

EDGEMONT COMMUNITY SERVICES DISTRICT

**Annual Financial Report
For the Fiscal Year Ended
June 30, 2018**

EDGEMONT COMMUNITY SERVICES DISTRICT

Board of Directors as of June 30, 2018

<u>Name</u>	<u>Title</u>	<u>Elected/ Appointed</u>	<u>Term Expires</u>
Michael Addie	President	Elected	11/2022
Cheryl L. Franklin	Vice President	Elected	11/2020
Eric Stephens	Director	Elected	11/2022
Crystal Smith	Director	Elected	11/2020

Jessica Pfalmer, General Manager
Edgemont Community Services District
P.O. Box 5436
Riverside, California 92517
(951) 784-2632 – <https://edgemontcsd.specialdistrict.org/>

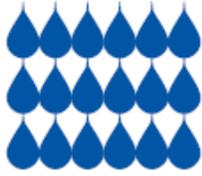
Edgemont Community Services District
Annual Financial Report
For the Fiscal Year Ended June 30, 2018

**Edgemont Community Services District
Annual Financial Report
For the Fiscal Year Ended June 30, 2018**

Table of Contents

	<u>Page No.</u>
Table of Contents	i
Financial Section	
Independent Auditor’s Report	1-2
Management’s Discussion and Analysis	3-6
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	7
Statement of Activities	8
Fund Financial Statements:	
Balance Sheet – Governmental Funds	9
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position	10
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	11
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to the Statement of Activities	12
Statement of Net Position – Enterprise Fund	13
Statement of Revenues, Expenses, and Changes in Fund Net Position – Enterprise Fund	14
Statement of Cash Flows – Enterprise Fund	15-16
Notes to the Basic Financial Statements	17-29
Required Supplementary Information	
Budgetary Comparison Schedule – General Fund	30
Notes to the Required Supplementary Information	30
Budgetary Comparison Schedule – Illumination Fund	31
Notes to the Required Supplementary Information	31
Supplementary Information Section	
Combined Schedule of Net Position	32
Combined Schedule of Revenues, Expenditures, and Changes in Net Position	33
Report on Compliance and Internal Controls	
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 <i>Government Auditing Standards</i>	34-35

Financial Section



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

Fedak & Brown LLP

Certified Public Accountants

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

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

Independent Auditor's Report

Board of Directors
Edgemont Community Services District
Riverside, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Edgemont Community Services District (District) as of and for the year ended June 30, 2018, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Edgemont Community Services District, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows, thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report, continued

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 and the required supplementary information on pages 30 and 31 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 the District's basic financial statements. The supplemental information schedules on pages 32 and 33 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental information schedules are the responsibility of management and were derived from and relate 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 supplemental information schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 8, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance. That report can be found on pages 34 and 35.

Fedak & Brown LLP

Fedak & Brown LLP

Cypress, California

November 8, 2018

**Edgemont Community Services District
Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2018**

The following Management’s Discussion and Analysis (MD&A) of activities and financial performance of the Edgemont Community Services District (District) provides an introduction to the financial statements of the District for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here with additional information that we have furnished in the accompanying basic financial statements and related notes, which follow this section.

Financial Highlights

- The District’s net position increased by 9.08% or \$1,158,482 to \$13,917,373.
- Total revenues increased 56.92% or \$946,783 to \$2,610,084.
- Total expenses increased by 19.97% or \$241,673 to \$1,451,062.

Using This Financial Report

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities 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 deferred outflows of resources) and obligations to creditors (liabilities and deferred inflows of resources). 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 revenues and expenses are accounted for in the Statement of Activities. This statement measures the success of the District’s operations over the past year and can be used to determine the District’s profitability and credit worthiness.

Government-wide Financial Statements

Statement of Net Position and Statement of Activities

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 Activities report information about the District in a way that helps answer this question. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources 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 it. Think of the District’s net position – the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources – as one way to measure the District’s financial health, or *financial position*. Over time, *increases or decreases* in the District’s net position is 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 the District’s property tax base and the types of grants the District applies for to assess the *overall financial health* of the District.

Fund Financial Statements

Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental 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 *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government’s near term financing requirements.

**Edgemont Community Services District
Management's Discussion and Analysis, continued
For the Fiscal Year Ended June 30, 2018**

Fund Financial Statements, continued

Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance, continued

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand 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 balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 17 through 29.

Government-wide Financial Analysis

Statements of Net Position

The following table is a summary of the statements of net position at June 30, 2018 and 2017.

Condensed Statements of Net Position						
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total District</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Assets:						
Current assets	\$ 1,170,476	804,012	5,485,056	5,702,206	6,655,532	6,506,218
Non-current assets	451,379	467,467	7,160,130	6,122,766	7,611,509	6,590,233
Total assets	<u>1,621,855</u>	<u>1,271,479</u>	<u>12,645,186</u>	<u>11,824,972</u>	<u>14,267,041</u>	<u>13,096,451</u>
Liabilities:						
Current liabilities	67,914	59,209	281,754	271,660	349,668	330,869
Non-current liabilities	-	-	-	6,691	-	6,691
Total liabilities	<u>67,914</u>	<u>59,209</u>	<u>281,754</u>	<u>278,351</u>	<u>349,668</u>	<u>337,560</u>
Net position:						
Net investment in capital assets	451,379	467,467	7,160,130	6,122,766	7,611,509	6,590,233
Unrestricted	1,102,562	744,803	5,203,302	5,423,855	6,305,864	6,168,658
Total net position	<u>\$ 1,553,941</u>	<u>1,212,270</u>	<u>12,363,432</u>	<u>11,546,621</u>	<u>13,917,373</u>	<u>12,758,891</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 \$13,917,373 as of June 30, 2018. At June 30, 2018, the District's total net position is made-up of two components: (1) net investment in capital assets in the amount of \$7,611,509, and (2) unrestricted net position in the amount of \$6,305,864, respectively.

**Edgemont Community Services District
Management's Discussion and Analysis, continued
For the Fiscal Year Ended June 30, 2018**

Government-wide Financial Analysis, continued

Statement of Activities

The following table is a summary of the statements of activities for the year ended June 30, 2018 and 2017.

	Condensed Statements of Activities					
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total District</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Revenues:						
Program revenues:						
Charges for services	\$ 24,909	24,494	1,075,345	289,017	1,100,254	313,511
General revenues:						
Property taxes	782,684	716,529	-	-	782,684	716,529
Interest earnings	17,102	10,023	66,280	35,450	83,382	45,473
Rental income	643,764	587,788	-	-	643,764	587,788
Total revenues	<u>1,468,459</u>	<u>1,338,834</u>	<u>1,141,625</u>	<u>324,467</u>	<u>2,610,084</u>	<u>1,663,301</u>
Expenses:						
General	146,498	142,586	-	-	146,498	142,586
Illumination	72,065	69,883	-	-	72,065	69,883
Sewer	-	-	1,233,039	997,460	1,233,039	997,460
Total expenses	<u>218,563</u>	<u>212,469</u>	<u>1,233,039</u>	<u>997,460</u>	<u>1,451,602</u>	<u>1,209,929</u>
Transfers from(to) other fund	<u>(908,225)</u>	<u>(900,499)</u>	<u>908,225</u>	<u>900,499</u>	<u>-</u>	<u>-</u>
Change in net position	341,671	225,866	816,811	227,506	1,158,482	453,372
Net position, beginning of year	<u>1,212,270</u>	<u>986,404</u>	<u>11,546,621</u>	<u>11,319,115</u>	<u>12,758,891</u>	<u>12,305,519</u>
Net position, end of year	<u>\$ 1,553,941</u>	<u>1,212,270</u>	<u>12,363,432</u>	<u>11,546,621</u>	<u>13,917,373</u>	<u>12,758,891</u>

Net Position increased by 9.08% or \$1,158,482 to \$13,917,373, as a result of ongoing operations.

Total revenues increased 56.92% or \$946,783 to \$2,610,084. Program revenues increased 250.95% or \$786,743 to \$1,100,254, primarily due to a \$746,000 increase in connection fees and a \$42,485 increase in other charges within the sewer fund. General revenues increased 11.86% or \$160,040 to \$1,509,830, primarily due to increases of \$66,155 in property taxes, \$55,976 in rental income, and \$37,909 in interest earnings.

Total expenses increased by 19.97% or \$241,673 to \$1,451,602, primarily due to an increase of \$235,579 in sewer operating expenses.

Governmental Activities Budgetary Highlights

The final actual expenditures for the year ended June 30, 2018, was less than budgeted by \$192,084 for the General Fund, and less than budgeted by \$23,105 for the Illumination Fund. Actual revenues for the year ended June 30, 2018, were more than the anticipated budget by \$231,672 for the General Fund, and more than budgeted by \$6,617 for the Illumination Fund. At June 30, 2018, there were no differences between the original and final amended budgets. (See Budgetary Comparison Schedule for the General Fund and Illumination Fund under Required Supplementary Information section on pages 30 and 31).

**Edgemont Community Services District
Management's Discussion and Analysis, continued
For the Fiscal Year Ended June 30, 2018**

Capital Asset Administration

	Governmental Activities		Business-type Activities		Total District	
	2018	2017	2018	2017	2018	2017
Capital assets:						
Non-depreciable assets	\$ 219,948	219,948	2,547,414	2,773,904	2,767,362	2,993,852
Depreciable assets	<u>574,744</u>	<u>574,744</u>	<u>5,875,443</u>	<u>4,497,416</u>	<u>6,450,187</u>	<u>5,072,160</u>
Total capital assets	794,692	794,692	8,422,857	7,271,320	9,217,549	8,066,012
Accumulated depreciation	<u>(343,313)</u>	<u>(327,225)</u>	<u>(1,262,727)</u>	<u>(1,148,554)</u>	<u>(1,606,040)</u>	<u>(1,475,779)</u>
Total capital assets, net	<u>\$ 451,379</u>	<u>467,467</u>	<u>7,160,130</u>	<u>6,122,766</u>	<u>7,611,509</u>	<u>6,590,233</u>

At June 30, 2018, the District's investment in capital assets amounted to \$7,611,509 (net of accumulated depreciation). This investment in capital assets includes land, sewer capacity rights, structures and improvements, office furniture and equipment, and construction in progress. The capital assets of the District are more fully analyzed in Note 3 to the basic financial statements.

Long-Term Debt Administration

	Balance 2017	Additions	Deletions/ Transfers	Balance 2018
Loan payable				
County of Riverside	\$ 13,383	-	(6,692)	6,691
Total loan payable	13,383	-	(6,692)	6,691
Less: current portion	(6,692)			(6,691)
Total non-current portion	<u>\$ 6,691</u>			<u>-</u>

Long-term debt decreased 50% or \$6,692 in 2018, primarily due to regular debt service payment. The long-term debt position of the District is analyzed in Note 4 to the basic financial statements.

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 present users, including funding sources, customers, stakeholders, and other interested parties with a general overview of the District's finances and to demonstrate the District's accountability 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 Manager, Jessica Pfallmer at Edgemont Community Services District, P.O. Box 5436 Riverside, California, 92517 or (951) 784-2632.

Basic Financial Statements

Edgemont Community Services District
Statement of Net Position
June 30, 2018

	Governmental Activities	Business-type Activites	Total
Assets:			
Current assets:			
Cash and cash equivalents (note 2)	\$ 1,130,262	5,449,433	6,579,695
Accrued interest receivable	3,987	18,149	22,136
Accounts receivable	-	5,153	5,153
Accounts receivable - other	151	409	560
Property taxes and assessments receivable	19,214	-	19,214
Inter-fund receivable (note 5)	13,490	-	13,490
Prepaid expenses	3,372	11,912	15,284
Total current assets	1,170,476	5,485,056	6,655,532
Non-current assets:			
Capital assets – not being depreciated (note 3)	219,948	2,547,414	2,767,362
Capital assets – being depreciated (note 3)	231,431	4,612,716	4,844,147
Total non-current assets	451,379	7,160,130	7,611,509
Total assets	1,621,855	12,645,186	14,267,041
Liabilities:			
Current liabilities:			
Accounts payable and accrued expenses	14,132	260,808	274,940
Accrued salaries and related payables	135	765	900
Inter-fund payable (note 5)	-	13,490	13,490
Unearned revenue	53,647	-	53,647
Long-term liabilities - due within one year:			
Loan payable (note 4)	-	6,691	6,691
Total current liabilities	67,914	281,754	349,668
Total liabilities	67,914	281,754	349,668
Net position: (note 6)			
Net investment in capital assets	451,379	7,160,130	7,611,509
Unrestricted	1,102,562	5,203,302	6,305,864
Total net position	\$ 1,553,941	12,363,432	13,917,373

See accompanying notes to the basic financial statements

Edgemont Community Services District
Statement of Activities
For the Fiscal Year Ended June 30, 2018

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program</u>	<u>Net (Expense)Revenue and</u>		
		<u>Revenues</u>	<u>Changes in Net Position</u>		
		<u>Charges for</u>	<u>Governmental</u>	<u>Business-type</u>	<u>2018</u>
		<u>Service</u>	<u>Activities</u>	<u>Activities</u>	
Governmental activities					
General	\$ 146,498	-	(146,498)	-	(146,498)
Illumination	72,065	24,909	(47,156)	-	(47,156)
Total governmental	<u>218,563</u>	<u>24,909</u>	<u>(193,654)</u>	<u>-</u>	<u>(193,654)</u>
Business-type activities					
Sewer	1,233,039	1,075,345	-	(157,694)	(157,694)
Total business-type	<u>1,233,039</u>	<u>1,075,345</u>	<u>-</u>	<u>(157,694)</u>	<u>(157,694)</u>
Total	<u>\$ 1,451,602</u>	<u>1,100,254</u>	<u>(193,654)</u>	<u>(157,694)</u>	<u>(351,348)</u>
General revenues:					
Property taxes			\$ 782,684	-	782,684
Interest earnings			17,102	66,280	83,382
Rental income			643,764	-	643,764
Total general revenues			<u>1,443,550</u>	<u>66,280</u>	<u>1,509,830</u>
Transfers from(to) other funds					
(note 5)			(908,225)	908,225	-
Changes in net position					
			341,671	816,811	1,158,482
Net position, beginning of year					
			<u>1,212,270</u>	<u>11,546,621</u>	<u>12,758,891</u>
Net position, end of year					
			<u>\$ 1,553,941</u>	<u>12,363,432</u>	<u>13,917,373</u>

See accompanying notes to the basic financial statements

Edgemont Community Services District
Balance Sheet – Governmental Funds
June 30, 2018

	<u>General Fund</u>	<u>Illumination Fund</u>	<u>Total Fund</u>
Assets:			
Cash and cash equivalents	\$ 1,108,360	21,902	1,130,262
Accrued interest receivable	3,913	74	3,987
Accounts receivable – other	123	28	151
Property taxes receivable	18,229	985	19,214
Inter-fund receivable	10,823	2,667	13,490
Prepaid expenses	3,177	195	3,372
Total assets	<u>\$ 1,144,625</u>	<u>25,851</u>	<u>1,170,476</u>
Liabilities:			
Accounts payable and accrued expenses	\$ 230	13,902	14,132
Accrued payroll and related expenses	90	45	135
Unearned revenue	53,647	-	53,647
Total liabilities	<u>53,967</u>	<u>13,947</u>	<u>67,914</u>
Fund balance:			
Nonspendable	3,177	195	3,372
Unassigned	1,087,481	11,709	1,099,190
Total fund balance	<u>1,090,658</u>	<u>11,904</u>	<u>1,102,562</u>
Total liabilities and fund balance	<u>\$ 1,144,625</u>	<u>25,851</u>	<u>1,170,476</u>

Continue on next page

See accompanying notes to the basic financial statements

**Edgemont Community Services District
 Reconciliation of the Balance Sheet – Governmental Funds
 to the Statement of Net Position
 June 30, 2018**

Reconciliation:

Total Fund Balances of Governmental Funds	\$	1,102,562
---	----	-----------

Amounts reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental activities are not current financial resources and, therefore, not in the governmental funds balance sheet. However, the statement of net position includes those capital position among the assets of the District as a whole as follows:

Non-depreciable capital assets	\$	219,948	
Depreciable capital assets, net		231,431	
			451,379

Net Position of Governmental Activities	\$	1,553,941
---	----	-----------

See accompanying notes to the basic financial statements

Edgemont Community Services District
Statement of Revenues, Expenditures, and Changes in Fund Balance –
Governmental Funds
For the Year Ended June 30, 2018

	<u>General Fund</u>	<u>Illumination Fund</u>	<u>Total Fund</u>
Revenues:			
Property taxes	\$ 770,537	12,147	782,684
Interest earnings	16,771	331	17,102
Rental income	643,764	-	643,764
Illumination fees	-	20,909	20,909
Other revenue	-	4,000	4,000
Total revenues	<u>1,431,072</u>	<u>37,387</u>	<u>1,468,459</u>
Expenditures:			
Cost of services	625	34,866	35,491
Professional services	81,054	32,739	113,793
Utilities	1,914	121	2,035
Repairs and maintenance	4,372	-	4,372
Office supplies	4,073	168	4,241
Insurance	2,743	624	3,367
Salaries and benefits	15,351	3,547	18,898
General and administrative	20,278	-	20,278
Total expenditures	<u>130,410</u>	<u>72,065</u>	<u>202,475</u>
Excess(deficiency) of revenue over expenditures	1,300,662	(34,678)	1,265,984
Other financing sources(uses):			
Operating transfers in(out)	(922,086)	13,861	(908,225)
Net changes in fund balance	378,576	(20,817)	357,759
Fund balance, beginning of year	<u>712,082</u>	<u>32,721</u>	<u>744,803</u>
Fund balance, end of year	<u>\$ 1,090,658</u>	<u>11,904</u>	<u>1,102,562</u>

Continue on next page

See accompanying notes to the basic financial statements

Edgemont Community Services District
Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balance – Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2018

Reconciliation:

Net Changes in Fund Balance – Total Governmental Fund \$ 357,759

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

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense as follows:

Depreciation expense (16,088)

Changes in Net Position of Governmental Activities \$ 341,671

See accompanying notes to the basic financial statements

Edgemont Community Services District
Statement of Net Position – Enterprise Fund
June 30, 2018

	2018
Assets:	
Current assets:	
Cash and cash equivalents	\$ 5,449,433
Accrued interest receivable	18,149
Accounts receivable	5,153
Accounts receivable – other	409
Prepaid expenses and other assets	11,912
Total current assets	5,485,056
Non-current assets:	
Capital assets – not being depreciated	2,547,414
Capital assets – being depreciated, net	4,612,716
Total non-current assets	7,160,130
Total assets	12,645,186
Liabilities:	
Current liabilities:	
Accounts payable and accrued expenses	260,808
Accrued salaries and related payables	765
Inter-fund payable	13,490
Long-term liabilities – due within one year:	
Loan payable	6,691
Total current liabilities	281,754
Total liabilities	281,754
Net position:	
Net investment in capital assets	7,160,130
Unrestricted	5,203,302
Total net position	\$ 12,363,432

See accompanying notes to the basic financial statements

Edgemont Community Services District
Statement of Revenues, Expenses, and Changes in Fund Net Position – Enterprise Fund
For the Year Ended June 30, 2018

	2018
Operating revenues:	
Sewer charges	\$ 249,945
Connection fees	746,400
Other charges and services	79,000
Total operating revenues	1,075,345
Operating expenses:	
Cost of services	691,200
Professional services	360,259
Utilities	3,505
Office supplies	671
Insurance	9,108
Salaries and benefits	52,035
General and administrative	2,088
Total operating expenses	1,118,866
Operating income before depreciation	(43,521)
Depreciation	(114,173)
Operating loss	(157,694)
Non-operating revenues:	
Interest earnings	66,280
Total non-operating revenues	66,280
Net income (loss)	(91,414)
Transfers from other funds	908,225
Changes in net position	816,811
Net position, beginning of year	11,546,621
Net position, end of year	\$ 12,363,432

See accompanying notes to the basic financial statements

**Edgemont Community Services District
Statement of Cash Flows – Enterprise Fund
For the Year Ended June 30, 2018**

	2018
Cash flows from operating activities:	
Cash receipts from customers	\$ 1,073,373
Cash paid to employees	(51,806)
Cash paid to vendors and suppliers	(929,785)
Net cash provided by operating activities	91,782
Cash flows from non-capital financing activities:	
Transfer of General fund's cash	(137,729)
Operating transfer in	908,225
Net cash provided by non-capital financing activities	770,496
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(1,151,537)
Principal payments on long-term debt	(6,692)
Net cash used in capital and financing activities	(1,158,229)
Cash flows from investing activities:	
Interest earnings	54,498
Net cash provided by investing activities	54,498
Net decrease in cash and cash equivalents	(241,453)
Cash and cash equivalents, beginning of year	5,690,886
Cash and cash equivalents, end of year	\$ 5,449,433

Continued on next page

See accompanying notes to the basic financial statements

Edgemont Community Services District
Statement of Cash Flows – Enterprise Fund, continued
For the Year Ended June 30, 2018

	2018
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ <u>(157,694)</u>
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	114,173
Change in assets and liabilities:	
Decrease in assets:	
Accounts receivable – other	(1,972)
Prepays and other assets	(10,549)
Decrease in liabilities:	
Accounts payable and accrued expenses	147,595
Accrued salaries and related payables	<u>229</u>
Total adjustments	<u>249,476</u>
Net cash provided by operating activities	<u>\$ 91,782</u>

See accompanying notes to the basic financial statements

Edgemont Community Services District
Notes to the Basic Financial Statements
June 30, 2018

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Edgemont Community Service District (District) is a California special district organized on March 25, 1957. It is located in the Edgemont area of the County of Riverside, straddling the border of the cities of Moreno Valley and Riverside. The District provides sewer and street lighting services to over 1,000 customers.

B. Basis of Accounting and Measurement Focus

The *basic financial statements* of the District are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Government-wide Financial Statements

These statements are presented on an *economic resources* measurement focus and the accrual basis of accounting for both governmental and business-type activities. Accordingly, all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, including capital assets, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which the liability is incurred. The Statement of Activities demonstrates the degree to which direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. The types of transactions reported as program revenues for the District are to be reported in three categories, if applicable: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions. Charges for services include revenues from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function. Grants and contributions include revenues restricted to meeting the operational or capital requirements of a particular function. Taxes and other items properly not included among program revenues are reported instead as general revenues.

Fund Financial Statements

These statements include a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balance for all major governmental funds. Accompanying these statements is a schedule to reconcile and explain the differences in total fund balance as presented in these statements to the net position presented in the Government-wide Financial Statements. The District has presented its General Fund as its major fund in these statements to meet the qualifications of GASB Statement No. 34.

Governmental funds are accounted for on a spending or *current financial resources* measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balance presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under modified accrual basis of accounting, revenues are recognized in the accounting period in which they become measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60-days after year-end) are recognized when due. The primary sources susceptible to accrual for the District are property tax, interest earnings, investment revenue, and operating and capital grant revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. However, exceptions to this rule include principal and interest on debt, which are recognized when due.

Edgemont Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2018

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

B. Basis of Accounting and Measurement Focus, continued

Fund Financial Statements, continued

The accrual basis of accounting is followed by the proprietary enterprise funds. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, such as, unbilled but utilized utility services are recorded at year end.

Proprietary funds distinguish operating revenues and expenses from non-operating items. 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, such as sewage services and purchases of water, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Management, administration, and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories, such as interest income and interest expense, are reported as non-operating revenues and expenses.

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity with a self-balancing set of accounts established for the purpose of carrying out specific activities, or attaining certain objectives in accordance with specific regulations, restrictions, or limitations.

Funds are organized into two major categories: governmental and proprietary categories. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operation fund of the District or meets the following criteria:

- a) Total assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, or expenditures/expenses of that individual governmental or proprietary fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b) Total assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental fund or proprietary fund are at least 5 percent of the corresponding total for all governmental and proprietary funds combined.
- c) The entity has determined that a fund is important to the financial statement user.

The funds of the financial reporting entity are described below:

Governmental Funds

General – This fund acts as the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. This fund also includes all activity and assets of the emergency and unemployment compensation funds.

Illumination – This fund is used to account for resources used in providing street lighting in the areas served by the District.

Enterprise Funds

Sewer – This fund acts as the primary operating fund of the District. It is used to account for all financial resources used in providing sewer services in the areas served by the District.

Edgemont Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2018

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

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 governmental funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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

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.

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.

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]).

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.

Edgemont Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2018

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

D. Assets, Deferred, Outflows, Liabilities, Deferred Inflows, and Net Position

1. Use of Estimates

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

2. Cash and Cash Equivalents

Substantially all of the District's cash is invested in interest bearing accounts. The District considers all highly liquid investments with a maturity 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:

- Riverside County Treasurer Fund
- Checking and savings accounts at local financial institutions

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

4. Property Taxes and Assessments

The Riverside County Assessor's Office assesses all real and personal property within the County each year. The Riverside County Tax Collector's Office bills and collects the District's share of property taxes and/or tax assessments. The Riverside 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.

Property taxes and assessments receivable at year-end are related to property taxes and special assessments collected by the Riverside County, which have not been credited to the District's cash balance as of June 30. The property tax calendar is as follows:

Lien date	January 1
Levy date	July 1 to June 30
Due dates	November 1 and March 1
Collection dates	December 10 and April 10

5. Prepaid Expenses

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

Edgemont Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2018

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

D. Assets, Deferred, Outflows, Liabilities, Deferred Inflows, and Net Position, continued

6. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at \$1,000. Donated assets are recorded at estimated fair market 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. Sewage capacity rights are recorded at cost and belong to the District indefinitely. Depreciation is recorded on a straight-line basis over the estimated useful lives ranging from five to fifty years.

7. Net Position

The government-wide financial statements utilize a net position presentation. Net position categories are as follows:

- **Net investment in capital assets** – investment in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and amortization, and reduced by outstanding balances of any debt, or other long-term borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted** – restricted consists of assets that have restrictions placed upon their use by external constraints imposed either by creditors (debt covenants), grantors, contributors, or laws and regulations of other governments or constraints imposed by law through enabling legislation.
- **Unrestricted** – unrestricted consists of the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets and/or restricted components of net position.

8. Fund Balance

The financial statements, governmental funds, report fund balance as non-spendable, restricted, committed, assigned, or unassigned based primarily on the extent to which the District is bound to honor constraints on how specific amounts can be spent.

- **Nonspendable fund balance** – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.
- **Restricted fund balance** – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws and regulations of other governments; or (b) imposed by law through constitutional provisions enabling legislation.
- **Committed fund balance** – amounts that can only be used for specific purposes determined by formal action of the District's highest level of decision-making authority (the Board of Directors) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- **Assigned fund balance** – amounts that are constrained by the District's intent to be used for specific purposes. The intent can be established at either the highest level of decision-making, or by a body or an official designated for that purpose.
- **Unassigned fund balance** – the residual classification for the District's general fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

Edgemont Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2018

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

D. Assets, Deferred, Outflows, Liabilities, Deferred Inflows, and Net Position, continued

8. Fund Balance, continued

Fund Balance Policy

The Board of Directors establishes, modifies, or rescinds fund balance commitments and assignments by passage of an ordinance or resolution. This is done through adoption of the budget and subsequent budget amendments that occur throughout the year. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, followed by the unrestricted, committed, assigned, and unassigned resources as they are needed.

The District believes that sound financial management principles require that sufficient funds be retained by the District to provide a stable financial base at all times. To retain this stable financial base, the District needs to maintain an unrestricted fund balance in its funds sufficient to fund cash flows of the District and to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature. Committed, assigned, and unassigned fund balances are considered unrestricted.

The purpose of the District's fund balance policy is to maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures.

(2) Cash and Cash Equivalents

Cash and cash equivalents as of June 30, 2018, consist of the following:

	Governmental Activities	Business-type Activities	Total
Cash on hand	\$ 35	-	35
Deposits held with financial institutions	23,901	-	23,901
Deposits held with Riverside County Treasurer	1,106,327	5,449,432	6,555,759
Total	\$ 1,130,263	5,449,432	6,579,695

Authorized Deposits and Investments

Under provisions of the District's investment policy, and in accordance with Section 53601 of the California Government Code, the District may invest in certain types of investments as listed in Note 1(D)(3) to the financial statements.

Investment in Riverside County Treasurer Fund

The Riverside County Pooled Investment Fund (RCPIF) is a pooled investment fund program governed by the County of Riverside Board of Supervisors, and administered by the County of Riverside Treasurer and Tax Collector. Investments in RCPIF are highly liquid as deposits and withdrawals can be made at anytime without penalty. RCPIF does not impose a maximum investment limit.

The County of Riverside's bank deposits are either Federally insured or collateralized in accordance with the California Government Code. Pool detail may be obtained from the County of Riverside Administrative Office – 4800 Lemon Street, 4th Floor – Capital Markets – Riverside, CA 92506, or the Treasurer and Tax Collector's Office website at www.countytreasurer.org.

Edgemont Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2018

(2) Cash and Cash Equivalents, continued

Custodial Credit Risk

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

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 Code and the District's investment policy contain legal and 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.

Interest Rate Risk

Interest rate risk is the risk that change 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 follows the Code as it relates to limits on investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates.

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.

Concentration of Credit Risk

The District's investment policy contains no limitations on the amounts that can be invested in any one issuer as beyond that stipulated by the California Government code. There were no investments in any one issuer (other than for U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District's investments as of June 30, 2018.

Edgemont Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2018

(3) Capital Assets

Governmental Activities

Change in capital assets for 2018, were as follows:

	Balance 2017	Additions	Deletions/ Transfers	Balance 2018
Non-depreciable assets:				
Land	\$ 219,948	-	-	219,948
Total non-depreciable assets	<u>219,948</u>	<u>-</u>	<u>-</u>	<u>219,948</u>
Depreciable assets:				
Structures and improvements	569,707	-	-	569,707
Office furniture and equipment	5,037	-	-	5,037
Total depreciable assets	<u>574,744</u>	<u>-</u>	<u>-</u>	<u>574,744</u>
Accumulated depreciation:				
Structures and improvements	(322,188)	(16,088)	-	(338,276)
Office furniture and equipment	(5,037)	-	-	(5,037)
Total accumulated depreciation	<u>(327,225)</u>	<u>(16,088)</u>	<u>-</u>	<u>(343,313)</u>
Total depreciable assets, net	<u>247,519</u>			<u>231,431</u>
Total capital assets, net	<u>\$ 467,467</u>			<u>451,379</u>

Business-type Activities

Change in capital assets for 2018, were as follows:

	Balance 2017	Additions	Deletions/ Transfers	Balance 2018
Non-depreciable assets:				
Sewer capacity rights	\$ 2,422,697	-	-	2,422,697
Construction in progress	351,207	1,151,537	(1,378,027)	124,717
Total non-depreciable assets	<u>2,773,904</u>	<u>1,151,537</u>	<u>(1,378,027)</u>	<u>2,547,414</u>
Depreciable assets:				
Structures and improvements	4,497,416	1,378,027	-	5,875,443
Total depreciable assets	<u>4,497,416</u>	<u>1,378,027</u>	<u>-</u>	<u>5,875,443</u>
Accumulated depreciation:				
Structures and improvements	(1,148,554)	(114,173)	-	(1,262,727)
Total accumulated depreciation	<u>(1,148,554)</u>	<u>(114,173)</u>	<u>-</u>	<u>(1,262,727)</u>
Total depreciable assets, net	<u>3,348,862</u>			<u>4,612,716</u>
Total capital assets, net	<u>\$ 6,122,766</u>			<u>7,160,130</u>

Edgemont Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2018

(4) Long-term Debt

Changes in long-term debt for 2018, were as follows:

	Balance 2017	Additions	Payments	Balance 2018
Loan payable:				
County of Riverside	\$ 13,383	-	(6,692)	6,691
Total loan payable	13,383	-	(6,692)	6,691
Less: current portion	(6,692)			(6,691)
Total non-current portion	\$ 6,691			-

Obligation to the City of Riverside

In 2000, the District entered into an agreement with the City of Riverside to pay a portion of the cost of a headworks project. The District agreed to pay \$6,692 per year through June 30, 2019. The term of the agreement is for twenty years.

Future annual debt service requirement is as follows:

Fiscal Year	Principal	Interest	Total
2019	\$ 6,691	-	6,691
Totals	6,691	-	6,691
Current portion	(6,691)		
Non-current	\$ -		

(5) Internal Transfers

Inter-fund Operational Transfers

Inter-fund transfers are used to move financial resources from the General fund to the Illumination fund and the Sewer fund, to absorb the operating deficit and to support the operations of each respective fund.

As of June 30, 2018, inter-fund receivables/payables between the District's funds were as follows:

Due from	Due to	Amount
Sewer Fund	Illumination Fund	\$ 2,667
Sewer Fund	General Fund	10,823
Payable from Sewer		\$ 13,490

Edgemont Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2018

(5) Internal Transfers, continued

Inter-fund Operational Transfers, continued

For the year ended June 30, 2018, inter-fund transfers consist of the following:

Transfer from	Transfer to	Amount
General Fund	Illumination Fund	\$ 13,861
General Fund	Sewer Fund	150,644
General Fund	Capital Asset Fund	757,581
		908,225
Transfer from General		\$ 922,086

(6) Net Position

The details of net position are as follows:

	Governmental Activities	Business-type Activities	2018
Net investment in capital assets			
Capital assets – not being depreciated	\$ 219,948	2,547,414	2,767,362
Capital assets – being depreciated, net	231,431	4,612,716	4,844,147
Total net investment in capital assets	451,379	7,160,130	7,611,509
Unrestricted			
Nonspendable			
Prepaid expenses	3,372	11,912	15,284
Total nonspendable	3,372	11,912	15,284
Spendable			
Operating	1,099,190	5,191,390	6,290,580
Total spendable	1,099,190	5,191,390	6,290,580
Total unrestricted	1,102,562	5,203,302	6,305,864
Total net position	\$ 1,553,941	12,363,432	13,917,373

Edgemont Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2018

(7) Fund Balance

Fund balances are presented in the following categories: non-spendable, restricted, committed, assigned, and unassigned (See Note 1.D.8 for a description of these categories). A detailed schedule of fund balances and their funding composition at June 30, 2018, is as follows:

	General Fund	Illumination Fund	2018
Nonspendable			
Prepaid expenses	\$ 3,177	195	3,372
Unassigned			
Operations	1,087,481	11,709	1,099,190
Total fund balance	\$ 1,090,658	11,904	1,102,562

(8) 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 management believes these risks of loss are mitigated by the purchase of commercial insurance policies.

(9) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to the report date, 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) 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.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

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.

Edgemont Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2018

(9) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 84, continued

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 requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 87

In June 2017, the GASB issued Statement No. 87 – *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

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 primary 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.

Edgemont Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2018

(9) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 89

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

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

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

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

(10) Commitments and Contingencies

Commitments

In conjunction with the sewage capacity rights acquired from the City of Riverside (City), the District is obligated to pay the City service charges to cover its proportionate share of the cost of operating the City’s sewage treatment plant. Operating costs vary yearly including both the day to day recurring expenses based on capacity use as well as repairs made to the plant. Total service charges paid to the City for the year ended June 30, 2018, amounted to \$547,208.

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.

In addition, the District has a claim against the City of Riverside in the approximate amount of \$90,000.

(11) Subsequent Event

Events occurring after June 30, 2018, have been evaluated for possible adjustment to the financial statements or disclosure as of November 8, 2018, which is the date the financial statements were available to be issued. The District is not aware of any further subsequent events that would require recognition or disclosure in the financial statements.

Required Supplementary Information

Edgemont Community Service District
Budgetary Comparison Schedule – General Fund
June 30, 2018

	<u>Adopted Original Budget</u>	<u>Board Approved Changes</u>	<u>Revised Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Positive (Negative)</u>
Revenues:					
Property taxes	\$ 553,000	-	553,000	770,537	217,537
Interest earnings	2,600	-	2,600	16,771	14,171
Rental income	643,800	-	643,800	643,764	(36)
Total revenues	<u>1,199,400</u>	<u>-</u>	<u>1,199,400</u>	<u>1,431,072</u>	<u>231,672</u>
Expenditures:					
Cost of services	-	-	-	625	(625)
Professional services	-	-	-	81,054	(81,054)
Utilities	-	-	-	1,914	(1,914)
Repairs and maintenance	-	-	-	4,372	(4,372)
Office supplies	-	-	-	4,073	(4,073)
Insurance	-	-	-	2,743	(2,743)
Salaries and benefits	-	-	-	15,351	(15,351)
General and administrative	-	-	-	20,278	(20,278)
Total expenditures	<u>322,494</u>	<u>-</u>	<u>322,494</u>	<u>130,410</u>	<u>192,084</u>
Excess(deficiency) of revenue over expenditures	876,906	-	876,906	1,300,662	423,756
Other Financing sources:					
Operating transfers out	(1,467,833)	-	(1,467,833)	(922,086)	545,747
Net changes in fund balance	(590,927)	<u>-</u>	(590,927)	378,576	<u>969,503</u>
Fund balance, beginning of year	<u>712,082</u>		<u>712,082</u>	<u>712,082</u>	
Fund balance, end of period	<u>\$ 121,155</u>		<u>121,155</u>	<u>1,090,658</u>	

Notes to Required Supplementary Information

The District follows specific procedures in establishing the budgetary data reflected in the financial statements. Prior to the beginning of each fiscal year, the District adopts and files an itemized statement of estimated operating expenditures, reserve requirements, and anticipated revenues in addition to property taxes with the Riverside County Auditor-Controller. The sources of financing for these operating costs and reserve requirements are (1) available fund balance carried forward from the preceding year, (2) revenue other than property taxes, and (3) property taxes. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all government and proprietary funds. Annual budgets are adopted on the modified accrual basis of accounting for government fund types and accrual basis for the proprietary fund. The adopted budget becomes operative on July 1.

Edgemont Community Service District
Budgetary Comparison Schedule – Illumination Fund
June 30, 2018

	<u>Adopted Original Budget</u>	<u>Board Approved Changes</u>	<u>Revised Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Positive (Negative)</u>
Revenues:					
Property taxes	\$ 10,900	-	10,900	12,147	1,247
Interest earnings	70	-	70	331	261
Illumination fees	19,800	-	19,800	20,909	1,109
Other revenue	-	-	-	4,000	4,000
Total revenues	<u>30,770</u>	<u>-</u>	<u>30,770</u>	<u>37,387</u>	<u>6,617</u>
Expenditures:					
Cost of services and general expenses	74,170	-	74,170	39,326	34,844
Professional services	21,000	-	21,000	32,739	(11,739)
Total expenditures	<u>95,170</u>	<u>-</u>	<u>95,170</u>	<u>72,065</u>	<u>23,105</u>
Excess(deficiency) of revenue over expenditures	(64,400)	-	(64,400)	(34,678)	29,722
Other Financing sources:					
Operating transfers in	48,333	-	48,333	13,861	110,527
Net change in fund balance	<u>(16,067)</u>	<u>-</u>	<u>(16,067)</u>	<u>(20,817)</u>	<u>140,249</u>
Fund balance, beginning of year	<u>32,721</u>		<u>32,721</u>	<u>32,721</u>	
Fund balance, end of period	<u>\$ 16,654</u>		<u>16,654</u>	<u>11,904</u>	

Notes to Required Supplementary Information

The District follows specific procedures in establishing the budgetary data reflected in the financial statements. Prior to the beginning of each fiscal year, the District adopts and files an itemized statement of estimated operating expenditures, reserve requirements, and anticipated revenues in addition to property taxes with the Riverside County Auditor-Controller. The sources of financing for these operating costs and reserve requirements are (1) available fund balance carried forward from the preceding year, (2) revenue other than property taxes, and (3) property taxes. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all government and proprietary funds. Annual budgets are adopted on the modified accrual basis of accounting for government fund types and accrual basis for the proprietary fund. The adopted budget becomes operative on July 1.

Supplemental Information Section

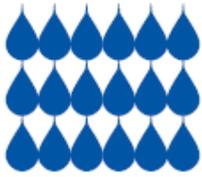
**Edgemont Community Services District
Combined Schedule of Net Position
June 30, 2018**

	<u>Sewer</u>	<u>Capital Asset</u>	<u>Total Business-type Activities</u>
Assets:			
Current assets:			
Cash and cash equivalents	\$ 434,796	5,014,637	5,449,433
Accrued interest receivable	1,598	16,551	18,149
Accounts receivable	5,153	-	5,153
Accounts receivable – other	409	-	409
Prepaid expenses and other assets	11,912	-	11,912
Total current assets	<u>453,868</u>	<u>5,031,188</u>	<u>5,485,056</u>
Non-current assets:			
Capital assets – not being depreciated	-	2,547,414	2,547,414
Capital assets – being depreciated, net	(114,173)	4,726,889	4,612,716
Total non-current assets:	<u>(114,173)</u>	<u>7,274,303</u>	<u>7,160,130</u>
Total assets:	<u>339,695</u>	<u>12,305,491</u>	<u>12,645,186</u>
Liabilities:			
Current liabilities:			
Accounts payable and accrued expenses	260,808	-	260,808
Accrued salaries and related payables	765	-	765
Inter-fund payable	13,490	-	13,490
Long-term liabilities – due within one year:			
Long-term debt	-	6,691	6,691
Total current liabilities	<u>275,063</u>	<u>6,691</u>	<u>281,754</u>
Total liabilities	<u>275,063</u>	<u>6,691</u>	<u>281,754</u>
Net position:			
Net investment in capital assets	(114,173)	7,274,303	7,160,130
Unrestricted	178,805	5,024,497	5,203,302
Total net position	<u>\$ 64,632</u>	<u>12,298,800</u>	<u>12,363,432</u>

Edgemont Community Services District
Combined Schedule of Revenues, Expenses and Changes in Net Position
June 30, 2018

	Sewer	Capital Asset	Total Business-type Activities
Operating revenues:			
Sewer charges	\$ 249,945	-	249,945
Connection fees	746,400	-	746,400
Other charges and services	79,000	-	79,000
Total operating revenues	1,075,345	-	1,075,345
Operating expenses:			
Cost of services	691,184	16	691,200
Professional services	360,259	-	360,259
Utilities	3,505	-	3,505
Office supplies	671	-	671
Insurance	9,108	-	9,108
Salaries and benefits	52,035	-	52,035
General and administrative	2,088	-	2,088
Total operating expenses	1,118,850	16	1,118,866
Operating loss before depreciation	(43,505)	(16)	(43,521)
Depreciation	(114,173)	-	(114,173)
Operating loss	(157,678)	(16)	(157,694)
Non-operating revenues:			
Interest earnings	5,298	60,982	66,280
Total non-operating revenues	5,298	60,982	66,280
Net income (loss)	(152,380)	60,966	(91,414)
Transfers from other funds	150,644	757,581	908,225
Changes in net position	(1,736)	818,547	816,811
Net position, beginning of year	66,368	11,480,253	11,546,621
Net position, end of year	\$ 64,632	12,298,800	12,363,432

Report on Compliance and Internal Controls



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

Fedak & Brown LLP

Certified Public Accountants

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

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

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

Board of Directors
Edgemont Community Services District
Riverside, 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 Edgemont Community Services District (District), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 8, 2018.

Internal Control Over Financial Reporting

In planning and performing our audits 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 opinion 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 Controls Over Financial Reporting
And on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards, continued***

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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
November 8, 2018