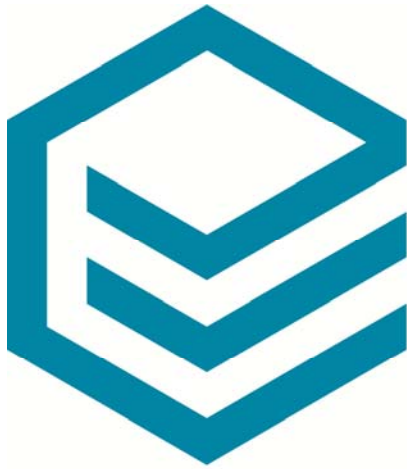




***Edgemont***

Community Services District

**Annual Financial Report  
For the Fiscal Year Ended  
June 30, 2021**



# *Edgemont*

Community Services District

## Board of Directors as of June 30, 2021

<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	11/2024
Moses Taylor Jr.	Director	Elected	11/2022
Crystal Smith	Director	Elected	11/2024
Brenda Addie	Director	Elected	11/2022

**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, 2021**

**Edgemont Community Services District  
Annual Financial Report  
For the Fiscal Year Ended June 30, 2021**

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# **Financial Section**





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

# Fedak & Brown LLP

Certified Public Accountants

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(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, 2021, 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; 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, 2021, 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

### ***Other Matters***

#### *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 33 and 34 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 Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2022, 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 35 and 36.

*Fedak & Brown LLP*

**Fedak & Brown LLP**

Cypress, California

February 24, 2022



**Edgemont Community Services District  
Management’s Discussion and Analysis  
For the Fiscal Year Ended June 30, 2021**

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, 2021. 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 5.83% or \$921,492 to \$16,733,114 due to ongoing operations.
- Total revenues decreased by 4.31% or \$99,573 to \$2,212,435.
- Total expenses increased by 17.09% or \$188,426 to \$1,290,943.

**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.

**Edgemont Community Services District  
Management’s Discussion and Analysis, continued  
For the Fiscal Year Ended June 30, 2021**

**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.

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 32.

**Government-wide Financial Analysis**

**Statement of Net Position**

The following table is a summary of the statements of net position at June 30, 2021 and 2020.

	<b>Condensed Statements of Net Position</b>					
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total District</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
<b>Assets:</b>						
Current assets	\$ 1,517,835	1,339,274	6,602,786	7,172,865	8,120,621	8,512,139
Capital assets, net	439,667	455,057	8,456,353	7,336,214	8,896,020	7,791,271
<b>Total assets</b>	<u>1,957,502</u>	<u>1,794,331</u>	<u>15,059,139</u>	<u>14,509,079</u>	<u>17,016,641</u>	<u>16,303,410</u>
<b>Deferred outflows of resources</b>	17,906	-	3,168	-	21,074	-
<b>Liabilities:</b>						
Current liabilities	66,240	57,460	238,361	434,328	304,601	491,788
<b>Total liabilities</b>	<u>66,240</u>	<u>57,460</u>	<u>238,361</u>	<u>434,328</u>	<u>304,601</u>	<u>491,788</u>
<b>Net position:</b>						
Net investment in capital assets	439,667	455,057	8,456,353	7,336,214	8,896,020	7,791,271
Unrestricted	1,469,501	1,281,814	6,367,593	6,738,537	7,837,094	8,020,351
<b>Total net position</b>	<u>\$ 1,909,168</u>	<u>1,736,871</u>	<u>14,823,946</u>	<u>14,074,751</u>	<u>16,733,114</u>	<u>15,811,622</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 exceeded liabilities by \$16,733,114 as of June 30, 2021. At June 30, 2021, the District’s total net position is made-up of two components: (1) net investment in capital assets in the amount of \$8,896,020 and (2) unrestricted in the amount of \$7,837,094.

**Edgemont Community Services District  
Management's Discussion and Analysis, continued  
For the Fiscal Year Ended June 30, 2021**

**Government-wide Financial Analysis, continued**

**Statement of Activities**

The following table is a summary of the statements of activities for the years ended June 30, 2021 and 2020.

	<b>Condensed Statements of Activities</b>					
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total District</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
<b>Revenues:</b>						
<b>Program revenues:</b>						
Charges for services	\$ 25,218	21,433	569,588	614,794	594,806	636,227
<b>General revenues:</b>						
Property taxes	943,190	904,808	-	-	943,190	904,808
Interest earnings	5,476	13,866	25,199	113,343	30,675	127,209
Rental income	643,764	643,764	-	-	643,764	643,764
<b>Total revenues</b>	<u>1,617,648</u>	<u>1,583,871</u>	<u>594,787</u>	<u>728,137</u>	<u>2,212,435</u>	<u>2,312,008</u>
<b>Expenses:</b>						
General	177,752	176,496	-	-	177,752	176,496
Illumination	78,963	65,791	-	-	78,963	65,791
Sewer	-	-	1,034,228	860,230	1,034,228	860,230
<b>Total expenses</b>	<u>256,715</u>	<u>242,287</u>	<u>1,034,228</u>	<u>860,230</u>	<u>1,290,943</u>	<u>1,102,517</u>
<b>Transfers from(to) other fund</b>	<u>(1,188,636)</u>	<u>(775,071)</u>	<u>1,188,636</u>	<u>775,071</u>	<u>-</u>	<u>-</u>
<b>Change in net position</b>	172,297	566,513	749,195	642,978	921,492	1,209,491
<b>Net position, beginning of year</b>	<u>1,736,871</u>	<u>1,170,358</u>	<u>14,074,751</u>	<u>13,431,773</u>	<u>15,811,622</u>	<u>14,602,131</u>
<b>Net position, end of year</b>	<u>\$ 1,909,168</u>	<u>1,736,871</u>	<u>14,823,946</u>	<u>14,074,751</u>	<u>16,733,114</u>	<u>15,811,622</u>

Net position increased by 5.83% or \$921,492 to \$16,733,114, as a result of ongoing operations.

Total revenues decreased 4.31% or \$99,573 to \$2,212,435. Program revenues decreased 6.51% or \$41,421 to \$594,806 primarily due to a decrease of \$105,128 in other service charges; which was offset by an increase of \$49,680 in connection fees. General revenues decreased 3.47% or \$58,152 to \$1,617,629, primarily due to a decrease of \$96,543 in interest earnings; which was offset by an increase of \$38,382 in property taxes.

Total expenses increased by 17.09% or \$188,426 to \$1,290,943, primarily due to an increase of \$173,998 in sewer operating expenses and \$13,172 in street lighting expenses.

**Governmental Activities Budgetary Highlights**

The final actual expenditures for the year ended June 30, 2021, was less than budgeted by \$575,965 for the General Fund, and less than budgeted by \$1,577 for the Illumination Fund. Actual revenues for the year ended June 30, 2021, were more than the anticipated budget by \$340,720 for the General Fund, and more than budgeted by \$7,611 for the Illumination Fund. At June 30, 2021, 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 33 and 34).

**Edgemont Community Services District  
Management's Discussion and Analysis, continued  
For the Fiscal Year Ended June 30, 2021**

**Capital Asset Administration**

	Governmental Activities		Business-type Activities		Total District	
	2021	2020	2021	2020	2021	2020
Capital assets:						
Non-depreciable assets	\$ 219,948	219,948	2,593,521	2,944,597	2,813,469	3,164,545
Depreciable assets	614,011	611,597	7,473,184	5,875,443	8,087,195	6,487,040
Total capital assets	833,959	831,545	10,066,705	8,820,040	10,900,664	9,651,585
Accumulated depreciation	(394,292)	(376,488)	(1,610,352)	(1,483,826)	(2,004,644)	(1,860,314)
Total capital assets, net	\$ 439,667	455,057	8,456,353	7,336,214	8,896,020	7,791,271

At June 30, 2021, the District's investment in capital assets amounted to \$8,896,020 (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.

**Conditions Affecting Current Financial Position**

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

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

**Requests for Information**

This financial report is designed to provide the District's 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 Pfalmer, 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, 2021**

	<b>Governmental Activities</b>	<b>Business-type Activites</b>	<b>Total</b>
<b>Assets:</b>			
<b>Current assets:</b>			
Cash and cash equivalents (note 2)	\$ 1,489,179	6,586,790	8,075,969
Accrued interest receivable	880	4,069	4,949
Accounts receivable	-	5,044	5,044
Accounts receivable - other	279	350	629
Property taxes and assessments receivable	17,983	-	17,983
Prepaid expenses	9,514	6,533	16,047
<b>Total current assets</b>	<b>1,517,835</b>	<b>6,602,786</b>	<b>8,120,621</b>
<b>Non-current assets:</b>			
Capital assets – not being depreciated (note 3)	219,948	2,593,521	2,813,469
Capital assets – being depreciated (note 3)	219,719	5,862,832	6,082,551
<b>Total non-current assets</b>	<b>439,667</b>	<b>8,456,353</b>	<b>8,896,020</b>
<b>Total assets</b>	<b>1,957,502</b>	<b>15,059,139</b>	<b>17,016,641</b>
<b>Deferred outflows of resources:</b>			
Deferred pension outflows	17,906	3,168	21,074
<b>Total deferred outflows of resources</b>	<b>17,906</b>	<b>3,168</b>	<b>21,074</b>
<b>Liabilities:</b>			
<b>Current liabilities:</b>			
Accounts payable and accrued expenses	12,398	237,254	249,652
Accrued salaries and related payables	195	1,107	1,302
Unearned revenue	53,647	-	53,647
<b>Total current liabilities</b>	<b>66,240</b>	<b>238,361</b>	<b>304,601</b>
<b>Total liabilities</b>	<b>66,240</b>	<b>238,361</b>	<b>304,601</b>
<b>Net position: (note 5)</b>			
Net investment in capital assets	439,667	8,456,353	8,896,020
Unrestricted	1,469,501	6,367,593	7,837,094
<b>Total net position</b>	<b>\$ 1,909,168</b>	<b>14,823,946</b>	<b>16,733,114</b>

See accompanying notes to the basic financial statements

**Edgemont Community Services District**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2021**

<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>2021</u>
		<u>Services</u>	<u>Activities</u>	<u>Activities</u>	
<b>Governmental activities</b>					
General	\$ 177,752	-	(177,752)	-	(177,752)
Illumination	78,963	25,218	(53,745)	-	(53,745)
<b>Total governmental</b>	<u>256,715</u>	<u>25,218</u>	<u>(231,497)</u>	<u>-</u>	<u>(231,497)</u>
<b>Business-type activities</b>					
Sewer	1,034,228	569,588	-	(464,640)	(464,640)
<b>Total business-type</b>	<u>1,034,228</u>	<u>569,588</u>	<u>-</u>	<u>(464,640)</u>	<u>(464,640)</u>
<b>Total</b>	<u>\$ 1,290,943</u>	<u>594,806</u>	<u>(231,497)</u>	<u>(464,640)</u>	<u>(696,137)</u>
<b>General revenues:</b>					
Property taxes			\$ 943,190	-	943,190
Interest earnings			5,476	25,199	30,675
Rental income			643,764	-	643,764
<b>Total general revenues</b>			<u>1,592,430</u>	<u>25,199</u>	<u>1,617,629</u>
<b>Transfers from(to) other funds</b>					
<b>(note 4)</b>			<u>(1,188,636)</u>	<u>1,188,636</u>	<u>-</u>
<b>Changes in net position</b>			172,297	749,195	921,492
<b>Net position, beginning of year</b>			<u>1,736,871</u>	<u>14,074,751</u>	<u>15,811,622</u>
<b>Net position, end of year</b>			<u>\$ 1,909,168</u>	<u>14,823,946</u>	<u>16,733,114</u>

See accompanying notes to the basic financial statements

**Edgemont Community Services District**  
**Balance Sheet – Governmental Fund**  
**June 30, 2021**

	<u>General Fund</u>	<u>Illumination Fund</u>	<u>Total Fund</u>
<b>Assets:</b>			
Cash and cash equivalents	\$ 1,468,692	20,487	1,489,179
Accrued interest receivable	867	13	880
Accounts receivable – other	255	24	279
Property taxes receivable	17,352	631	17,983
Inter-fund receivable	2,144	(2,144)	-
Prepaid expenses	9,092	422	9,514
<b>Total assets</b>	<u>\$ 1,498,402</u>	<u>19,433</u>	<u>1,517,835</u>
<b>Liabilities:</b>			
Accounts payable and accrued expenses	\$ 1,348	11,050	12,398
Accrued payroll and related expenses	130	65	195
Unearned revenue	53,647	-	53,647
<b>Total liabilities</b>	<u>55,125</u>	<u>11,115</u>	<u>66,240</u>
<b>Fund balance:</b>			
Nonspendable	26,772	648	27,420
Unassigned	1,416,505	7,670	1,424,175
<b>Total fund balance</b>	<u>1,443,277</u>	<u>8,318</u>	<u>1,451,595</u>
<b>Total liabilities and fund balance</b>	<u>\$ 1,498,402</u>	<u>19,433</u>	<u>1,517,835</u>

Continue on next page

See accompanying notes to the basic financial statements



**Edgemont Community Services District**  
**Reconciliation of the Balance Sheet – Governmental Fund**  
**to the Statement of Net Position**  
**June 30, 2021**

**Reconciliation:**

Total fund balance of Governmental Fund	\$	1,451,595
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 fund 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		219,719
Deferred outflows(inflows) of resources are not financial resources(uses) and, therefore, are not reported in the governmental fund balance sheet. However, they are reported in the statement of net position as follows:		
Deferred pension outflows		17,906
		457,573
Net position of Governmental Activities	\$	1,909,168

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, 2021**

	<u>General Fund</u>	<u>Illumination Fund</u>	<u>Total Fund</u>
<b>Revenues:</b>			
Property taxes	\$ 927,275	15,915	943,190
Interest earnings	5,381	95	5,476
Rental income	643,764	-	643,764
Illumination fees	-	21,218	21,218
Other revenue	-	4,000	4,000
<b>Total revenues</b>	<u>1,576,420</u>	<u>41,228</u>	<u>1,617,648</u>
<b>Expenditures:</b>			
Cost of services	9,997	43,423	53,420
Professional services	87,489	26,929	114,418
Utilities	2,158	109	2,267
Repairs and maintenance	10,300	-	10,300
Office supplies	4,586	726	5,312
Insurance	1,900	264	2,164
Salaries and benefits	44,638	7,512	52,150
General and administrative	16,786	-	16,786
Capital outlay	2,414	-	2,414
<b>Total expenditures</b>	<u>180,268</u>	<u>78,963</u>	<u>259,231</u>
Excess(deficiency) of revenue over expenditures	1,396,152	(37,735)	1,358,417
<b>Other financing sources(uses):</b>			
Operating transfers in(out)	<u>(1,207,331)</u>	<u>18,695</u>	<u>(1,188,636)</u>
<b>Net change in fund balance</b>	188,821	(19,040)	169,781
<b>Fund balance, beginning of year</b>	<u>1,254,456</u>	<u>27,358</u>	<u>1,281,814</u>
<b>Fund balance, end of year</b>	<u>\$ 1,443,277</u>	<u>8,318</u>	<u>1,451,595</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, 2021**

**Reconciliation:**

Net change in fund balance – total Governmental Fund	\$	169,781
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		(17,804)
Capital outlay		2,414
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenses in governmental fund as follows:		
Net change in pension obligations for the current period		<u>17,906</u>
Changes in net position of Governmental Activities	\$	<u><u>172,297</u></u>

See accompanying notes to the basic financial statements

**Edgemont Community Services District**  
**Statement of Net Position – Enterprise Fund**  
**June 30, 2021**

	<b>2021</b>
<b>Assets:</b>	
<b>Current assets:</b>	
Cash and cash equivalents	\$ 6,586,790
Accrued interest receivable	4,069
Accounts receivable	5,044
Accounts receivable – other	350
Prepaid expenses and other assets	6,533
<b>Total current assets</b>	<b>6,602,786</b>
<b>Non-current assets:</b>	
Capital assets – not being depreciated	2,593,521
Capital assets – being depreciated, net	5,862,832
<b>Total non-current assets</b>	<b>8,456,353</b>
<b>Total assets</b>	<b>15,059,139</b>
<b>Deferred outflows of resources:</b>	
Deferred pension outflows	3,168
<b>Total deferred outflows of resources:</b>	<b>3,168</b>
<b>Liabilities:</b>	
<b>Current liabilities:</b>	
Accounts payable and accrued expenses	237,254
Accrued salaries and related payables	1,107
<b>Total current liabilities</b>	<b>238,361</b>
<b>Total liabilities</b>	<b>238,361</b>
<b>Net position:</b>	
Net investment in capital assets	8,456,353
Unrestricted	6,367,593
<b>Total net position</b>	<b>\$ 14,823,946</b>

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, 2021**

	<b>2021</b>
<b>Operating revenues:</b>	
Sewer charges	\$ 482,118
Connection fees	66,600
Other charges and services	20,870
<b>Total operating revenues</b>	<b>569,588</b>
<b>Operating expenses:</b>	
Cost of services	528,694
Professional services	241,061
Utilities	3,763
Office supplies	1,146
Insurance	15,003
Salaries and benefits	111,400
General and administrative	6,635
<b>Total operating expenses</b>	<b>907,702</b>
<b>Operating loss before depreciation</b>	<b>(338,114)</b>
Depreciation	(126,526)
<b>Operating loss</b>	<b>(464,640)</b>
<b>Non-operating revenues:</b>	
Interest earnings	25,199
<b>Total non-operating revenues</b>	<b>25,199</b>
<b>Net income(loss)</b>	<b>(439,441)</b>
<b>Transfers from other funds</b>	<b>1,188,636</b>
<b>Changes in net position</b>	<b>749,195</b>
<b>Net position, beginning of year</b>	<b>14,074,751</b>
<b>Net position, end of year</b>	<b>\$ 14,823,946</b>

**Edgemont Community Services District  
Statement of Cash Flows – Enterprise Fund  
For the Year Ended June 30, 2021**

	<b>2021</b>
<b>Cash flows from operating activities:</b>	
Cash receipts from customers	\$ 686,076
Cash paid to employees	(73,810)
Cash paid to vendors and suppliers	(1,032,203)
<b>Net cash used in operating activities</b>	<b>(419,937)</b>
<b>Cash flows from non-capital financing activities:</b>	
Transfer of General fund's cash	(442)
Operating transfer in	1,188,636
<b>Net cash provided by non-capital financing activities</b>	<b>1,188,194</b>
<b>Cash flows from capital and related financing activities:</b>	
Acquisition and construction of capital assets	(1,246,665)
<b>Net cash used in capital and financing activities</b>	<b>(1,246,665)</b>
<b>Cash flows from investing activities:</b>	
Interest earnings	34,721
<b>Net cash provided by investing activities</b>	<b>34,721</b>
<b>Net increase in cash and cash equivalents</b>	<b>(443,687)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>7,030,477</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 6,586,790</b>

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, 2021**

	<b>2021</b>
<b>Reconciliation of operating loss to net cash used in operating activities:</b>	
<b>Operating loss</b>	\$ <u>(464,640)</u>
<b>Adjustments to reconcile operating loss to net cash used in operating activities:</b>	
Depreciation expense	126,526
<b>Change in assets and liabilities:</b>	
Decrease(Increase) in assets:	
Accounts receivable – other	116,488
Prepays and other assets	382
Increase in deferred outflows of resources	
Deferred pension outflows	(3,168)
Increase(Decrease) in liabilities:	
Accounts payable and accrued expenses	(195,577)
Accrued salaries and related payables	<u>52</u>
<b>Total adjustments</b>	<u>44,703</u>
<b>Net cash used in operating activities</b>	\$ <u><u>(419,937)</u></u>

See accompanying notes to the basic financial statements

**Edgemont Community Services District**  
**Notes to the Basic Financial Statements**  
**June 30, 2021**

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

**A. Organization and Operations of the Reporting Entity**

The Edgemont Community Services 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 difference 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 the 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, 2021**

**(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 fund. 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 which are recorded at year end.

The proprietary fund distinguishes 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 water purchases, 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 operating 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;
- b) Total assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental or proprietary fund are at least 5 percent of the corresponding total for all governmental and proprietary funds combined; or
- 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 Fund***

**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 activities 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 Fund***

**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, 2021**

**(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 pronouncement in the current year:

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

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

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

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

In August 2018, the GASB issued Statement No. 90 – *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

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

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

**Edgemont Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2021**

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

**C. Financial Reporting, continued**

The requirements of this Statement were effective for reporting periods beginning after December 15, 2018; however, in light of the COVID-19 pandemic, the effective date has been postponed by one year. Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

**D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position/Fund Balance**

**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. Uncertainty**

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

**3. Cash and Cash Equivalents**

Substantially all of 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.

**4. Investments and Investment Policy**

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

- 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.

**Edgemont Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2021**

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

**D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position/Fund Balance, continued**

**5. 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

**6. 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.

**7. 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.

**8. Net Position**

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

- **Net investment in capital assets** – 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** – 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** – 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 *restricted* components of net position.

**Edgemont Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2021**

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

**D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position/Fund Balance, continued**

**9. Fund Balance**

The governmental fund financial statements 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 or 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.

***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 sufficient funds to 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 balance classifications 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.

**Edgemont Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2021**

**(2) Cash and Cash Equivalents**

Cash and cash equivalents as of June 30, 2021, consist of the following:

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
Cash on hand	\$ -	-	-
Deposits held with financial institutions	55,627	-	55,627
Deposits held with Riverside County Treasurer	<u>1,433,552</u>	<u>6,586,790</u>	<u>8,020,342</u>
Total	<u>\$ 1,489,179</u>	<u>6,586,790</u>	<u>8,075,969</u>

***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)(4) 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, 4<sup>th</sup> Floor – Capital Markets – Riverside, CA 92506, or the Treasurer and Tax Collector’s Office website at [www.countytreasurer.org](http://www.countytreasurer.org).

***Custodial Credit Risk***

Custodial credit risk for *deposits* is the risk that, in the event of 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: 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.

**Edgemont Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2021**

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

***Interest Rate Risk***

Interest rate risk is the risk that the 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 a rating assigned 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 beyond that is 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 the District's total investments as of June 30, 2021.

**(3) Capital Assets**

***Governmental Activities***

Change in capital assets for 2021, were as follows:

	<u>Balance 2020</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2021</u>
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	606,560	-	-	606,560
Office furniture and equipment	5,037	2,414	-	7,451
Total depreciable assets	<u>611,597</u>	<u>2,414</u>	<u>-</u>	<u>614,011</u>
Accumulated depreciation:				
Structures and improvements	(371,451)	(17,563)	-	(389,014)
Office furniture and equipment	<u>(5,037)</u>	<u>(241)</u>	<u>-</u>	<u>(5,278)</u>
Total accumulated depreciation	<u>(376,488)</u>	<u>(17,804)</u>	<u>-</u>	<u>(394,292)</u>
Total depreciable assets, net	<u>235,109</u>			<u>219,719</u>
Total capital assets, net	<u>\$ 455,057</u>			<u>439,667</u>

**Edgemont Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2021**

**(3) Capital Assets, continued**

*Business-type Activities*

Change in capital assets for 2021, were as follows:

	<u>Balance 2020</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2021</u>
Non-depreciable assets:				
Sewer capacity rights	\$ 2,422,697	-	-	2,422,697
Construction in progress	521,900	1,246,664	(1,597,740)	170,824
Total non-depreciable assets	<u>2,944,597</u>	<u>1,246,664</u>	<u>(1,597,740)</u>	<u>2,593,521</u>
Depreciable assets:				
Structures and improvements	5,875,443	1,597,741	-	7,473,184
Total depreciable assets	<u>5,875,443</u>	<u>1,597,741</u>	<u>-</u>	<u>7,473,184</u>
Accumulated depreciation:				
Structures and improvements	(1,483,826)	(126,526)	-	(1,610,352)
Total accumulated depreciation	<u>(1,483,826)</u>	<u>(126,526)</u>	<u>-</u>	<u>(1,610,352)</u>
Total depreciable assets, net	<u>4,391,617</u>			<u>5,862,832</u>
Total capital assets, net	<u>\$ 7,336,214</u>			<u>8,456,353</u>

**(4) Internal Transfers**

*Inter-fund Operational Transfers*

Inter-fund transfers are used to move financial resources between the General fund, 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, 2021, inter-fund receivables/payables between the District's funds were as follows:

<u>Due from</u>	<u>Due to</u>	<u>Amount</u>
Illumination Fund	General Fund	\$ <u>2,144</u>
<b>Receivable by General</b>		<b>\$ <u>2,144</u></b>

For the year ended June 30, 2021, inter-fund transfers consist of the following:

<u>Transfer from</u>	<u>Transfer to</u>	<u>Amount</u>
General Fund	Illumination Fund	\$ 18,695
General Fund	Sewer Fund	<u>1,188,636</u>
<b>Transfer from General</b>		<b>\$ <u>1,207,331</u></b>



**Edgemont Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2021**

**(5) Defined Benefit Pension Plan**

***Plan Description***

All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Defined Pension Plan (Plan or PERF C) administered by the California Public Employees' Retirement System (CalPERS). The Plan consists of miscellaneous and safety plans, respectively. Benefit provisions under the Plan are established by State statute and the District's resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS website or may be obtained from their executive office at 400 P Street, Sacramento, California 95814.

***Benefits Provided***

CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability after 10 years of service. The death benefit is one of the following: The Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. Cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

On September 12, 2012, the California Governor signed the California Public Employees' Pension Reform Act of 2013 (PEPRA) into law. PEPRA took effect January 1, 2013. The new legislation closed the District's CalPERS 2.0% at 60 Risk Pool Retirement Plan to new employee entrants effective December 31, 2012. All employees hired after January 1, 2013 are eligible for the District's CalPERS 2.0% at 62 Retirement Plan under PEPRA.

**Edgemont Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2021**

**(6) Net Position**

The details of net position are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>2021</u>
Net investment in capital assets			
Capital assets – not being depreciated	\$ 219,948	2,593,521	2,813,469
Capital assets – being depreciated, net	<u>219,719</u>	<u>5,862,832</u>	<u>6,082,551</u>
Total net investment in capital assets	<u>439,667</u>	<u>8,456,353</u>	<u>8,896,020</u>
Unrestricted			
Nonspendable			
Prepaid expenses	9,514	6,533	16,047
Deferred pension outflows	<u>17,906</u>	<u>3,168</u>	<u>21,074</u>
Total nonspendable	<u>27,420</u>	<u>9,701</u>	<u>37,121</u>
Spendable			
Operating	<u>1,442,083</u>	<u>6,357,892</u>	<u>7,799,975</u>
Total spendable	<u>1,442,083</u>	<u>6,357,892</u>	<u>7,799,975</u>
Total unrestricted	<u>1,469,503</u>	<u>6,367,593</u>	<u>7,837,096</u>
Total net position	<u>\$ 1,909,170</u>	<u>14,823,946</u>	<u>16,733,116</u>

**(7) Fund Balance**

Fund balance is presented in the following categories: non-spendable, restricted, committed, assigned, and unassigned (See Note 1.D.9 for a description of these categories). A detailed schedule of fund balances and their funding composition at June 30, 2021, is as follows:

	<u>General Fund</u>	<u>Illumination Fund</u>	<u>2021</u>
Nonspendable			
Prepaid expenses	\$ 9,092	422	9,514
Deferred pension outflows	<u>17,680</u>	<u>226</u>	<u>17,906</u>
Total nonspendable	<u>26,772</u>	<u>648</u>	<u>27,420</u>
Unassigned			
Operations	<u>1,416,505</u>	<u>7,670</u>	<u>1,424,175</u>
Total fund balance	<u>\$ 1,443,277</u>	<u>8,318</u>	<u>1,451,595</u>

**(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's management believes these risks of loss are mitigated by the purchase of commercial insurance policies.

**Edgemont Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2021**

**(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. 87***

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

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

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

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

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

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

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

**Edgemont Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2021**

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

***Governmental Accounting Standards Board Statement No. 91***

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

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

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

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

***Governmental Accounting Standards Board Statement No. 92***

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

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

**Edgemont Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2021**

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

***Governmental Accounting Standards Board Statement No. 93***

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

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

***Governmental Accounting Standards Board Statement No. 94***

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

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

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

**Edgemont Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2021**

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

***Governmental Accounting Standards Board Statement No. 96***

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

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

***Governmental Accounting Standards Board Statement No. 97***

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

The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately. The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement. The Board considered the effective dates for the requirements of this Statement in light of the COVID-19 pandemic and in concert with Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance.

**Edgemont Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2021**

**(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 for recurring expenses based on capacity use and the repairs made to the plant. Total service charges paid to the City for the year ended June 30, 2021, amounted to \$274,135.

*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.

**(11) Subsequent Event**

Events occurring after June 30, 2021, have been evaluated for possible adjustment to the financial statements or disclosure as of February 24, 2022, 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.

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## **Required Supplementary Information**



**Edgemont Community Service District**  
**Budgetary Comparison Schedule – General Fund**  
**June 30, 2021**

	<b>Adopted Original Budget</b>	<b>Board Approved Changes</b>	<b>Revised Budget</b>	<b>Actual Budgetary Basis</b>	<b>Variance Positive (Negative)</b>
<b>Revenues:</b>					
Property taxes	\$ 579,000	-	579,000	927,275	348,275
Interest earnings	12,936	-	12,936	5,381	(7,555)
Rental income	<u>643,764</u>	-	<u>643,764</u>	<u>643,764</u>	-
<b>Total revenues</b>	<u>1,235,700</u>	-	<u>1,235,700</u>	<u>1,576,420</u>	<u>340,720</u>
<b>Expenditures:</b>					
Cost of services	-	-	-	9,997	(9,997)
Professional services	-	-	-	87,489	(87,489)
Utilities	-	-	-	2,158	(2,158)
Repairs and maintenance	-	-	-	10,300	(10,300)
Office supplies	-	-	-	4,586	(4,586)
Insurance	-	-	-	1,900	(1,900)
Salaries and benefits	-	-	-	44,638	(44,638)
General and administrative	-	-	-	16,786	(16,786)
Capital outlay	-	-	-	2,414	(2,414)
<b>Total expenditures</b>	<u>756,233</u>	-	<u>756,233</u>	<u>180,268</u>	<u>575,965</u>
Excess of revenue over expenditures	479,467	-	479,467	1,396,152	916,685
<b>Other financing sources:</b>					
Operating transfers out	<u>(1,614,500)</u>	-	<u>(1,614,500)</u>	<u>(1,207,331)</u>	<u>407,169</u>
<b>Net change in fund balance</b>	<u>(1,135,033)</u>	<u>-</u>	<u>(1,135,033)</u>	188,821	<u>1,323,854</u>
<b>Fund balance, beginning of year</b>	<u>1,254,456</u>		<u>1,254,456</u>	<u>1,254,456</u>	
<b>Fund balance, end of year</b>	<u>\$ 119,423</u>		<u>119,423</u>	<u>1,443,277</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 the 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, 2021**

	<b>Adopted Original Budget</b>	<b>Board Approved Changes</b>	<b>Revised Budget</b>	<b>Actual Budgetary Basis</b>	<b>Variance Positive (Negative)</b>
<b>Revenues:</b>					
Property taxes	\$ 12,961	-	12,961	15,915	2,954
Interest earnings	215	-	215	95	(120)
Illumination fees	20,441	-	20,441	21,218	777
Other revenue	-	-	-	4,000	4,000
<b>Total revenues</b>	<u>33,617</u>	<u>-</u>	<u>33,617</u>	<u>41,228</u>	<u>7,611</u>
<b>Expenditures:</b>					
Cost of services and general expenses	67,540	-	67,540	61,634	5,906
Professional services	13,000	-	13,000	17,329	(4,329)
<b>Total expenditures</b>	<u>80,540</u>	<u>-</u>	<u>80,540</u>	<u>78,963</u>	<u>1,577</u>
Excess(deficiency) of revenue over expenditures	(46,923)	-	(46,923)	(37,735)	9,188
<b>Other financing sources:</b>					
Operating transfers in	16,000	-	16,000	18,695	50,695
<b>Net change in fund balance</b>	<u>(30,923)</u>	<u>-</u>	<u>(30,923)</u>	<u>(19,040)</u>	<u>59,883</u>
<b>Fund balance, beginning of year</b>	<u>27,358</u>		<u>27,358</u>	<u>27,358</u>	
<b>Fund balance, end of year</b>	<u>\$ (3,565)</u>		<u>(3,565)</u>	<u>8,318</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 the accrual basis for the proprietary fund. The adopted budget becomes operative on July 1.

# **Report on Internal Controls and Compliance**





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

Board of Directors  
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, 2021, 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 February 24, 2022.

#### **Internal Control Over Financial Reporting**

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

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

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

#### **Compliance and Other Matters**

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

**Independent Auditor's Report on Internal 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.

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

**Fedak & Brown LLP**  
Cypress, California  
February 24, 2022