11.45% or \$99,904 to \$972,429, due to a increases of \$72,294 in sewage treatment charges, \$30,880 in sewage collection charges, which was offset by an decrease of \$3,270 in general and administrative expenses. In 2017, the District's operating expenses decreased 8.17% or \$77,590 to \$872,525, due to a decrease of \$83,732 in sewage collection charges, which was offset by an increase of \$6,142 in general and administrative expenses.

**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. 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.

**Santa Ynez Community Services District**  
**Management's Discussion and Analysis, continued**  
**For the Fiscal Years Ended June 30, 2018 and 2017**

**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 11 through 23.

**Statements of Net Position**

<b>Condensed Statements of Net Position</b>					
	<u>2018</u>	<u>2017</u>	<u>Change</u>	<u>2016</u>	<u>Change</u>
<b>Assets:</b>					
Current assets	\$ 3,412,060	3,011,822	400,238	2,702,050	309,772
Non-current assets	-	-	-	150,304	(150,304)
Capital assets, net	<u>4,008,992</u>	<u>4,110,438</u>	<u>(101,446)</u>	<u>4,154,414</u>	<u>(43,976)</u>
<b>Total assets</b>	<u>7,421,052</u>	<u>7,122,260</u>	<u>298,792</u>	<u>7,006,768</u>	<u>115,492</u>
<b>Liabilities:</b>					
Current liabilities	<u>59,506</u>	<u>88,895</u>	<u>(29,389)</u>	<u>62,503</u>	<u>26,392</u>
<b>Total liabilities</b>	<u>59,506</u>	<u>88,895</u>	<u>(29,389)</u>	<u>62,503</u>	<u>26,392</u>
<b>Net position:</b>					
Net investment in capital assets	4,008,992	4,110,438	(101,446)	4,154,414	(43,976)
Unrestricted	<u>3,352,554</u>	<u>2,922,927</u>	<u>429,627</u>	<u>2,580,823</u>	<u>342,104</u>
<b>Total net position</b>	<u>\$ 7,361,546</u>	<u>7,033,365</u>	<u>328,181</u>	<u>6,735,237</u>	<u>298,128</u>

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 \$7,361,546 and \$7,033,365, as of June 30, 2018 and 2017, respectively.

At the end of fiscal years 2018 and 2017, the District showed a positive balance in its unrestricted net position of \$3,352,554 and \$2,922,927, respectively, which may be utilized in future years.

**Santa Ynez Community Services District**  
**Management's Discussion and Analysis, continued**  
**For the Fiscal Years Ended June 30, 2018 and 2017**

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

**Condensed Statements of Revenues, Expenses and Changes in Net Position**

	<u>2018</u>	<u>2017</u>	<u>Change</u>	<u>2016</u>	<u>Change</u>
<b>Revenue:</b>					
Operating revenue	\$ 1,094,451	1,023,621	70,830	924,016	99,605
Non-operating revenue	776,749	781,257	(4,508)	678,521	102,736
Total revenue	<u>1,871,200</u>	<u>1,804,878</u>	<u>66,322</u>	<u>1,602,537</u>	<u>202,341</u>
<b>Expense:</b>					
Operating expense	972,429	872,525	99,904	950,115	(77,590)
Depreciation	161,190	163,819	(2,629)	165,661	(1,842)
Non-operating expense	495,563	513,614	(18,051)	440,181	73,433
Total expense	<u>1,629,182</u>	<u>1,549,958</u>	<u>79,224</u>	<u>1,555,957</u>	<u>(5,999)</u>
Net income before capital	242,018	254,920	(12,902)	46,580	208,340
<b>Capital contributions:</b>	<u>86,163</u>	<u>43,208</u>	<u>42,955</u>	<u>280,307</u>	<u>(237,099)</u>
<b>Change in net position</b>	<u>328,181</u>	<u>298,128</u>	<u>30,053</u>	<u>326,887</u>	<u>(28,759)</u>
<b>Net position, beginning of year</b>	<u>7,033,365</u>	<u>6,735,237</u>	<u>298,128</u>	<u>6,408,350</u>	<u>326,887</u>
<b>Net position, end of year</b>	<u>\$ 7,361,546</u>	<u>7,033,365</u>	<u>328,181</u>	<u>6,735,237</u>	<u>298,128</u>

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 increased by \$328,181 and \$298,128 for the fiscal years ended June 30, 2018 and 2017, respectively.

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

In 2018, the District's operating revenues increased 6.92% or \$70,830 to \$1,094,451, due primarily to an increase of \$68,341 in sewer service charges and \$2,086 in other charges for services. In 2017, the District's operating revenues increased 10.78% or \$99,605 to \$1,023,621, due primarily to an increase of \$104,031 in sewer service charges, which was offset by a decrease of \$4,345 in other revenue.

In 2018, the District's operating expenses increased 11.45% or \$99,904 to \$972,429, due to a increases of \$72,294 in sewage treatment charges, \$30,880 in sewage collection charges, which was offset by an decrease of \$3,270 in general and administrative expenses. In 2017, the District's operating expenses decreased 8.17% or \$77,590 to \$872,525, due to a decrease of \$83,732 in sewage collection charges, which was offset by an increase of \$6,142 in general and administrative expenses.

**Santa Ynez Community Services District**  
**Management's Discussion and Analysis, continued**  
**For the Fiscal Years Ended June 30, 2018 and 2017**

**Capital Asset Administration**

At the end of fiscal year's 2018 and 2017, the District's investment in capital assets amounted to \$4,008,992 and \$4,110,438, respectively, (net of accumulated depreciation). This investment in capital assets includes land, structures and improvements, and equipment.

Changes in capital asset amounts for 2018 were as follows:

	<u>Balance 2017</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2018</u>
Capital assets:				
Non-depreciable assets	\$ 755,387	46,639	-	802,026
Depreciable assets	6,692,163	13,105	-	6,705,268
Accumulated depreciation	<u>(3,337,112)</u>	<u>(161,190)</u>	<u>-</u>	<u>(3,498,302)</u>
Total capital assets, net	<u>\$ 4,110,438</u>	<u>(101,446)</u>	<u>-</u>	<u>4,008,992</u>

Changes in capital asset amounts for 2017 were as follows:

	<u>Balance 2016</u>	<u>Additions/ Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2017</u>
Capital assets:				
Non-depreciable assets	\$ 645,339	110,048	-	755,387
Depreciable assets	6,682,368	9,795	-	6,692,163
Accumulated depreciation	<u>(3,173,293)</u>	<u>(163,819)</u>	<u>-</u>	<u>(3,337,112)</u>
Total capital assets, net	<u>\$ 4,154,414</u>	<u>(43,976)</u>	<u>-</u>	<u>4,110,438</u>

(See note 3 for further information)

**Conditions Affecting Current Financial Position**

Management is unaware of any 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, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>Current assets:</b>		
Cash and cash equivalents (note 2)	\$ 3,018,112	2,672,665
Investments (note 2)	304,306	224,878
Accrued interest receivable	730	350
Accounts receivable – sewer and other services	40,380	74,729
Accounts receivable – grants	37,500	37,500
Prepaid expenses and other deposits	11,032	1,700
<b>Total current assets</b>	<u>3,412,060</u>	<u>3,011,822</u>
<b>Non-current assets:</b>		
Capital assets – not being depreciated (note 3)	802,026	755,387
Capital assets, net – being depreciated (note 3)	3,206,966	3,355,051
<b>Total non-current assets</b>	<u>4,008,992</u>	<u>4,110,438</u>
<b>Total assets</b>	<u>7,421,052</u>	<u>7,122,260</u>
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	36,467	54,397
Customer deposits	2,200	2,200
Compensated absences (note 4)	20,839	32,298
<b>Total liabilities</b>	<u>59,506</u>	<u>88,895</u>
<b>Net position:</b> (note 5)		
Net investment in capital assets	4,008,992	4,110,438
Unrestricted	3,352,554	2,922,927
<b>Total net position</b>	<u>\$ 7,361,546</u>	<u>7,033,365</u>

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, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>Operating revenues:</b>		
Sewer service charge	\$ 1,044,120	975,779
Sewer benefit fees	38,290	37,887
Other charges for services	12,041	9,955
<b>Total operating revenues</b>	<b>1,094,451</b>	<b>1,023,621</b>
<b>Operating expenses:</b>		
Sewage collection	484,081	453,201
Sewage treatment	288,294	216,000
General and administrative	200,054	203,324
<b>Total operating expenses</b>	<b>972,429</b>	<b>872,525</b>
Operating income(loss) before depreciation expense	122,022	151,096
Depreciation expense – capital recovery	(161,190)	(163,819)
<b>Operating loss</b>	<b>(39,168)</b>	<b>(12,723)</b>
<b>Non-operating revenue(expense):</b>		
Property taxes – ad valorem	181,321	168,649
Voter-approved taxes	19,901	20,961
Annexation fees	2,885	-
Investment earnings	30,545	7,735
City of Solvang service fee refund	-	36,114
Indian reservation contract:		
Sewage collection and wastewater treatment plant operation	542,097	547,798
Sewage collection	(39,487)	(92,902)
Wastewater treatment plant operations	(456,076)	(420,712)
Total non-operating revenue, net	<b>281,186</b>	<b>267,643</b>
<b>Net income before capital contributions</b>	<b>242,018</b>	<b>254,920</b>
<b>Capital contributions:</b>		
State Water Resource Control Board grant	37,500	37,500
California Office of Emergency Services grant	21,863	-
Connection fees	26,800	5,708
<b>Total capital contributions</b>	<b>86,163</b>	<b>43,208</b>
<b>Change in net position</b>	<b>328,181</b>	<b>298,128</b>
<b>Net position, beginning of year</b>	<b>7,033,365</b>	<b>6,735,237</b>
<b>Net position, end of year</b>	<b>\$ 7,361,546</b>	<b>7,033,365</b>

See accompanying notes to the basic financial statements

**Santa Ynez Community Services District**  
**Statements of Cash Flows**  
**For the Fiscal Years Ended June 30, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>Cash flows from operating activities:</b>		
Cash receipts from customers for sewer services	\$ 1,178,219	1,075,502
Cash paid to employees for salaries and wages	(679,476)	(660,904)
Cash paid to vendors and suppliers for materials and services	(331,674)	(395,957)
Net cash provided by operating activities	167,069	18,641
<b>Cash flows from non-capital financing activities:</b>		
Property taxes – ad valorem	181,321	168,649
Net cash provided by non-capital financing activities	181,321	168,649
<b>Cash flows from capital and related financing activities:</b>		
Acquisition and construction of capital assets	(59,744)	(119,843)
Capital contributions	86,163	150,708
Voter-approved taxes	19,901	20,961
Net cash provided by capital and related financing activities	46,320	51,826
<b>Cash flows from investing activities:</b>		
Purchase of investments – certificates-of-deposits	(79,428)	75,569
Investment earnings	30,165	7,591
Net cash (used in) provided by investing activities	(49,263)	83,160
<b>Net increase in cash and cash equivalents</b>	345,447	322,276
<b>Cash and cash equivalents, beginning of year</b>	2,672,665	2,350,389
<b>Cash and cash equivalents, end of year</b>	\$ 3,018,112	2,672,665
<b>Reconciliation of cash and cash equivalents to statement of financial position:</b>		
Cash and cash equivalents	\$ 3,018,112	2,672,665
<b>Total cash and cash equivalents</b>	\$ 3,018,112	2,672,665

*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, 2018 and 2017**

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

	<u>2018</u>	<u>2017</u>
<b>Operating loss</b>	\$ (39,168)	(12,723)
<b>Adjustments to reconcile operating loss to net cash provided by operating activities:</b>		
Depreciation	161,190	163,819
Indian reservation contract	46,534	34,184
<b>Changes in assets and liabilities:</b>		
(Increase)decrease in assets:		
Accounts receivable – sewer and other services	34,349	(18,417)
Prepaid expenses and other deposits	(9,332)	(1,700)
Increase(decrease) in liabilities:		
Accounts payable and accrued expenses	(17,930)	(173,635)
Customer deposits	-	2,000
Compensated absences	(11,459)	(11,001)
Total adjustments	<u>206,237</u>	<u>31,364</u>
Net cash provided by operating activities	<u>\$ 167,069</u>	<u>18,641</u>

See accompanying notes to the basic financial statements

**Santa Ynez Community Services District**  
**Notes to the Basic Financial Statements**  
**June 30, 2018 and 2017**

**(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 pronouncements in the current year:

*Governmental Accounting Standards Board Statement No. 75*

In June 2015, the GASB issued Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

This Statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2017. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

**Santa Ynez Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2017 and 2016**

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

**C. Financial Reporting, continued**

*Governmental Accounting Standards Board Statement No. 81*

In March 2016, the GASB issued Statement No. 81 – *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.

*Governmental Accounting Standards Board Statement No. 85*

In March 2017, the GASB issued Statement No. 85 – *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits - OPEB).

The provisions of this Statement are effective for reporting periods beginning after June 15, 2017. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

**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.

**2. 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.

**3. 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.

**Santa Ynez Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2017 and 2016**

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

**D. Assets, Liabilities and Net Position, continued**

**4. 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.

**5. Prepaids**

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

**6. 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

**7. Compensated Absences**

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

**8. 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*.

**Santa Ynez Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2017 and 2016**

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

**D. Assets, Liabilities and Net Position, continued**

**9. 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

**10. Capital Contributions**

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

**11. 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.

**(2) Cash and Investments**

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

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 3,018,112	2,672,665
Investments	304,306	224,878
Total cash and investments	<u>\$ 3,322,418</u>	<u>2,897,543</u>

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

	<u>2018</u>	<u>2017</u>
Cash on hand	\$ 150	150
Deposits with financial institutions	2,864,345	2,520,567
Investments	457,923	376,826
Total cash and cash equivalents	<u>\$ 3,322,418</u>	<u>2,897,543</u>

**Santa Ynez Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2017 and 2016**

**(2) Cash and Investments, continued**

Investments at June 30, 2018, consisted of the following:

<u>Investment Type</u>	<u>Amount</u>	<u>Remaining Maturity (in Months)</u>	
		<u>12 months or less</u>	<u>13 to 24 months</u>
Local Agency Investment Fund	\$ 153,617	153,617	-
Certificates-of-deposit	304,306	304,306	-
Total	<u>\$ 457,923</u>	<u>457,923</u>	<u>-</u>

Investments at June 30, 2017, consisted of the following:

<u>Investment Type</u>	<u>Amount</u>	<u>Remaining Maturity (in Months)</u>	
		<u>12 months or less</u>	<u>13 to 24 months</u>
Local Agency Investment Fund	\$ 151,948	151,948	-
Certificates-of-deposit	224,878	224,878	-
Total	<u>\$ 376,826</u>	<u>376,826</u>	<u>-</u>

***Authorized Deposits and Investments***

The District's investment policy only authorizes deposits and investments in certain items as listed in Note 1(D)(3) 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.

***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).

***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.

**Santa Ynez Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2017 and 2016**

**(2) Cash and Investments, continued**

***Investment in State Investment Pool, continued***

The District's deposit and withdrawal restrictions and limitations are as follows:

- Same day transaction processing occurs for orders received before 10:00 a.m.
- Next day transactions processing occurs for orders received after 10:00 a.m.
- Maximum limit of 15 transactions (combination of deposits and withdrawals) per month.
- Minimum transaction amount requirement of \$5,000, in increments of a \$1,000 dollars.
- Withdrawals of \$10,000,000 or more require 24 hours advance.
- Prior to funds transfer, an authorized person must call LAIF to do a verbal transaction.

***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.

***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.

***Fair Value Measurements***

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

**Investments at June 30, 2018:**

<u>Investment Type</u>	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Certificates-of-deposit	\$ 304,306	-	304,306	-
Total investments measured at fair value	304,306	-	304,306	-
Investments measured at amortized cost:				
Local Agency Investment Fund (LAIF)	153,617			
Total	\$ 457,923			

**Investments at June 30, 2017:**

<u>Investment Type</u>	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Certificates-of-deposit	\$ 224,878	-	224,878	-
Total investments measured at fair value	224,878	-	224,878	-
Investments measured at amortized cost:				
Local Agency Investment Fund (LAIF)	151,948			
Total	\$ 376,826			

**Santa Ynez Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2017 and 2016**

**(3) Capital Assets**

Changes in capital assets for the year ended June 30, 2018, were as follows:

	<u>Balance 2017</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2018</u>
Non-depreciable assets:				
Land and land rights	\$ 149,109	-	-	149,109
Construction-in-process	606,278	46,639	-	652,917
Total non-depreciable assets	<u>755,387</u>	<u>46,639</u>	<u>-</u>	<u>802,026</u>
Depreciable assets:				
Structures and improvements	6,423,656	13,105	-	6,436,761
Furniture and equipment	268,507	-	-	268,507
Total depreciable assets	<u>6,692,163</u>	<u>13,105</u>	<u>-</u>	<u>6,705,268</u>
Accumulated depreciation:				
Structures and improvements	(3,140,334)	(151,442)	-	(3,291,776)
Furniture and equipment	(196,778)	(9,748)	-	(206,526)
Total accumulated depreciation	<u>(3,337,112)</u>	<u>(161,190)</u>	<u>-</u>	<u>(3,498,302)</u>
Total depreciable assets, net	<u>3,355,051</u>	<u>(148,085)</u>	<u>-</u>	<u>3,206,966</u>
<b>Total capital assets, net</b>	<u>\$ 4,110,438</u>			<u>4,008,992</u>

Changes in capital assets for the year ended June 30, 2017, were as follows:

	<u>Balance 2016</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2017</u>
Non-depreciable assets:				
Land and land rights	\$ 149,109	-	-	149,109
Construction-in-process	496,230	110,048	-	606,278
Total non-depreciable assets	<u>645,339</u>	<u>110,048</u>	<u>-</u>	<u>755,387</u>
Depreciable assets:				
Structures and improvements	6,413,861	9,795	-	6,423,656
Furniture and equipment	268,507	-	-	268,507
Total depreciable assets	<u>6,682,368</u>	<u>9,795</u>	<u>-</u>	<u>6,692,163</u>
Accumulated depreciation:				
Structures and improvements	(2,988,532)	(151,802)	-	(3,140,334)
Furniture and equipment	(184,761)	(12,017)	-	(196,778)
Total accumulated depreciation	<u>(3,173,293)</u>	<u>(163,819)</u>	<u>-</u>	<u>(3,337,112)</u>
Total depreciable assets, net	<u>3,509,075</u>	<u>(154,024)</u>	<u>-</u>	<u>3,355,051</u>
<b>Total capital assets, net</b>	<u>\$ 4,154,414</u>			<u>4,110,438</u>

**Santa Ynez Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2017 and 2016**

**(4) Compensated Absences**

Changes to compensated absences for 2018 were as follows:

<u>Balance</u> <u>2017</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance</u> <u>2018</u>
\$ 32,298	31,125	(42,584)	20,839

Changes to compensated absences for 2017 were as follows:

<u>Balance</u> <u>2016</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance</u> <u>2017</u>
\$ 43,299	33,232	(44,233)	32,298

**(5) Net Position**

Calculation of net position at June 30 was as follows:

	<u>2018</u>	<u>2017</u>
Net investment in capital assets:		
Capital assets – not being depreciated	\$ 802,026	755,387
Capital assets, net – being depreciated	<u>3,206,966</u>	<u>3,355,051</u>
Total net investment in capital assets	<u>4,008,992</u>	<u>4,110,438</u>
Unrestricted net position:		
Non-spendable net position:		
Prepaid expenses and other deposits	<u>11,032</u>	<u>1,700</u>
Total non-spendable net position	<u>11,032</u>	<u>1,700</u>
Spendable net position are designated as follows:		
Operating reserve	<u>3,341,522</u>	<u>2,921,227</u>
Total spendable net position	<u>3,341,522</u>	<u>2,921,227</u>
Total unrestricted net position	<u>3,352,554</u>	<u>2,922,927</u>
Total unrestricted net position	<u>\$ 7,361,546</u>	<u>7,033,365</u>

**(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 401a 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, 2018 and 2017, was \$1,464,187 and \$1,174,381 respectively.

**Santa Ynez Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2017 and 2016**

**(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. At June 30, 2018, 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 \$2,500,000, combined single limit at \$2,500,000 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 \$1,000 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 2018, 2017, and 2016. 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, 2018, 2017, and 2016.

**(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, 2018, that has effective dates that may impact future financial presentations.

***Governmental Accounting Standards Board Statement No. 83***

In November 2016, the GASB issued Statement No. 83 – *Certain Asset Retirement Obligations*. This Statement (1) addresses accounting and financial reporting for certain asset retirement obligations (AROs), (2) establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs, (3) requires that recognition occur when the liability is both incurred and reasonably estimable, (4) requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred, (5) requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually, and (6) and requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets.

**Santa Ynez Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2017 and 2016**

**(8) Governmental Accounting Standards Board Statements**

**Newly Issued Accounting Pronouncements, But Not Yet Effective, continued**

***Governmental Accounting Standards Board Statement No. 83, continued***

The provisions of this Statement are effective for reporting periods beginning after June 15, 2018. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

***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.

The provisions of this Statement are effective for reporting periods beginning after December 15, 2018. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

***Governmental Accounting Standards Board Statement No. 86***

In May 2017, the GASB issued Statement No. 86 – *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

The provisions of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

***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.

**Santa Ynez Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2017 and 2016**

**(8) Governmental Accounting Standards Board Statements**

**Newly Issued Accounting Pronouncements, But Not Yet Effective, continued**

***Governmental Accounting Standards Board Statement No. 87, continued***

The provisions of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

***Governmental Accounting Standards Board Statement No. 88***

In April 2018, the GASB issued Statement No. 88 – *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

***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.

**Santa Ynez Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2017 and 2016**

**(8) Governmental Accounting Standards Board Statements**

**Newly Issued Accounting Pronouncements, But Not Yet Effective, continued**

*Governmental Accounting Standards Board Statement No. 89, continued*

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

*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 are effective for reporting periods beginning after December 15, 2018. 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. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

**(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. At June 30, 2018 and 2017, the District has received grant funding of \$59,363 and \$37,500, 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.

**Santa Ynez Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2017 and 2016**

**(10) Subsequent Events**

Events occurring after June 30, 2018, have been evaluated for possible adjustment to the financial statements or disclosure as of January 16, 2019, 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**





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## **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, 2018 and 2017, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated January 16, 2019.

### **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.

A handwritten signature in black ink that reads "Fedak & Brown LLP". The signature is written in a cursive, slightly slanted style.

**Fedak & Brown LLP**  
Cypress, California  
January 16, 2019