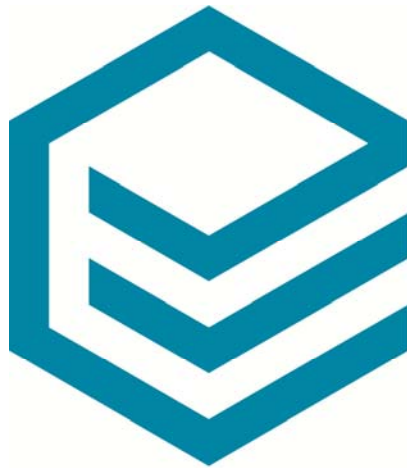


***Edgemont***

Community Services District

**Annual Financial Report  
For the Fiscal Year Ended  
June 30, 2019**



# ***Edgemont***

Community Services District

**Board of Directors as of June 30, 2019**

<b>Name</b>	<b>Title</b>	<b>Elected/ Appointed</b>	<b>Term Expires</b>
Michael Addie	President	Elected	11/2022
Cheryl L. Franklin	Vice President	Elected	11/2020
Crystal Smith	Director	Elected	11/2020
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, 2019**

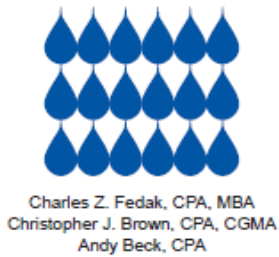
**Edgemont Community Services District  
Annual Financial Report  
For the Fiscal Year Ended June 30, 2019**

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## **Financial Section**





# Fedak & Brown LLP

Certified Public Accountants

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

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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, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our 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, 2019, 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 31 and 32 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 December 12, 2019, 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 33 and 34.

*Fedak & Brown LLP*

**Fedak & Brown LLP**

Cypress, California

December 12, 2019



**Edgemont Community Services District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2019**

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, 2019. 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 4.92% or \$684,758 to \$14,602,131.
- Total revenues decreased 19.82% or \$517,248 to \$2,092,836.
- Total expenses decreased by 3.00% or \$43,524 to \$1,408,078.

### **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, 2019**

**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 30.

**Government-wide Financial Analysis**

**Statements of Net Position**

The following table is a summary of the statements of net position at June 30, 2019 and 2018.

<b>Condensed Statements of Net Position</b>						
	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total District</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
<b>Assets:</b>						
Current assets	\$ 795,051	1,170,476	6,823,926	5,485,056	7,618,977	6,655,532
Non-current assets	441,703	451,379	7,063,287	7,160,130	7,504,990	7,611,509
<b>Total assets</b>	<b>1,236,754</b>	<b>1,621,855</b>	<b>13,887,213</b>	<b>12,645,186</b>	<b>15,123,967</b>	<b>14,267,041</b>
<b>Liabilities:</b>						
Current liabilities	66,396	67,914	455,440	281,754	521,836	349,668
<b>Total liabilities</b>	<b>66,396</b>	<b>67,914</b>	<b>455,440</b>	<b>281,754</b>	<b>521,836</b>	<b>349,668</b>
<b>Net position:</b>						
Net investment in capital assets	441,703	451,379	7,063,287	7,160,130	7,504,990	7,611,509
Unrestricted	728,655	1,102,562	6,368,486	5,203,302	7,097,141	6,305,864
<b>Total net position</b>	<b>\$ 1,170,358</b>	<b>1,553,941</b>	<b>13,431,773</b>	<b>12,363,432</b>	<b>14,602,131</b>	<b>13,917,373</b>

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 \$14,602,131 as of June 30, 2019. At June 30, 2019, the District's total net position is made-up of two components: (1) net investment in capital assets in the amount of \$7,504,990, and (2) unrestricted net position in the amount of \$7,097,141.

**Edgemont Community Services District  
Management's Discussion and Analysis, continued  
For the Fiscal Year Ended June 30, 2019**

**Government-wide Financial Analysis, continued**

**Statements of Activities**

The following table is a summary of the statements of activities for the years ended June 30, 2019 and 2018.

<b>Condensed Statements of Activities</b>						
	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total District</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
<b>Revenues:</b>						
<b>Program revenues:</b>						
Charges for services	\$ 24,691	24,909	451,447	1,075,345	476,138	1,100,254
<b>General revenues:</b>						
Property taxes	836,439	782,684	-	-	836,439	782,684
Interest earnings	21,364	17,102	115,131	66,280	136,495	83,382
Rental income	643,764	643,764	-	-	643,764	643,764
<b>Total revenues</b>	<u>1,526,258</u>	<u>1,468,459</u>	<u>566,578</u>	<u>1,141,625</u>	<u>2,092,836</u>	<u>2,610,084</u>
<b>Expenses:</b>						
General	196,825	146,498	-	-	196,825	146,498
Illumination	77,808	72,065	-	-	77,808	72,065
Sewer	-	-	1,133,445	1,233,039	1,133,445	1,233,039
<b>Total expenses</b>	<u>274,633</u>	<u>218,563</u>	<u>1,133,445</u>	<u>1,233,039</u>	<u>1,408,078</u>	<u>1,451,602</u>
<b>Transfers from(to) other fund</b>	<u>(1,635,208)</u>	<u>(908,225)</u>	<u>1,635,208</u>	<u>908,225</u>	<u>-</u>	<u>-</u>
<b>Change in net position</b>	(383,583)	341,671	1,068,341	816,811	684,758	1,158,482
<b>Net position, beginning of year</b>	<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>
<b>Net position, end of year</b>	<u>\$ 1,170,358</u>	<u>1,553,941</u>	<u>13,431,773</u>	<u>12,363,432</u>	<u>14,602,131</u>	<u>13,917,373</u>

Net position increased by 4.92% or \$684,758 to \$14,602,131, as a result of ongoing operations.

Total revenues decreased 19.82% or \$517,248 to \$2,092,836. Program revenues decreased 56.72% or \$624,116, primarily due to a decrease of \$726,240 in connection fees; which was offset by an increase of \$98,924 in sewer charges. General revenues increased 7.08% or \$106,868 to \$1,616,698, primarily due to increases of \$53,755 in property taxes and \$53,113 in interest earnings.

Total expenses decreased by 3.00% or \$43,524 to \$1,408,078, primarily due to a decrease of \$99,594 in sewer operating expenses; which was offset by an increase of \$50,327 in general operating expenses.

**Governmental Activities Budgetary Highlights**

The final actual expenditures for the year ended June 30, 2019, was less than budgeted by \$135,345 for the General Fund, and less than budgeted by \$1,563 for the Illumination Fund. Actual revenues for the year ended June 30, 2019, were more than the anticipated budget by \$272,414 for the General Fund, and more than budgeted by \$6,774 for the Illumination Fund. At June 30, 2019, 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 31 and 32).

**Edgemont Community Services District  
Management's Discussion and Analysis, continued  
For the Fiscal Year Ended June 30, 2019**

**Capital Asset Administration**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total District</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Capital assets:						
Non-depreciable assets	\$ 219,948	219,948	2,561,120	2,547,414	2,781,068	2,767,362
Depreciable assets	<u>581,287</u>	<u>574,744</u>	<u>5,875,443</u>	<u>5,875,443</u>	<u>6,456,730</u>	<u>6,450,187</u>
Total capital assets	801,235	794,692	8,436,563	8,422,857	9,237,798	9,217,549
Accumulated depreciation	<u>(359,532)</u>	<u>(343,313)</u>	<u>(1,373,276)</u>	<u>(1,262,727)</u>	<u>(1,732,808)</u>	<u>(1,606,040)</u>
Total capital assets, net	<u>\$ 441,703</u>	<u>451,379</u>	<u>7,063,287</u>	<u>7,160,130</u>	<u>7,504,990</u>	<u>7,611,509</u>

At June 30, 2019, the District's investment in capital assets amounted to \$7,504,990 (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**

	<u>Balance 2018</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2019</u>
Loan payable				
County of Riverside	\$ <u>6,691</u>	<u>-</u>	<u>(6,691)</u>	<u>-</u>
Total loan payable	6,691	<u>-</u>	<u>(6,691)</u>	-
Less: current portion	<u>(6,691)</u>			<u>-</u>
Total non-current portion	<u>\$ -</u>			<u>-</u>

Long-term debt was paid in full in fiscal year 2019. 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 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, 2019**

	<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)	\$ 755,055	6,546,058	7,301,113
Accrued interest receivable	5,213	28,294	33,507
Accounts receivable	-	8,588	8,588
Accounts receivable - other	136	238,523	238,659
Property taxes and assessments receivable	22,516	-	22,516
Prepaid expenses	12,131	2,463	14,594
<b>Total current assets</b>	<u>795,051</u>	<u>6,823,926</u>	<u>7,618,977</u>
<b>Non-current assets:</b>			
Capital assets – not being depreciated (note 3)	219,948	2,561,120	2,781,068
Capital assets – being depreciated (note 3)	221,755	4,502,167	4,723,922
<b>Total non-current assets</b>	<u>441,703</u>	<u>7,063,287</u>	<u>7,504,990</u>
<b>Total assets</b>	<u>1,236,754</u>	<u>13,887,213</u>	<u>15,123,967</u>
<b>Liabilities:</b>			
<b>Current liabilities:</b>			
Accounts payable and accrued expenses	12,607	354,636	367,243
Accrued salaries and related payables	142	804	946
Unearned revenue	53,647	100,000	153,647
<b>Total current liabilities</b>	<u>66,396</u>	<u>455,440</u>	<u>521,836</u>
<b>Total liabilities</b>	<u>66,396</u>	<u>455,440</u>	<u>521,836</u>
<b>Net position: (note 6)</b>			
Net investment in capital assets	441,703	7,063,287	7,504,990
Unrestricted	728,655	6,368,486	7,097,141
<b>Total net position</b>	<u>\$ 1,170,358</u>	<u>13,431,773</u>	<u>14,602,131</u>

See accompanying notes to the basic financial statements

**Edgemont Community Services District**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2019**

<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>Service</u>	<u>Activities</u>	<u>Activities</u>	<u>2019</u>
<b>Governmental activities</b>					
General	\$ 196,825	-	(196,825)	-	(196,825)
Illumination	77,808	24,691	(53,117)	-	(53,117)
<b>Total governmental</b>	<u>274,633</u>	<u>24,691</u>	<u>(249,942)</u>	<u>-</u>	<u>(249,942)</u>
<b>Business-type activities</b>					
Sewer	1,133,445	451,447	-	(681,998)	(681,998)
<b>Total business-type</b>	<u>1,133,445</u>	<u>451,447</u>	<u>-</u>	<u>(681,998)</u>	<u>(681,998)</u>
<b>Total</b>	<u>\$ 1,408,078</u>	<u>476,138</u>	<u>(249,942)</u>	<u>(681,998)</u>	<u>(931,940)</u>
<b>General revenues:</b>					
Property taxes			\$ 836,439	-	836,439
Interest earnings			21,364	115,131	136,495
Rental income			643,764	-	643,764
<b>Total general revenues</b>			<u>1,501,567</u>	<u>115,131</u>	<u>1,616,698</u>
<b>Transfers from(to) other funds</b>					
<b>(note 5)</b>			<u>(1,635,208)</u>	<u>1,635,208</u>	<u>-</u>
<b>Changes in net position</b>			<u>(383,583)</u>	<u>1,068,341</u>	<u>684,758</u>
<b>Net position, beginning of year</b>			<u>1,553,941</u>	<u>12,363,432</u>	<u>13,917,373</u>
<b>Net position, end of year</b>			<u>\$ 1,170,358</u>	<u>13,431,773</u>	<u>14,602,131</u>

See accompanying notes to the basic financial statements

**Edgemont Community Services District**  
**Balance Sheet – Governmental Funds**  
**June 30, 2019**

	<u><b>General Fund</b></u>	<u><b>Illumination Fund</b></u>	<u><b>Total Fund</b></u>
<b>Assets:</b>			
Cash and cash equivalents	\$ 738,162	16,893	755,055
Accrued interest receivable	4,943	270	5,213
Accounts receivable – other	111	25	136
Property taxes receivable	21,836	680	22,516
Inter-fund receivable	1,667	(1,667)	-
Prepaid expenses	11,960	171	12,131
<b>Total assets</b>	<u><u>\$ 778,679</u></u>	<u><u>16,372</u></u>	<u><u>795,051</u></u>
<b>Liabilities:</b>			
Accounts payable and accrued expenses	\$ 8,020	4,587	12,607
Accrued payroll and related expenses	95	47	142
Unearned revenue	53,647	-	53,647
<b>Total liabilities</b>	<u>61,762</u>	<u>4,634</u>	<u>66,396</u>
<b>Fund balance:</b>			
Nonspendable	11,960	171	12,131
Unassigned	704,957	11,567	716,524
<b>Total fund balance</b>	<u>716,917</u>	<u>11,738</u>	<u>728,655</u>
<b>Total liabilities and fund balance</b>	<u><u>\$ 778,679</u></u>	<u><u>16,372</u></u>	<u><u>795,051</u></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, 2019**

**Reconciliation:**

Total Fund Balances of Governmental Funds	\$	728,655
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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		<u>221,755</u>	
			<u>441,703</u>

Net Position of Governmental Activities	\$	<u><u>1,170,358</u></u>
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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, 2019**

	<u><b>General Fund</b></u>	<u><b>Illumination Fund</b></u>	<u><b>Total Fund</b></u>
<b>Revenues:</b>			
Property taxes	\$ 823,736	12,703	836,439
Interest earnings	20,914	450	21,364
Rental income	643,764	-	643,764
Illumination fees	-	20,691	20,691
Other revenue	-	4,000	4,000
<b>Total revenues</b>	<u>1,488,414</u>	<u>37,844</u>	<u>1,526,258</u>
<b>Expenditures:</b>			
Cost of services	23,796	36,536	60,332
Professional services	106,710	36,709	143,419
Utilities	1,967	118	2,085
Repairs and maintenance	8,333	-	8,333
Office supplies	3,920	662	4,582
Insurance	1,510	150	1,660
Salaries and benefits	15,995	3,633	19,628
General and administrative	18,375	-	18,375
Capital outlay	6,543	-	6,543
<b>Total expenditures</b>	<u>187,149</u>	<u>77,808</u>	<u>264,957</u>
Excess(deficiency) of revenue over expenditures	1,301,265	(39,964)	1,261,301
<b>Other financing sources(uses):</b>			
Operating transfers in(out)	<u>(1,675,006)</u>	<u>39,798</u>	<u>(1,635,208)</u>
<b>Net changes in fund balance</b>	(373,741)	(166)	(373,907)
<b>Fund balance, beginning of year</b>	<u>1,090,658</u>	<u>11,904</u>	<u>1,102,562</u>
<b>Fund balance, end of year</b>	<u>\$ 716,917</u>	<u>11,738</u>	<u>728,655</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, 2019**

**Reconciliation:**

Net Changes in Fund Balance – Total Governmental Fund	\$ (373,907)
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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	(16,219)
Capital outlay	<u>6,543</u>

Changes in Net Position of Governmental Activities	<u><u>\$ (383,583)</u></u>
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See accompanying notes to the basic financial statements

**Edgemont Community Services District**  
**Statement of Net Position – Enterprise Fund**  
**June 30, 2019**

	<u><b>2019</b></u>
<b>Assets:</b>	
<b>Current assets:</b>	
Cash and cash equivalents	\$ 6,546,058
Accrued interest receivable	28,294
Accounts receivable	8,588
Accounts receivable – other	238,523
Prepaid expenses and other assets	<u>2,463</u>
<b>Total current assets</b>	<u>6,823,926</u>
<b>Non-current assets:</b>	
Capital assets – not being depreciated	2,561,120
Capital assets – being depreciated, net	<u>4,502,167</u>
<b>Total non-current assets</b>	<u>7,063,287</u>
<b>Total assets</b>	<u>13,887,213</u>
<b>Liabilities:</b>	
<b>Current liabilities:</b>	
Accounts payable and accrued expenses	354,636
Accrued salaries and related payables	804
Unearned revenue	<u>100,000</u>
<b>Total current liabilities</b>	<u>455,440</u>
<b>Total liabilities</b>	<u>455,440</u>
<b>Net position:</b>	
Net investment in capital assets	7,063,287
Unrestricted	<u>6,368,486</u>
<b>Total net position</b>	<u><u>\$ 13,431,773</u></u>

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, 2019**

	<u><b>2019</b></u>
<b>Operating revenues:</b>	
Sewer charges	\$ 348,869
Connection fees	20,160
Other charges and services	<u>82,418</u>
<b>Total operating revenues</b>	<u><b>451,447</b></u>
<b>Operating expenses:</b>	
Cost of services	545,070
Professional services	406,685
Utilities	3,455
Office supplies	1,043
Insurance	11,285
Salaries and benefits	53,073
General and administrative	<u>2,285</u>
<b>Total operating expenses</b>	<u><b>1,022,896</b></u>
<b>Operating income before depreciation</b>	<b>(571,449)</b>
Depreciation	<u>(110,549)</u>
<b>Operating loss</b>	<u><b>(681,998)</b></u>
<b>Non-operating revenues:</b>	
Interest earnings	<u>115,131</u>
<b>Total non-operating revenues</b>	<u><b>115,131</b></u>
<b>Net income(loss)</b>	<b>(566,867)</b>
<b>Transfers from other funds</b>	<u><b>1,635,208</b></u>
<b>Changes in net position</b>	<b>1,068,341</b>
<b>Net position, beginning of year</b>	<u><b>12,363,432</b></u>
<b>Net position, end of year</b>	<u><u><b>\$ 13,431,773</b></u></u>

See accompanying notes to the basic financial statements

**Edgemont Community Services District  
Statement of Cash Flows – Enterprise Fund  
For the Year Ended June 30, 2019**

	<u><b>2019</b></u>
<b>Cash flows from operating activities:</b>	
Cash receipts from customers	\$ 309,898
Cash paid to employees	(53,034)
Cash paid to vendors and suppliers	<u>(866,546)</u>
<b>Net cash used in operating activities</b>	<u><b>(609,682)</b></u>
<b>Cash flows from non-capital financing activities:</b>	
Transfer of General fund's cash	(13,490)
Operating transfer in	<u>1,635,208</u>
<b>Net cash provided by non-capital financing activities</b>	<u><b>1,621,718</b></u>
<b>Cash flows from capital and related financing activities:</b>	
Acquisition and construction of capital assets	(13,706)
Principal payments on long-term debt	<u>(6,691)</u>
<b>Net cash used in capital and financing activities</b>	<u><b>(20,397)</b></u>
<b>Cash flows from investing activities:</b>	
Interest earnings	<u>104,986</u>
<b>Net cash provided by investing activities</b>	<u><b>104,986</b></u>
<b>Net increase in cash and cash equivalents</b>	<b>1,096,625</b>
<b>Cash and cash equivalents, beginning of year</b>	<u><b>5,449,433</b></u>
<b>Cash and cash equivalents, end of year</b>	<u><u><b>\$ 6,546,058</b></u></u>

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, 2019**

	<u>2019</u>
<b>Reconciliation of operating loss to net cash used in operating activities:</b>	
<b>Operating loss</b>	\$ <u>(681,998)</u>
<b>Adjustments to reconcile operating loss to net cash used in operating activities:</b>	
Depreciation expense	110,549
<b>Change in assets and liabilities:</b>	
Decrease(Increase) in assets:	
Accounts receivable – other	(241,549)
Prepays and other assets	9,449
Increase in liabilities:	
Accounts payable and accrued expenses	93,828
Accrued salaries and related payables	39
Unearned revenue	<u>100,000</u>
<b>Total adjustments</b>	<u>72,316</u>
<b>Net cash used in operating activities</b>	\$ <u><u>(609,682)</u></u>

See accompanying notes to the basic financial statements

**Edgemont Community Services District**  
**Notes to the Basic Financial Statements**  
**June 30, 2019**

**(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) charge for services, 2) operating grants and contributions, and 3) capital grants and contributions. Charge 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, 2019**

**(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, 2019**

**(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 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.

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.

**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.

**Edgemont Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2019**

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

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

**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.

**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.

**Edgemont Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2019**

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

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

**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, 2019**

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

**D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position/Fund Balance, 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, 2019, consist of the following:

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
Cash on hand	\$ 35	-	35
Deposits held with financial institutions	36,960	-	36,960
Deposits held with Riverside County Treasurer	718,060	6,546,058	7,264,118
Total	<u>\$ 755,055</u>	<u>6,546,058</u>	<u>7,301,113</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)(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, 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).

**Edgemont Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2019**

**(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, 2019.

**Edgemont Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2019**

**(3) Capital Assets**

***Governmental Activities***

Change in capital assets for 2019, were as follows:

	<b>Balance 2018</b>	<b>Additions</b>	<b>Deletions/ Transfers</b>	<b>Balance 2019</b>
Non-depreciable assets:				
Land	\$ 219,948	-	-	219,948
Total non-depreciable assets	219,948	-	-	219,948
Depreciable assets:				
Structures and improvements	569,707	6,543	-	576,250
Office furniture and equipment	5,037	-	-	5,037
Total depreciable assets	574,744	6,543	-	581,287
Accumulated depreciation:				
Structures and improvements	(338,276)	(16,219)	-	(354,495)
Office furniture and equipment	(5,037)	-	-	(5,037)
Total accumulated depreciation	(343,313)	(16,219)	-	(359,532)
Total depreciable assets, net	231,431			221,755
Total capital assets, net	\$ 451,379			441,703

***Business-type Activities***

Change in capital assets for 2019, were as follows:

	<b>Balance 2018</b>	<b>Additions</b>	<b>Deletions/ Transfers</b>	<b>Balance 2019</b>
Non-depreciable assets:				
Sewer capacity rights	\$ 2,422,697	-	-	2,422,697
Construction in progress	124,717	13,706	-	138,423
Total non-depreciable assets	2,547,414	13,706	-	2,561,120
Depreciable assets:				
Structures and improvements	5,875,443	-	-	5,875,443
Total depreciable assets	5,875,443	-	-	5,875,443
Accumulated depreciation:				
Structures and improvements	(1,262,727)	(110,549)	-	(1,373,276)
Total accumulated depreciation	(1,262,727)	(110,549)	-	(1,373,276)
Total depreciable assets, net	4,612,716			4,502,167
Total capital assets, net	\$ 7,160,130			7,063,287

**Edgemont Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2019**

**(4) Long-term Debt**

Changes in long-term debt for 2019, were as follows:

	<u>Balance 2018</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 2019</u>
<b>Loan payable:</b>				
County of Riverside	\$ 6,691	-	(6,691)	-
Total loan payable	6,691	-	(6,691)	-
Less: current portion	(6,691)			-
Total non-current portion	\$ -			-

***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. In 2019, the District paid the loan off in full.

**(5) 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, 2019, 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	\$ 1,667

For the year ended June 30, 2019, inter-fund transfers consist of the following:

<u>Transfer from</u>	<u>Transfer to</u>	<u>Amount</u>
General Fund	Illumination Fund	\$ 39,798
General Fund	Sewer Fund	1,635,208
<b>Transfer from General</b>		<b>\$ 1,675,006</b>

Internal transfers from the General fund to the Sewer fund totaling \$1,635,208 consists of \$750,000 that was transferred for future pipeline improvements, purchasing additional capacity, or payments to the City of Riverside for capital improvements or additional operating and maintenance charges.



**Edgemont Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2019**

**(6) Net Position**

The details of net position are as follows:

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>2019</b>
Net investment in capital assets			
Capital assets – not being depreciated	\$ 219,948	2,561,120	2,781,068
Capital assets – being depreciated, net	<u>221,755</u>	<u>4,502,167</u>	<u>4,723,922</u>
Total net investment in capital assets	<u>441,703</u>	<u>7,063,287</u>	<u>7,504,990</u>
Unrestricted			
Nonspendable			
Prepaid expenses	<u>12,131</u>	<u>2,463</u>	<u>14,594</u>
Total nonspendable	<u>12,131</u>	<u>2,463</u>	<u>14,594</u>
Spendable			
Operating	<u>716,524</u>	<u>6,366,023</u>	<u>7,082,547</u>
Total spendable	<u>716,524</u>	<u>6,366,023</u>	<u>7,082,547</u>
Total unrestricted	<u>728,655</u>	<u>6,368,486</u>	<u>7,097,141</u>
Total net position	<u>\$ 1,170,358</u>	<u>13,431,773</u>	<u>14,602,131</u>

**(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, 2019, is as follows:

	<b>General Fund</b>	<b>Illumination Fund</b>	<b>2019</b>
Nonspendable			
Prepaid expenses	\$ 11,960	171	12,131
Unassigned			
Operations	<u>704,957</u>	<u>11,567</u>	<u>716,524</u>
Total fund balance	<u>\$ 716,917</u>	<u>11,738</u>	<u>728,655</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 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, 2019**

**(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. 84***

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

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

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

The 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. 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.

**Edgemont Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2019**

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

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

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.

***Governmental Accounting Standards Board Statement No. 90***

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

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

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

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

**Edgemont Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2019**

**(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 are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

**(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, 2019, amounted to \$297,113.

***Contingencies***

The District has filed a claim with the City of Riverside (City) demanding the reimbursing of overcharges levied by the City for fiscal year 2016/2017 and 2017/2018. These overcharges were caused by the increase in the threshold for the imposition of surcharges for excessive amounts of Total Suspended Solids (TSS) and Biochemical Oxygen Demand (BOD) in the effluent from the City and Jurupa Community Services District in breach of the Regional Agreement. The parties are in negotiations to settle this claim.

**Edgemont Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2019**

**(10) Commitments and Contingencies, continued**

***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 other than the following:

The City of Riverside (City) has made a demand that the District pay its share of the costs to extend the height of the levee that protects the Regional Waste Water Treatment Plant from the possible flooding of the Santa Ana River. The parties are in negotiations to settle this claim.

**(11) Subsequent Event**

Events occurring after June 30, 2019, have been evaluated for possible adjustment to the financial statements or disclosure as of December 12, 2019, 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, 2019**

	<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	\$ 565,000	-	565,000	823,736	258,736
Interest earnings	7,236	-	7,236	20,914	13,678
Rental income	643,764	-	643,764	643,764	-
<b>Total revenues</b>	<u>1,216,000</u>	<u>-</u>	<u>1,216,000</u>	<u>1,488,414</u>	<u>272,414</u>
<b>Expenditures:</b>					
Cost of services	-	-	-	23,796	(23,796)
Professional services	-	-	-	106,710	(106,710)
Utilities	-	-	-	1,967	(1,967)
Repairs and maintenance	-	-	-	8,333	(8,333)
Office supplies	-	-	-	3,920	(3,920)
Insurance	-	-	-	1,510	(1,510)
Salaries and benefits	-	-	-	15,995	(15,995)
General and administrative	-	-	-	18,375	(18,375)
Capital outlay	-	-	-	6,543	(6,543)
<b>Total expenditures</b>	<u>187,495</u>	<u>-</u>	<u>322,494</u>	<u>187,149</u>	<u>135,345</u>
Excess(deficiency) of revenue over expenditures	1,028,505	-	893,506	1,301,265	407,759
<b>Other Financing sources:</b>					
Operating transfers out	(611,225)	-	(611,225)	(1,675,006)	(1,063,781)
<b>Net changes in fund balance</b>	<u>417,280</u>	<u>-</u>	<u>282,281</u>	<u>(373,741)</u>	<u>(656,022)</u>
<b>Fund balance, beginning of year</b>	<u>1,090,658</u>		<u>1,090,658</u>	<u>1,090,658</u>	
<b>Fund balance, end of year</b>	<u>\$ 1,507,938</u>		<u>1,372,939</u>	<u>716,917</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, 2019**

	<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	\$ 10,900	-	10,900	12,703	1,803
Interest earnings	170	-	170	450	280
Illumination fees	20,000	-	20,000	20,691	691
Other revenue	-	-	-	4,000	4,000
<b>Total revenues</b>	<u>31,070</u>	<u>-</u>	<u>31,070</u>	<u>37,844</u>	<u>6,774</u>
<b>Expenditures:</b>					
Cost of services and general expenses	58,371	-	58,371	41,099	17,272
Professional services	<u>21,000</u>	<u>-</u>	<u>21,000</u>	<u>36,709</u>	<u>(15,709)</u>
<b>Total expenditures</b>	<u>79,371</u>	<u>-</u>	<u>79,371</u>	<u>77,808</u>	<u>1,563</u>
Excess(deficiency) of revenue over expenditures	(48,301)	-	(48,301)	(39,964)	8,337
<b>Other Financing sources:</b>					
Operating transfers in	<u>17,000</u>	<u>-</u>	<u>17,000</u>	<u>39,798</u>	<u>73,798</u>
<b>Net changes in fund balance</b>	<u>(31,301)</u>	<u>-</u>	<u>(31,301)</u>	<u>(166)</u>	<u>82,135</u>
<b>Fund balance, beginning of year</b>	<u>11,904</u>		<u>11,904</u>	<u>11,904</u>	
<b>Fund balance, end of year</b>	<u>\$ (19,397)</u>		<u>(19,397)</u>	<u>11,738</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.

# **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, 2019, 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 December 12, 2019.

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

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

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

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

### **Compliance and Other Matters**

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

**Independent Auditor's Report on Internal 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  
December 12, 2019