

Morongo Valley Community Services District

Financial Statements
and
Independent Auditors' Report

For the Year Ended June 30, 2020



	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	i
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements:	
Statement of Net Position	3
Statement of Activities	4
Fund Financial Statements:	
Balance Sheet – Governmental Funds	5
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds	6
Reconciliation of Statement of Revenues, Expenditures, and Changes In Fund Balances of Governmental Funds to the Statement of Activities	7
Notes to Financial Statements	8
REQUIRED SUPPLEMENTARY INFORMATION	
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	16
SUPPLEMENTARY INFORMATION	
Combining Statement of Revenues, Expenditures, and Changes In Fund Balance – Governmental Funds	17
Calculation of Appropriation Spending Limit (Prop. 4 "Gann Limit")	18
NOTES TO REQUIRED SUPPLEMENTARY AND SUPPLEMENTARY INFORMATION	19



Smith Marion & Co. • Certified Public Accountants

Redlands Office • 1940 Orange Tree Lane, Suite 100 • Redlands, CA 92374 • (909) 307-2323

Board of Directors

Morongo Valley Community Services District

Morongo Valley, CA

Independent Auditors' Report

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities of Morongo Valley Community Services District, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Morongo Valley Community Services District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit Requirements and Reporting Guidelines 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of Morongo Valley Community Services District, as of June 30, 2020, and the respective changes in financial position and, cash flows, where applicable, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.



Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages i - viii and the Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Morongo Valley Community Services District's basic financial statements. The Combining Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds and Calculation of Appropriation Spending Limit (Prop. 4 "Gann Limit") are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Combining Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds and Calculation of Appropriation Spending Limit (Prop. 4 "Gann Limit") are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Statement of Revenues, Expenditures, and Changes In Fund Balance – Governmental Funds and Calculation of Appropriation Spending Limit (Prop. 4 "Gann Limit") are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Morongo Valley Community Services District is a non-enterprise independent special district encompassing a twenty-four square mile rugged natural desert landscape providing a rural lifestyle highly valued by residents. In 1958 concerned local citizens petitioned the San Bernardino County Board of Supervisors and formed a Community Services District specifically to control fire and emergency medical services for the community.

Formation resulted in acquiring control of streetlights, parks and libraries as well as fire services, and though fire services have transitioned from volunteer to a combined agency utilizing career paid staff and reserve firefighters; the community as a whole still is largely dependent on a core group of active volunteers serving to assist in maintenance, administrative and event-driven needs for its residents and visitors.

As management of the Morongo Valley Community Services District and Fire Department (the District), we offer readers of the District's financial statement this narrative overview and analysis of the financial activities of the District for the fiscal year which ended on June 30, 2020.

Financial Highlights:

- As can be viewed from the Government-Wide Financial Reports, assets of the Morongo Valley Community Services District exceeded its liabilities at the close of the 2019-2020 fiscal year by \$1,292,340 (Total Net Position/Net Position of Governmental Activities). Because of unearned revenues and accounts payable, the District's liabilities were \$44,777, and when added to the net position, resulted in total liabilities and total net position of \$1,337,117. Unearned revenues are funds received for specific activities that have not been performed as of the fiscal year end.
- The District's governmental funds total revenues over the fiscal year were \$968,783 of which tax and property assessments provided a combined \$814,078 and other sources of income provided the remaining balance. Total Expenditures over the same period were \$1,024,343 or \$55,560 less than total revenues.
- While the District's beginning net position at the start of the fiscal year was \$1,347,900 the net position at close of the fiscal year was \$1,292,340 reflecting the \$55,560 decrease.
- There were many factors contributing to the decrease in net position this year. The factors that contributed to the decrease in the net position in the current fiscal year are as follows:
 - Program income decrease from the prior year by 63% for a total of \$127,138.
 - Expenses increased from the prior year by 5% for a total of \$48,579.

Overview of the Financial Statements

A discussion and analysis is intended to serve as an introduction to the District's basic financial statements and to explain what the statements reflect. These financial statements are comprised of three major components: **Government-wide financial statements**, various **Fund financial statements** and **Notes to the financial statements** themselves. This report provides required supplementary information intended to clarify these statements as well.

Government-wide financial statements. The statements are designed to provide readers with a broad overview of the District's finances in a manner similar to both private-sector businesses and other public governmental accounting agencies. As such, the "Business Model" statement and the "Governmental Model" statement will both reflect balanced statements, though each model will reflect District finances in a different manner. An "audit document" will reflect a Statement of Net Position which may show the net value of Capital Assets; whereas in the Governmental Funds Model Balance Sheet, Capital assets used in governmental activities are not considered as financial resources, and therefore are not reported in the funds on that particular statement.

A **statement of net position**, presents information on all of the District's assets and liabilities, with the difference between the assets and liabilities reported as **net position**. Over time, increases or decreases in the net assets serves as a useful indicator of whether the financial position of the District is either improving or deteriorating. Though it does not necessarily indicate why the financial position is moving in one direction or another.

A **statement of activities** on the other hand presents information showing how the District's net position changed during the most recent fiscal year and also reflects primary governmental activities such as Fire Operations, Parks and Recreation and Street Lights. In this report, revenues and expenses are provided for some items which shall only result in cash flows in future fiscal periods, such as uncollected taxes or grants, contributions and other income which may be due at the close of the fiscal period.

The governmental activities of the District include the administration and management of all District activities for the Morongo Valley Community Services District, Morongo Valley, California. However, as required by the California State Controller's Office, the expenses of Administration and Management are not broken out separately, but rather incorporated, or wrapped into the costs to provide the services which are afforded to the community.

The **Government-wide financial statements** can be found on pages 3-4 of the annual fiscal year- end audit report.

Fund financial statements. A "fund" is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities of objectives. The Morongo Valley CSD, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District are considered to be governmental funds.

Governmental funds. Government funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the *near-term inflows and outflows of spendable resources, as well as on balances of spendable resources* available at the end of the fiscal year. This information is frequently useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than the government-wide financial statements, they can be used to compare the information presented for *governmental funds* with similar information presented for the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains four individual governmental funds reflected as Fire Operations, Parks and Recreation, Street Lights and Debt Service. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for these which are considered to be major funds. These statements can be found on pages 5-7 of the annual fiscal year-end audit report.

Notes to the Financial Statements. The notes provide additional information considered essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes can be found on pages 8-15 of the annual fiscal year-end audit report.

Other information. In addition to the basic financial statements and accompanying notes, the audit report also presents certain *required supplementary information*. The District adopts an annual appropriated budget for its general operations and any special revenue funds. A budgetary comparison statement is provided for these operations and special revenue funds to demonstrate compliance with this budgeting process. The **required supplementary information** can be found on pages 16 of the annual fiscal year-end audit report.

Additionally, State government code requirements provide that all local governmental agencies are required to perform a calculation of their **Appropriation Spending Limits** each year utilizing a formula which takes into account any population changes over the prior year along with changes in the cost of living for the region in which the local agency exists. This limit places a cap on the amount that a local agency may spend as financed from the proceeds of taxes. The calculation of the **Appropriation Spending Limit** is reflected on page 17 of the annual fiscal year-end audit report.

Section intentionally left blank

Table 1
STATEMENT OF NET POSITION

	2020	2019
Current and other assets	\$ 457,916	\$ 496,161
Long term assets	182,420	180,403
Capital assets	<u>696,781</u>	<u>724,076</u>
Total Assets	<u>1,337,117</u>	<u>1,400,640</u>
Deferred Outflows of Resources	-	-
Current liabilities	44,777	52,740
Long-term liabilities	-	-
Total Liabilities	<u>44,777</u>	<u>52,740</u>
Deferred Inflows of Resources	-	-
Net Position:		
Net investment in capital assets	696,781	724,076
Restricted	111,723	9,343
Unrestricted	<u>483,836</u>	<u>614,481</u>
Total Net Position	<u>\$1,292,340</u>	<u>\$1,347,900</u>

As noted earlier, net position may serve over time as a useful indicator of a District's financial position. For the Morongo Valley CSD, total assets were reflected at \$1,337,117 and total liabilities at \$44,777 at the close of the fiscal year.

The largest portion of the District's net position reflects capital assets such as land, buildings, apparatus, machinery or equipment. This was valued net of depreciation at \$696,781 less any related debt used to acquire those assets still outstanding.

As the District uses these capital assets to provide services to residents; consequently, these assets are not available for future spending. Though the District's investment in its capital assets is reported net of related debt, the resources (funds), needed to repay the debts must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

The District's net position also included cash in a money market account and cash which is considered "restricted" in that it is earmarked for specific projects. Total cash held by financial institutions for the District amounted to \$379,850 at the close of the fiscal year. This cash is generally utilized to assist in meeting the District's ongoing obligations to residents and creditors which may occur within any fiscal cycle; the balance of these funds adds to the District's fiscal position. Some of this cash is related to unspent fees or assessments collected in current or prior years. A portion of which was collected for park improvements and additions which do not include expenses for the maintenance and operation of the District's parks.

Table 2
STATEMENT OF ACTIVITIES

	2020	2019
Revenues:		
Program Revenues:		
Charges for services	\$ 83,554	\$ 210,592
Operating grants and contributions	391	6,727
Capital grants and contributions	60,945	-
General Revenues:		
Property taxes	473,328	447,918
Assessments	340,750	333,094
Other	9,815	3,214
Total Revenues	<u>968,783</u>	<u>1,001,545</u>
Expenses:		
Fire operations	950,493	898,053
Parks and recreation	70,152	73,714
Street lights	3,698	3,997
Other	-	-
Total Expenses	<u>1,024,343</u>	<u>975,764</u>
Change in net position	(55,560)	25,781
Net Position - Beginning	1,347,900	1,322,119
Net Position - Ending	<u>\$1,292,340</u>	<u>\$1,347,900</u>

Capital Asset and Debt Administration:

Capital assets.

The District's investment in capital assets from its governmental activities as of June 30, 2020 is \$696,781 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, furniture and equipment, and fire equipment. There were no major capital asset events during the current fiscal year.

Debt administration.

At the end of the year, the District had no outstanding debt and made no debt service payments during the year.

Section intentionally left blank

General Fund Budgetary Highlights.**Table 3
BUDGET**

	Original	Final	Variance
Revenues:			
Program Revenues:			
Charges for services	\$ 15,900	\$ 15,900	\$ -
Operating grants and contributions	10,000	10,000	-
Capital grants and contributions	-	-	-
General Revenues:			
Property taxes	446,957	446,957	-
Assessments	326,240	326,240	-
Other	11,346	11,346	-
Total Revenues	810,443	810,443	-
Expenses:			
General government	176,139	176,139	-
Fire operations	607,413	607,413	-
Parks and recreation	22,757	22,757	-
Street lights	3,900	3,900	-
Other	-	-	-
Total Expenses	810,209	810,209	-
Change in net position	\$ 234	\$ 234	\$ -

Financial Analysis of the Government's Funds:

As noted previously, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements which include Generally Accepted Accounting Principles (GAAP), and those of the Governmental Accounting Standards Board (GASB). These are the accepted standard setting bodies for establishment of governmental accounting and financial reporting principles.

Governmental funds. The focus of District *governmental funds* is to provide information on near-term inflows, outflows and balances of spendable resources. This information is useful in assessing the District's financing requirements. In particular, **unreserved fund balance** may serve as a useful measure of a District's net resources *available for spending at the end of the fiscal year*. As noted on the previous page, such cash on hand can assist in meeting the District's ongoing obligations to residents and creditors by offsetting losses of revenues or meeting unplanned needs within a fiscal cycle. Where not used, this cash on hand serves as an *unreserved fund balance* adding to the District's net fiscal position.

Unreserved fund balances can also be used by a governmental agency to designate portions of such a net balance as future **designated reserves** within following fiscal cycles. Sort of like a designated savings account set aside for a specific purpose. Some governmental agencies utilize *designated reserves* and identify their use to offset unplanned for emergency needs which may occur due to a localized or regional disaster such as fires, floods or other such needs. Additionally, governmental agencies may designate reserves to be used for contingencies which may occur within a current fiscal cycle, or to set aside funds to meet future *capital expenses* such as for replacement of structures, facilities or major fire apparatus and equipment. Quite

commonly, agencies faced with significant cash on hand balances; designate a portion of such cash for investments in bonds or other assets which may provide available funding sources to meet future long-term needs of their agencies.

Ideally, an increase in either a *net fiscal position* or in *unreserved fund balance* from year-to-year would be a positive reflection of an agencies growth potential; or in the ability to sustain, improve or even expand services to the community as such increases occur. On the other hand, reductions in a *net fiscal position* or in *unreserved fund balance* from year-to-year could indicate a negative reflection in an agency's ability to sustain existing service needs of a community in future years unless additional sources of revenue could be generated.

At the end of the 2019-2020 fiscal year, the District's governmental funds reported combined ending fund balances of \$556,612, a decrease of \$27,061 in comparison with the prior fiscal year end. Of that balance \$443,076 constitutes an *unassigned fund balance* and potentially available for new spending in subsequent fiscal periods.

Economic Factors, Trends and Following Fiscal Year Needs

Governance for the District has recognized community priorities; and with strategic staff planning and community input has defined elements of fiscal planning to assist in preparation for the future fiscal needs to meet community service level desires. These elements include:

Emphasis on fiscal responsibility and accountability, establishment of taking a conservative approach, emphasis on establishment of stable reserves, and the need to invest in infrastructure maintenance.

Emphasis on fiscal responsibility and accountability.

Development of annual budgets reflecting anticipated expenditures within anticipated revenues and existing fund balances; while providing for contingencies, and establishment of specific funding of designated reserve accounts. Staff is committed to taking a long-term view for stabilization of fiscal resources and a need to augment such resources wherever possible.

Establishment of taking a conservative approach.

There is an acknowledgement that current economic conditions present a slow advance from a housing and economic correction which has existed for six years within the San Bernardino/Riverside County area which was hard hit due to the economic downturn.

Degradation of property values significantly impacted the District's property tax apportionment which forced a "hold-the-line" approach on services, as a slow advance in the Consumer Price Index (CPI) started to take hold. Advances in the CPI enabled a slow progression and slight gains in revenue derived from the resident approved fire suppression assessment fee over the prior year. While slow and steady, such gains will eventually enable the District to offset loss of property tax apportionment revenue until such time as the economy rebounds and property values increase.

Additional revenues acquired from service fees or property rentals added over time should also serve to offset prior loss of some of the property tax apportionment revenues.

Establishment of stable reserves.

Future use of end-of-year unreserved fund balances have assisted in the development of Designated Reserves as recommended by the California Special Districts Association. The Board of Directors adopted Financial Practices Guidelines with the intent of establishing Designated Reserve Accounts to assist in providing future stability for the District and specifically designated reserves for unanticipated emergencies, contingencies and for future capital outlay needs.

Investment in infrastructure maintenance.

When the Board of Directors adopted their Financial Practices Guidelines, they committed to having a “Reserve Study” performed that would outline the various assets owned by the District, establish their relative life cycle to determine the useful lives of the components, and establish a five to thirty-year funding plan to support the life cycle of the asset to include future replacement needs. Having such a fiscal plan for investment in infrastructure maintenance thus should reduce significant expenses which are commonly experienced with “deferred maintenance” and provide the ability to plan for and extend the life of any designated assets.

Economic Factors and Next Year’s Budget

The District expects revenues in the 2020-2021 fiscal year to increase 2% over the prior year. The majority of this increase is expected to be from the resident voter approved fire assessment fee adopted in fiscal year 2007-2008 providing for a modest increase tied to the experienced cost-of-living increase over the prior year. Recreation and park facilities use fees are expected to remain level or slightly increased and property tax revenues are projected to remain relatively flat as the economy slowly shifts forward.

Requests for Information

This financial report is designed to provide a general overview of the District’s finances for those who may have an interest in the governmental finances such as revenues, debt, assets and liabilities. Questions concerning any of the information provided in this report, or requests for additional financial information should be directed to the Operations Office of the Morongo Valley Community Services District at 11207 Ocotillo Street, P. O. Box 46, Morongo Valley, CA 92256.

For those who desire, contact may be made by telephone at 760-363-6454 to schedule an appointment with the Director of Operations to review any aspect of the District’s financial position or the reports which have been provided.

Morongo Valley Community Services District

Statement of Net Position

June 30, 2020

	Governmental Activities	Total
ASSETS		
Cash	\$ 268,127	\$ 268,127
Cash - restricted	111,723	111,723
Total cash and cash equivalents	379,850	379,850
Accounts receivable	76,253	76,253
Prepaid expenses	1,813	1,813
Notes receivable	38,947	38,947
Certificates of deposit	143,473	143,473
Capital assets (net)	696,781	696,781
TOTAL ASSETS	1,337,117	1,337,117
 DEFERRED OUTFLOWS OF RESOURCES		
	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS	1,337,117	1,337,117
 LIABILITIES		
Accounts payable	33,054	33,054
Unearned revenue	11,723	11,723
TOTAL LIABILITIES	44,777	44,777
 DEFERRED INFLOWS OF RESOURCES		
	-	-
 NET POSITION		
Net investment in capital assets	696,781	696,781
Restricted net position	111,723	111,723
Unrestricted net position	483,836	483,836
TOTAL NET POSITION	\$ 1,292,340	\$ 1,292,340

Morongo Valley Community Services District

Statement of Activities

For the Year Ended June 30, 2020

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
Primary Government Governmental Activities:	Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Gov't Governmental Activities	
Fire operations	\$ 950,493	\$ 80,370	\$ -	\$ 60,945	\$ (809,178)
Parks and recreation	70,152	3,184	391	-	(66,577)
Street lights	3,698	-	-	-	(3,698)
Total Governmental Activities	1,024,343	83,554	391	60,945	(879,453)
Total Primary Government	\$ 1,024,343	\$ 83,554	\$ 391	\$ 60,945	(879,453)
General Revenues:					
Property taxes					473,328
Assessment					340,750
Grants, contributions and other income not restricted to specific programs					6,495
Restricted interest income					3,320
Total General Revenues					823,893
Change in net position					(55,560)
Net position - beginning					1,347,900
Net position - ending					\$ 1,292,340

Morongo Valley Community Services District

Balance Sheet - Governmental Funds

June 30, 2020

	General Fund	Total Governmental Funds
ASSETS		
Cash	\$ 268,127	\$ 268,127
Cash - restricted	111,723	111,723
Accounts receivable	76,253	76,253
Prepaid expenses	1,813	1,813
Certificates of deposit	143,473	143,473
TOTAL ASSETS	601,389	601,389
DEFERRED OUTFLOWS OF RESOURCES		
	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$ 601,389	\$ 601,389
LIABILITIES		
Accounts payable	\$ 33,054	\$ 33,054
Unearned revenue	11,723	11,723
TOTAL LIABILITIES	44,777	44,777
DEFERRED INFLOWS OF RESOURCES		
	-	-
FUND BALANCE		
Nonspendable:		
Prepaid expenses	1,813	1,813
Restricted for:		
General government	111,723	111,723
Unassigned	443,076	443,076
TOTAL FUND BALANCE	556,612	556,612
TOTAL LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCE	\$ 601,389	

Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	696,781
Governmental funds focus on current financial resources. Accordingly, they report only those receivables that are considered potentially relevant to near-term liquidity.	38,947
Net position of governmental activities	\$ 1,292,340

Morongo Valley Community Services District
Statement of Revenue, Expenditures and Changes in Fund Balance -
Governmental Funds
For the Year Ended June 30, 2020

	General Fund	Total Government Funds
REVENUES		
Tax assessments	\$ 469,266	\$ 469,266
Fire assesment	340,750	340,750
Tax revenue - homeowners' property tax relief	4,062	4,062
Grant income	60,945	60,945
Interest	3,320	3,320
Fire service	80,370	80,370
Park concessions	3,184	3,184
Donations	391	391
Other revenue	7,699	7,699
TOTAL REVENUES	969,987	969,987
EXPENDITURES		
Fire operations	923,201	923,201
Parks and recreation	70,152	70,152
Street lights	3,695	3,695
Debt service	-	-
TOTAL EXPENDITURES	997,048	997,048
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(27,061)	(27,061)
OTHER FINANCING SOURCES AND (USES)		
Transfers in from other funds	-	-
Transfers out to other funds	-	-
Net Other Financing Sources and (Uses)	-	-
Net Change in Fund Balances	(27,061)	(27,061)
FUND BALANCE - BEGINNING OF YEAR	583,673	554,524
FUND BALANCE - END OF YEAR	\$ 556,612	\$ 527,463

Morongo Valley Community Services District
Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2020

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances-total governmental funds	\$ (27,061)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This amount represents the amount by which capital outlays exceeded depreciation.	(27,295)
Governmental funds report loan receivable payments as income. However, in the statement of activities the payment is applied to reduce the loan receivable principal.	(1,204)
Change in net position of governmental activities	<u>\$ (55,560)</u>

DRAFT
01/13/2021

1. NATURE OF ORGANIZATION

Morongo Valley Community Services District, Morongo Valley, CA was incorporated August 4, 1958 under statutory authority as set forth in California Government Code Sec. 61000 et seq. The District is responsible for fire protection, parks and recreation, and street lighting.

BOARD OF DIRECTORS

President	Gayl Swarat
Vice-President	Kristina Brook
Member	Jonny Tolbert
Member	Mathew Campos
Member	Laurie Klimowicz

ADMINISTRATION

Director of Operations	Gerald Yearsley
------------------------	-----------------

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Morongo Valley Community Services District (the District) have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net position) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District has no component units and is not a component unit of another primary government.

The statement of activities demonstrates the degree to which the direct expenses of the given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligible requirements imposed by the provider have been met.

Morongo Valley Community Services District

Notes to Financial Statements
For the Year Ended June 30, 2020

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal year. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The general fund is the government's primary operation fund. It accounts for all financial resources of the general government, except those required to be accounted in another fund.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, service, or privileges provided, 2) operation grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Net Position

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 the outstanding debt against the acquisition, construction, or improvement of those assets.

Restricted – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. The District did not have any restricted net position as of June 30, 2019 or June 30, 2018.

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

Revenue

Revenue consists primarily of property tax assessments.

Accounts Receivable

Accounts receivable at year end consist primarily of property tax assessments from the County of San Bernardino. Management has determined the entire amount of the receivables is fully collectible, therefore, no allowance for doubtful accounts has been established. All amounts are due to be collected within one year.

Federal and State Grant Revenue

Grant revenue is recognized when the program expenditures are incurred in accordance with program guidelines. Such revenue is subject to review by the funding agency and may result in disallowance in subsequent periods.

Budgets

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general fund.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the District considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Capital Assets

Capital assets includes property, equipment, and infrastructure assets (e.g. vehicles, equipment, office equipment and furniture), which are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Vehicles	10
Office equipment	5
Computer equipment	5

Long-Term Obligations

In the government-wide financial statements long-term obligations are reported as liabilities in the applicable governmental activities or business-type activities statement of net position. There are no bond premiums or discounts associated with these obligations.

Morongo Valley Community Services District

Notes to Financial Statements
For the Year Ended June 30, 2020

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	<u>Fair Value</u>
Cash in bank	\$ 268,127
Cash - restricted	111,723
Total cash and cash equivalents on deposit with financial institutions	\$ 379,850

4. RESTRICTED CASH

The District held restricted cash on hand at year end. The restricted cash includes amounts received for various programs the District has, including Covington Park, the fire department, the tennis program, and MAPs program.

5. CERTIFICATE OF DEPOSIT

The certificate of deposit is carried at fair value. Certificates of deposit are considered a Level 2 in the fair value hierarchy. The District intends to hold the certificate until maturity. Interest is accrued and recognized in income when earned.

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

The succeeding table identifies the investment types that are authorized for the District by the California Government Code. The table also identifies certain provisions of the California Government Code that address **interest rate risk, credit risk, and concentration credit risk**. This table does not address investment of debt proceeds held by a bond trustee 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 investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio*	Maximum Investment in One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base value	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
JPA Pools (other investment pools)	N/A	None	None

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

Disclosure Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Disclosure Relating to Credit Risk

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

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer that represents 5% or more of total District investments.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy do not contain legal or policy requirement 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. The market value of the pledged securities in

the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposit. Therefore, all cash funds of the District deposited with financial institutions are fully insured by such collateral pools.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investment, 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 a mutual fund or government investment pool.

Fair Value Measurements

Generally accepted accounting principles establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of quoted prices (unadjusted) for identical assets and liabilities in active markets that a government can access at the measurement date, Level 2 inputs consist of inputs other than quoted prices that are observable for an asset or liability, either directly or indirectly, and Level 3 inputs that have the lowest priority and consist of unobservable inputs for an asset or liability.

Morongo Valley Community Services District

Notes to Financial Statements
For the Year Ended June 30, 2020

6. NOTES RECEIVABLE

The District sold property on September 29, 2009 for cash and an installment note in the amount of \$50,000. The note requires an annual payment of \$3,333 on July 1 each year, continuing until July 1, 2040 at which time any remaining balance is due and payable. Interest rate is 5.305%.

Annual notes receivable maturities are as follows:

	Principal	Interest	Total
For the year ending June 30:			
2021	\$ 1,268	\$ 2,066	\$ 3,334
2022	1,335	1,999	3,334
2023	1,406	1,928	3,334
2024	1,480	1,854	3,334
2025	1,559	1,775	3,334
Thereafter	31,899	13,814	56,678
Total	<u>\$ 38,947</u>	<u>\$ 23,436</u>	<u>\$ 73,348</u>

7. CAPITAL ASSETS

The following is a summary of changes in the capital assets during the fiscal year:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Assets:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 203,330	\$ -	\$ -	\$ 203,330
<i>Capital assets being depreciated:</i>				
Buildings and improvements	588,312	-	-	588,312
Furniture and equipment	437,564	-	-	437,564
Fire equipment	919,654	48,360	-	968,014
Total capital assets being depreciated	<u>1,945,530</u>	<u>48,360</u>	<u>-</u>	<u>1,993,890</u>
Accumulated Depreciation:				
Buildings and improvements	(475,059)	(10,418)	-	(485,477)
Furniture and equipment	(433,602)	(661)	-	(434,263)
Fire equipment	(516,123)	(64,576)	-	(580,699)
Total accumulated depreciation	<u>(1,424,784)</u>	<u>(75,655)</u>	<u>-</u>	<u>(1,500,439)</u>
<i>Net capital assets being depreciated</i>	<u>520,746</u>	<u>(27,295)</u>	<u>-</u>	<u>493,451</u>
Net Governmental Activities				
Capital Assets	<u>\$ 724,076</u>	<u>\$ (27,295)</u>	<u>\$ -</u>	<u>\$ 696,781</u>

Depreciation expense for the period amounted to: \$ 75,655

8. PROPERTY TAX CALENDAR

The District’s assessments are included on county property tax bills. Property taxes are assessed and collected each fiscal year according to the following property tax calendar:

Lien date	March 1	
Levy date	July 1 to June 30	
Due date	November 1	- First installment
	February 1	- Second installment
Delinquent date	December 10	- First installment
	April 10	- Second installment

9. LINE OF CREDIT

The District renewed an uncollateralized line of credit agreement with Pacific Western Bank in May of 2020. Under this agreement the District can borrow working capital advances up to \$200,000. The agreement requires interest only payments. Interest rates on the line of credit are variable and set at one percent over the Lender’s Base Rate set by Pacific Western Bank. As of yearend the interest rate was 5.00%. The balance as of yearend on the credit line was \$-0-. The agreement matures in May of 2021.

10. LEASE

The District leases 33.5 acres located on the Big Morongo Canyon Preserve Area from San Bernardino County. The lease calls for monthly payments of \$50 through September 30, 2025.

The District entered a lease agreement for office equipment. The lease calls for monthly payments of \$112 for 63 months ending in April 2025.

Minimum lease payments are as follows:

For the year ending June 30:		
2021		\$ 1,944
2022		1,944
2023		1,944
2024		1,944
2025		1,608
Thereafter		150
Total		<u>\$ 9,534</u>

11. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors & omissions on natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

12. SUBSEQUENT EVENTS

Accounting standards require that the District assess and disclose the date and the basis for that date through which potential subsequent events have been evaluated. The date represents the date the financial statements were issued or were available to be issued. The District evaluated all potential subsequent events as of , when the financial statements were authorized and available to be issued. No subsequent events or transactions were identified after the balance sheet date or as of that require disclosure in the financial statements.

*

*

*

*

DRAFT
01/13/2021

Morongo Valley Community Services District
Statement of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual - General Fund
For the Year Ended June 30, 2020

	General Fund			Variance with Final Budget Positive (Negative)
	Budgeted amounts		Actual Amounts	
	Original	Final		
REVENUES				
Tax revenue	\$ 446,957	\$ 446,957	\$ 469,266	\$ 22,309
Fire assesment	326,240	326,240	340,750	14,510
Tax revenue - homeowners' property tax relief	-	-	4,062	4,062
Grant income	10,000	10,000	60,945	50,945
Interest	-	-	3,320	3,320
Fire services	15,900	15,900	80,370	64,470
Park concessions	6,000	6,000	3,184	(2,816)
Donations	2,012	2,012	391	(1,621)
Other revenue - CSD	3,334	3,334	7,699	4,365
TOTAL REVENUES	810,443	810,443	969,987	159,544
EXPENDITURES				
General Government				
Wages and benefits	97,018	97,018	55,190	41,828
Operations expense	79,121	79,121	72,645	6,476
Total General Government	176,139	176,139	127,835	48,304
Fire Operations				
Wages and benefits	504,108	504,108	609,065	(104,957)
Operations expense	103,305	103,305	186,301	(82,996)
Total Fire Operations	607,413	607,413	795,366	(187,953)
Parks and Recreation				
Wages and benefits	22,757	22,757	40,815	(18,058)
Operations expense	-	-	29,337	(29,337)
Total Parks and Recreation	22,757	22,757	70,152	(47,395)
Street Lights				
Repairs and maintenance	3,900	3,900	3,695	205
Total Street Lights	3,900	3,900	3,695	205
Debt Service				
Principal expense	-	-	-	-
Interest expense	-	-	-	-
Total Debt Service	-	-	-	-
TOTAL EXPENDITURES	810,209	810,209	997,048	(186,839)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	234	234	(27,061)	(27,295)
OTHER FINANCING SOURCES AND (USES)				
Transfers to/from other funds	-	-	-	-
Net Other Financing Sources and (Uses)	-	-	-	-
Net Change in Fund Balances	234	234	(27,061)	(27,295)
FUND BALANCE - BEGINNING	583,673	583,673	583,673	-
FUND BALANCE - END OF YEAR	\$ 583,907	\$ 583,907	\$ 556,612	\$ (27,295)

Morongo Valley Community Services District
Combining Statement of Revenues, Expenditures and Changes in Fund Balance -
Governmental Funds
For the Year Ended June 30, 2020

	General Fund			Total Governmental Funds
	Fire Operations	Park and Recreation	Street Lights	
REVENUES				
Tax revenue	\$ 429,398	\$ 37,873	\$ 1,995	\$ 469,266
Fire assesment	340,750	-	-	340,750
Tax revenue - homeowners' property tax relief	3,677	365	20	4,062
Grant income	60,945	-	-	60,945
Interest	3,320	-	-	3,320
Fire service	80,370	-	-	80,370
Rents and concessions	-	3,184	-	3,184
Donations	370	21	-	391
Other revenue	5,599	2,100	-	7,699
TOTAL REVENUES	924,429	43,543	2,015	969,987
EXPENDITURES				
Salaries and wages	641,971	33,954	-	675,925
Employee benefits	22,284	6,861	-	29,145
Operations expense	258,946	29,337	3,695	291,978
Debt service	-	-	-	-
TOTAL EXPENDITURES	923,201	70,152	3,695	997,048
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	1,228	(26,609)	(1,680)	(27,061)
OTHER FINANCING SOURCES AND (USES)				
Transfers in from other funds	-	-	-	-
Transfers out to other funds	-	-	-	-
Net Other Financing Sources and (Uses)	-	-	-	-
Net Change in Fund Balances	1,228	(26,609)	(1,680)	(27,061)
FUND BALANCE - BEGINNING OF YEAR	513,405	74,931	(4,663)	583,673
FUND BALANCE - END OF YEAR	\$ 514,633	\$ 48,322	\$ (6,343)	\$ 556,612

Morongo Valley Community Services District
 Calculation of Appropriation Spending Limit (Prop. 4 "Gann Limit")
 For the Year Ended June 30, 2020

Calculation of Spending Limit:

Last Year's Limit		\$	691,657
Adjustment Factors:			
Change in Population/City			1.0066
Growth Factor	x		<u>1.0434</u>
			1.0503
Total Adjustment (Dollars)			<u>34,781</u>
New Appropriation Limit for Fiscal Year 2019-2020			<u><u>\$ 726,438</u></u>

Appropriations in Fiscal Year 2018-2019 Compared to Limit:

Proceed from Taxes		\$	795,583
Less Exclusions			<u>(371,769)</u>
Appropriations Subject to Limitation			423,814
Appropriations Limit for FY 2018-2019			<u>691,657</u>
Amount Under Limit			<u><u>\$ 267,843</u></u>

Explanation of Gann Spending Limit:
 The Gann spending limit places a cap on the amount of local government spending that may be financed from proceeds of taxes. The limit is adjusted annually by a combined growth factor, which takes into account both inflation and population growth.

A. REQUIRED SUPPLEMENTARY INFORMATION

Budgets are developed consistent with generally accepted accounting principles. All annual appropriations lapse at year-end.

Budget information is presented by key government operations of the District. Encumbrances exceeded appropriations in various line items of the budget but in total did not exceed the budget.

B. SUPPLEMENTARY INFORMATION

The combining statement of revenues and expenditures reflects the revenues and expenditures of the District by key government activity in accordance with the governmental fund presentation.

DRAFT
01/13/2021