

**FY 2013-14 and 2012-13
Financial Statements**

Attachment 2

MORONGO VALLEY COMMUNITY SERVICES DISTRICT



FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED JUNE 30, 2013

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MORONGO VALLEY COMMUNITY SERVICES DISTRICT
FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED JUNE 30, 2013

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Board of Directors
Morongo Valley Community Services District
Morongo Valley, CA

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities Morongo Valley Community Services District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Morongo Valley Community Services District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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. 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 Morongo Valley Community Services District, as of June 30, 2013, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 – 8 and the Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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



October 08, 2013
Grand Terrace, CA

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

As management of the Morongo Valley Community Services District and Fire Department (the District), we offer readers of the District's financial statement this narrative overview and analysis of the financial activities of the District for the fiscal year which ended on June 30, 2013.

Financial Highlights:

- As can be viewed from the Financial Reports, assets of the Morongo Valley Community Services District exceeded its liabilities at the close of the 2012-2013 fiscal year by \$1,000,787 (Total Net Position/Net Assets of Governmental Activities). Because of deferred revenues and short term debt, the District's liabilities were \$47,044, and when added to the net assets, resulted in Total Assets of \$1,047,831. Deferred revenues are future payments due from the County of San Bernardino or the State Office of Emergency Services for assistance provided by the District for regional emergency response services.
- The District's total Revenues over the fiscal year were \$694,357 of which tax and property assessments provided a combined \$657,912 and other sources of income provided the balance. Total Expenditures over the same period were \$742,299 or \$47,942 in excess of total Revenues. This required transfers from the District's Money Market Savings Account to offset expenditures with a corollary reduction in the District's Net Position.
- While the District's Adjusted beginning Fund Balance at the start of the fiscal year was \$517,511 the Fund Balance at close of the fiscal year was \$469,569 reflecting the \$47,942 expense noted in the above statement.
- Main factors contributing to the decrease in Fund Balance were due largely to maintenance expenses incurred during the fiscal year such as replacement of an outdated hood and duct system in the community multi-purpose room kitchen, repairs to the community building septic system and rehabilitation of the adjacent leach field, replacement of a dysfunctional irrigation system for the main community softball field, and a minor remodel to District offices to incorporate both a Fire Chief's and Fire Prevention office within the existing administrative structure.
- In addition to these maintenance items, a two-year Park tree preservation and conservation program was initiated in order to reduce liabilities posed by damaged and diseased trees, while retaining bird and insect species habitat for the overall health of the trees and increased safety for park users which includes an internationally renowned birding community.

Overview of the Financial Statements

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

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

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

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

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

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

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

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

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

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

Notes to the Financial Statements. The notes provide additional information considered essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes can be found on pages 8-14 of the annual fiscal year-end audit report.

Other information. In addition to the basic financial statements and accompanying notes, the audit report also presents certain *required supplementary information*. The District adopts an annual appropriated budget for its general operations and any special revenue funds. A budgetary comparison statement is provided for these operations and special revenue funds to demonstrate compliance with this budgeting process. The *required supplementary information* can be found on pages 15-16 of the annual fiscal year-end audit report.

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

Government-wide Financial Analysis

Table 1
STATEMENT OF NET POSITION

| | 2013 | 2012 |
|----------------------------------|---------------------|---------------------|
| Current and other assets | \$ 537,949 | \$ 580,417 |
| Capital assets | 509,882 | 526,274 |
| Total Assets | <u>1,047,831</u> | <u>1,106,691</u> |
| Deferred Outflows of Resources | - | |
| Current liabilities | 26,437 | 15,070 |
| Long-term liabilities | 20,607 | - |
| Total Liabilities | <u>47,044</u> | <u>15,070</u> |
| Deferred Inflows of Resources | - | |
| Net Position: | | |
| Net investment in capital assets | 509,882 | 526,274 |
| Restricted | 11,348 | 15,142 |
| Unrestricted | 479,557 | 550,205 |
| Total Net Position | <u>\$ 1,000,787</u> | <u>\$ 1,091,621</u> |

As noted earlier, net assets may serve over time as a useful indicator of a District’s financial position. For the Morongo Valley CSD, total assets were reflected at \$1,047,831 and total liabilities at \$47,044 at the close of the fiscal year.

The largest portion of the District’s net assets reflects capital assets such as land, buildings, apparatus, machinery or equipment. This was valued at \$509,882 less any related debt used to acquire those assets still outstanding. These debts included notes payable such as the outstanding balance due on the purchase of a Fire Command Vehicle which was financed at favorable rates through the Los Angeles Firefighter’s Credit Union (\$20,607).

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

The District’s net assets also included cash in a Money Market Account and cash which is considered “restricted” in that it is earmarked for specific projects. Total cash held by financial institutions for the District amounted to \$465,331 at the close of the fiscal year. This cash is generally utilized to assist in meeting the District’s ongoing obligations to residents and creditors which may occur within any fiscal cycle; the balance of these funds adds to the District’s fiscal position. Some of this cash is related to unspent fees or assessments collected in current or prior years. A portion of which was collected for park improvements and additions which do not include expenses for the maintenance and operation of the District’s parks.

Table 2
STATEMENT OF ACTIVITIES

| | 2013 | 2012 |
|------------------------------------|---------------------|---------------------|
| Revenues: | | |
| Program Revenues: | | |
| Charges for services | \$ 13,501 | \$ 4,874 |
| Operating grants and contributions | 2,441 | - |
| Capital grants and contributions | 13,951 | 31,971 |
| General Revenues: | | |
| Property taxes | 365,836 | 366,739 |
| Assessments | 292,076 | 286,528 |
| Other | 5,776 | 22,289 |
| Total Revenues | <u>693,581</u> | <u>712,401</u> |
| Expenses: | | |
| Fire operations | 729,398 | 620,989 |
| Parks and recreation | 49,194 | 86,200 |
| Street lights | 5,645 | 4,074 |
| Other | 178 | 451 |
| Total Expenses | <u>784,415</u> | <u>711,714</u> |
| Change in net position | (90,834) | 687 |
| Net Position - Beginning | <u>1,091,621</u> | <u>1,090,934</u> |
| Net Position - Ending | <u>\$ 1,000,787</u> | <u>\$ 1,091,621</u> |

Capital Asset and Debt Administration:

Capital assets.

There were few significant changes in capital assets and debt administration over the fiscal year. A new Fire Command Vehicle was purchased for an added value of \$32,101 to Fire Equipment Assets.

Debt administration.

Purchase of the Fire Command Vehicle resulted in an increase in the long-term debt of the District as a loan was obtained in the amount of \$27,000 at 2.99% over a 60 month period starting in March of 2013. The added debt requires a monthly payment of \$484.66 over this period of time. Debt service for a previously purchased Fire Engine was completed this fiscal year resulting in a final payment of \$1,454 for that asset.

General Fund Budgetary Highlights.

**Table 3
BUDGET**

| | Original | Final | Variance |
|------------------------------------|-----------|-----------|----------|
| Revenues: | | | |
| Program Revenues: | | | |
| Charges for services | \$ 12,393 | \$ 16,028 | \$ 3,635 |
| Operating grants and contributions | 750 | 750 | - |
| Capital grants and contributions | - | - | - |
| General Revenues: | | | |
| Property taxes | 365,516 | 362,368 | (3,148) |
| Assessments | 291,915 | 292,273 | 358 |
| Other | 4,083 | 4,083 | - |
| Total Revenues | 674,657 | 675,502 | 845 |
| Expenses: | | | |
| General government | 171,477 | 174,785 | 3,308 |
| Fire operations | 485,323 | 491,012 | 5,689 |
| Parks and recreation | 21,324 | 24,324 | 3,000 |
| Street lights | 4,200 | 4,200 | - |
| Other | 15,000 | 15,000 | - |
| Total Expenses | 697,324 | 709,321 | 11,997 |
| Change in net position | (22,667) | (33,819) | (11,152) |
| Transfers to/from other funds | 22,667 | 33,819 | 11,152 |
| Net Position - Ending | \$ - | \$ - | \$ - |

As indicated in table 3 the net position did not change there was only a shift of amounts between various line items.

Financial Analysis of the Government's Funds:

As noted previously, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements which include Generally Accepted Accounting Principles (GAAP), and those of the

Governmental Accounting Standards Board (GASB). These are the accepted standard setting bodies for establishment of governmental accounting and financial reporting principles.

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

Unreserved fund balances can also be used by a governmental agency to designate portions of such a net balance as future ***designated reserves*** within following fiscal cycles. Sort of like a designated savings account set aside for a specific purpose. Some governmental agencies utilize *designated reserves* and identify their use to offset unplanned for emergency needs which may occur due to a localized or regional disaster such as fires, floods or other such needs. Additionally, governmental agencies may designate reserves to be used for contingencies which may occur within a current fiscal cycle, or to set aside funds to meet future *capital expenses* such as for replacement of structures, facilities or major fire apparatus and equipment. Quite commonly, agencies faced with significant cash on hand balances; designate a portion of such cash for investments in bonds or other assets which may provide available funding sources to meet future long-term needs of their agencies.

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

At the end of the 2012-2013 fiscal year, the District's governmental funds reported combined ending fund balances of \$469,569, a decrease of \$47,942 in comparison with the prior fiscal year end. Of that balance \$456,463 constitutes an *unassigned fund balance* and potentially available for new spending in subsequent fiscal periods; the reduction over the prior fiscal year serves as an indicator that continued similar reductions from fiscal year to fiscal year is not sustainable, and would surely result in decreased service levels for the community unless additional sources of revenue can be found or fees increased to augment existing fiscal resources.

Economic Factors, Trends and Following Fiscal Year Needs

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

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

Emphasis on fiscal responsibility and accountability.

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

Establishment of taking a conservative approach.

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

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

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

Emphasis on establishment of stable reserves.

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

Investment in infrastructure maintenance.

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

Economic Factors and Next Year's Budget

The District expects revenues in the 2013-2014 fiscal year to increase less than 1% over the prior year. The majority of this increase is expected to be from the resident voter approved fire assessment fee adopted in fiscal year 2007-08 providing for a modest increase tied to the experienced cost-of-living increase over the prior year. Recreation and park facilities use fees are expected to remain level or slightly increased and property tax revenues are projected to remain relatively flat as the economy slowly shifts forward.

Requests for Information

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

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

BASIC FINANCIAL STATEMENTS

MORONGO VALLEY COMMUNITY SERVICES DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2013

| | Primary Government | | |
|------------------------------------------------------------------|----------------------------|-----------------------------|---------------------|
| | Governmental Activities | Business-Type Activities | Total |
| ASSETS | | | |
| Cash | \$ 453,983 | \$ - | \$ 453,983 |
| Cash - restricted | 11,348 | - | 11,348 |
| Total cash | 465,331 | - | 465,331 |
| Accounts receivable | 23,800 | - | 23,800 |
| Prepaid insurance | 1,758 | - | 1,758 |
| Notes receivable | 47,060 | - | 47,060 |
| Capital assets (Net) | 509,882 | - | 509,882 |
| TOTAL ASSETS | 1,047,831 | - | 1,047,831 |
| DEFERRED OUTFLOWS OF RESOURCES | - | - | - |
| TOTAL ASSETS AND DEFERRED OUTFLOWS | \$ 1,047,831 | \$ - | \$ 1,047,831 |
| LIABILITIES | | | |
| Accounts payable | \$ 9,972 | \$ - | \$ 9,972 |
| Deferred revenue | 11,348 | - | 11,348 |
| Notes payable - Current | 5,117 | - | 5,117 |
| Notes payable - Noncurrent | 20,607 | - | 20,607 |
| TOTAL LIABILITIES | 47,044 | - | 47,044 |
| DEFERRED INFLOWS OF RESOURCES | - | - | - |
| NET POSITION | | | |
| Net investment in capital assets | 509,882 | - | 509,882 |
| Restricted net position | 11,348 | - | 11,348 |
| Unrestricted net position | 479,557 | - | 479,557 |
| TOTAL NET POSITION | 1,000,787 | - | 1,000,787 |
| TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION | \$ 1,047,831 | \$ - | \$ 1,047,831 |

MORONGO VALLEY COMMUNITY SERVICES DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) |
|----------------------------------------------------------------------------|-------------------|----------------------|------------------------------------|----------------------------------|-------------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Revenue and Changes in Net Position |
| Primary Government | | | | | Primary Gov't |
| Governmental Activities: | | | | | Governmental Activities |
| Fire operations | \$ 729,398 | \$ 9,222 | \$ 2,441 | \$ 13,951 | \$ (703,784) |
| Parks and recreation | 49,194 | 4,279 | - | - | (44,915) |
| Street lights | 5,645 | - | - | - | (5,645) |
| Interest on long-term debt | 178 | - | - | - | (178) |
| Total Governmental Activities | 784,415 | 13,501 | 2,441 | 13,951 | (754,522) |
| Business-type activities: | - | - | - | - | - |
| Total Business-Type Activities | - | - | - | - | - |
| Total Primary Government | \$ 784,415 | \$ 13,501 | \$ 2,441 | \$ 13,951 | (754,522) |
| General revenues: | | | | | |
| Property taxes | | | | | 365,836 |
| Assessment | | | | | 292,076 |
| Grants, contributions and other income not restricted to specific programs | | | | | 2,608 |
| Unrestricted interest income | | | | | 3,168 |
| Total General Revenues | | | | | 663,688 |
| Change in net position | | | | | (90,834) |
| Net position - beginning | | | | | 1,091,621 |
| Net position - ending | | | | | \$ 1,000,787 |

MORONGO VALLEY COMMUNITY SERVICES DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2013

| | General Fund | Total Governmental Funds |
|------------------------------------------------------------------|-------------------|--------------------------------|
| ASSETS | | |
| Cash | \$ 453,983 | \$ 453,983 |
| Cash - restricted | 11,348 | 11,348 |
| Accounts receivable | 23,800 | 23,800 |
| Prepaid insurance | 1,758 | 1,758 |
| TOTAL ASSETS | 490,889 | 490,889 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| | - | - |
| TOTAL ASSETS AND DEFERRED OUTFLOWS | \$ 490,889 | \$ 490,889 |
| LIABILITIES | | |
| Accounts payable | \$ 9,972 | \$ 9,972 |
| Other liabilities | 11,348 | 11,348 |
| TOTAL LIABILITIES | 21,320 | 21,320 |
| DEFERRED INFLOWS OF RESOURCES | | |
| | - | - |
| FUND BALANCE | | |
| Nonspendable: | | |
| Prepaid expenses | 1,758 | 1,758 |
| Restricted for: | | |
| General Government | 11,348 | 11,348 |
| Unassigned | 456,463 | 456,463 |
| TOTAL FUND BALANCE | 469,569 | 469,569 |
| TOTAL LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCE | \$ 490,889 | |

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

| | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds | 509,882 |
| Governmental funds focus on current financial resources. Accordingly, they report only those receivables that are considered potentially relevant to near-term liquidity | 47,060 |
| Governmental funds focus on current financial resources. Accordingly, they report only those liabilities that are considered potentially relevant to near-term liquidity | (25,724) |
| Net Assets of governmental activities | \$ 1,000,787 |

MORONGO VALLEY COMMUNITY SERVICES DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

| | General Fund |
|-----------------------------------------------------|-------------------|
| REVENUES | |
| Tax assessments | \$ 365,836 |
| Fire assesment | 292,076 |
| Tax revenue - homeowners' property tax relief | - |
| Grant income | 13,951 |
| Interest | 3,168 |
| Fire service | 9,222 |
| Park concessions | 4,279 |
| Donations | 2,441 |
| Other revenue | 3,384 |
| TOTAL REVENUES | <u>694,357</u> |
| EXPENDITURES | |
| Fire operations | 657,767 |
| Parks and recreation | 77,435 |
| Street lights | 5,645 |
| Debt service | 1,452 |
| TOTAL EXPENDITURES | <u>742,299</u> |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | (47,942) |
| OTHER FINANCING SOURCES AND (USES) | |
| Transfers in from other funds | - |
| Transfers out to other funds | - |
| Net Other Financing Sources and (Uses) | <u>-</u> |
| Net change in fund balances | <u>(47,942)</u> |
| FUND BALANCE - BEGINNING OF YEAR | 565,347 |
| Adjustment to Beginning Fund Balance | (47,836) |
| Adjusted Beginning Balance | <u>517,511</u> |
| FUND BALANCE - END OF YEAR | <u>\$ 469,569</u> |

MORONGO VALLEY COMMUNITY SERVICES DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2013

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

| | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|
| Net change in fund balances-total governmental funds | \$ (47,942) |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This amount represents the amount by which depreciation exceeded capital outlays. | (43,393) |
| Governmental funds report loan receivable payments as income. However, in the statement of activities the payment is applied to reduce the loan receivable principal. | (776) |
| Governmental funds report loan payments as expenditures. However, in the statement of activities the payment is applied to reduce the loan principal. | <u>1,277</u> |
| Change in net assets of governmental activities | <u>\$ (90,834)</u> |

MORONGO VALLEY COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

1. NATURE OF ORGANIZATION

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

BOARD OF DIRECTORS

| | |
|--------------------------------------------------------------|--------------------|
| President..... | Johnny Tolbert |
| Vice-President..... | Kristina Brook |
| Director of Finance..... | Glen Shepherd |
| Director of Legislative/Projects & Fire Commissioner..... | Michael J. Francis |
| Parks Commissioner..... | Chuck Osborne |

ADMINISTRATION

| | |
|----------------------|------------|
| General Manager..... | Rick Lebel |
|----------------------|------------|

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Government-wide and fund financial statements

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

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

Measurement focus, basis of accounting, and financial statement presentation

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

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

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

The government reports the following major governmental fund:

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

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

Revenue

Revenue consists primarily of property tax assessments.

Federal and State Grant Revenue

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

Budgets

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

Cash and Cash Equivalents

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

Estimates

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

Investments

Under provision of the District’s Investment Policy, and in accordance with Section 53601 of the California Government Code, the District may invest in the following types of investments:

- Securities of the U.S. Government, or its agencies
- Small Business Administration Loans
- Negotiable Certificates of Deposits
- Bankers Acceptances
- Commercial Paper
- Local Agency Investment Fund (State Pool Deposits)
- Passbook Savings Account Demand Deposits
- Repurchase Agreements
- Reverse Repurchase Agreements

Capital Assets

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

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful lives:

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

Long-Term Obligations

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

3. CASH AND INVESTMENTS

Cash and cash equivalents consist of the following:

| | <u>Fair Value</u> |
|---------------------------------------------------------------------------|-------------------|
| Cash in bank | \$ 453,983 |
| Cash - restricted | <u>11,348</u> |
| Total Cash and Cash Equivalents on deposit with Financial Institutions | <u>\$ 465,331</u> |

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

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

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

Disclosure Relating to Interest Rate Risk

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

Disclosure Relating to Credit Risk

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

Concentration of Credit Risk

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

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy do not contain legal or policy requirement that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposit. Therefore, all cash funds of the District deposited with financial institutions are fully insured by such collateral pools.

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

4. CAPITAL ASSETS

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

| | Beginning Balance | Increases | Decreases | Ending Balance |
|----------------------------------------------|----------------------|-------------|-----------|-------------------|
| Governmental Activities | | | | |
| Assets: | | | | |
| <i>Capital assets not being depreciated:</i> | | | | |
| Land | \$ 203,330 | \$ - | \$ - | \$ 203,330 |
| <i>Capital assets being depreciated:</i> | | | | |
| Buildings and improvements | 588,312 | - | - | 588,312 |
| Furniture and equipment | 437,564 | - | - | 437,564 |
| Fire equipment | 564,684 | 32,101 | - | 596,785 |
| Total Capital Assets being depreciated | 1,590,560 | 32,101 | - | 1,622,661 |
| Accumulated Depreciation: | | | | |
| Buildings and improvements | (384,620) | (16,181) | - | (400,801) |
| Furniture and equipment | (374,760) | (12,598) | - | (387,358) |
| Fire equipment | (508,236) | (19,714) | - | (527,950) |
| Total Accumulated Depreciation | (1,267,616) | (48,493) | - | (1,316,109) |
| <i>Net capital assets being depreciated</i> | 322,944 | (16,392) | - | 306,552 |
| Net Governmental Activities | | | | |
| Capital Assets | \$ 526,274 | \$ (16,392) | \$ - | \$ 509,882 |

5. PROPERTY TAX CALENDAR

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

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

6. CREDIT LINE PAYABLE

The District has entered into a line of credit agreement with a bank. Under this agreement the District can borrow working capital advances up to \$200,000. The agreement requires interest only payments. As of yearend the interest rate was 9.25%. The balance as of yearend on the credit line was \$-0-.

7. LONG-TERM DEBT

The following represents the long-term debt of the District:

Chevy Tahoe: the District obtained a loan in the amount of \$27,000 on 3/11/13. The interest rate was 2.99% and required a monthly payment of \$484.66 for a 60 month period.

A summary of changes in long-term debt is as follows:

| | Beginning Balance | Additions | Reduction | Ending Balance | Due Within One Year |
|-------------|----------------------|-----------|------------|-------------------|------------------------|
| Chevy Tahoe | \$ - | \$ 27,000 | \$ (1,276) | \$ 25,724 | \$ 5,117 |
| Total | \$ - | \$ 27,000 | \$ (1,276) | \$ 25,724 | \$ 5,117 |

Annual debt service requirements to maturity are as follows:

| | Principal | Interest | Total |
|------------------------------|-----------|----------|-----------|
| For the year ending June 30: | | | |
| 2014 | \$ 5,117 | \$ 699 | \$ 5,816 |
| 2015 | 5,271 | 545 | 5,816 |
| 2016 | 5,432 | 384 | 5,816 |
| 2017 | 5,596 | 220 | 5,816 |
| 2018 | 4,308 | 54 | 4,362 |
| Total | \$ 25,724 | \$ 1,902 | \$ 27,626 |

8. RISK MANAGEMENT

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

9. PRIOR PERIOD ADJUSTMENT

As of June 30, 2013 a prior period adjustment was required to remove notes receivable from the governmental fund accounts. The net effect on fund balance is \$47,836. It is properly shown as a reconciling item between the presentation of the governmental funds and the government-wide financial statements.

10. SUBSEQUENT EVENTS

Accounting standards require that the District assess and disclose the date and the basis for that date through which potential subsequent events have been evaluated. The date represents the date the financial statements were issued or were available to be issued. The District evaluated all potential subsequent events as of October 08, 2013, when the financial statements were authorized and available to be issued. No subsequent events or transactions were identified after the balance sheet date or as of October 08, 2013 that require disclosure in the financial statements.

11. RESTRICTED CASH

The District held restricted cash on hand at yearend. The restricted cash includes amounts received for various programs the District has, including: the tennis program, library improvements, MAPS program, and the senior nutrition program. There is also an amount included for future improvements to be made to the Mojave property owned by the District.

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**REQUIRED SUPPLEMENTARY
INFORMATION**

MORONGO VALLEY COMMUNITY SERVICES DISTRICT
 STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2013

| | General Fund | | | Variance with Final Budget Positive (Negative) |
|---------------------------------------------------------|------------------|-----------------|-------------------|------------------------------------------------------------|
| | Budgeted amounts | | Actual Amounts | |
| | Original | Final | | |
| REVENUES | | | | |
| Tax revenue | \$ 365,516 | \$ 362,368 | \$ 365,836 | \$ 3,468 |
| Fire assesment | 291,915 | 292,273 | 292,076 | (197) |
| Tax revenue - homeowners' property tax relief | - | - | - | - |
| Grant income | - | - | 13,951 | 13,951 |
| Interest | 750 | 750 | 3,168 | 2,418 |
| Fire services | 7,193 | 13,028 | 9,222 | (3,806) |
| Park concessions | 5,200 | 3,000 | 4,279 | 1,279 |
| Donations | 750 | 750 | 2,441 | 1,691 |
| Other revenue | 3,333 | 3,333 | 3,384 | 51 |
| TOTAL REVENUES | 674,657 | 675,502 | 694,357 | 18,855 |
| EXPENDITURES | | | | |
| General Government | | | | |
| Wages and benefits | 105,425 | 110,864 | 110,207 | 657 |
| Operations expense | 66,052 | 63,921 | 74,511 | (10,590) |
| Total General Government | 171,477 | 174,785 | 184,718 | (9,933) |
| Fire Operations | | | | |
| Wages and benefits | 376,545 | 402,534 | 398,367 | 4,167 |
| Operations expense | 108,778 | 88,478 | 118,756 | (30,278) |
| Total Fire Operations | 485,323 | 491,012 | 517,123 | (26,111) |
| Parks and Recreation | | | | |
| Wages and benefits | - | - | - | - |
| Operations expense | 21,324 | 24,324 | 34,767 | (10,443) |
| Total Parks and Recreation | 21,324 | 24,324 | 34,767 | (10,443) |
| Street Lights | | | | |
| Repairs and maintenance | 4,200 | 4,200 | 4,237 | (37) |
| Total Street Lights | 4,200 | 4,200 | 4,237 | (37) |
| Debt Service | | | | |
| Principal expense | 15,000 | 15,000 | 1,276 | 13,724 |
| Interest expense | - | - | 178 | (178) |
| Total Debt Service | 15,000 | 15,000 | 1,454 | 13,546 |
| TOTAL EXPENDITURES | 697,324 | 709,321 | 742,299 | (32,978) |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | (22,667) | (33,819) | (47,942) | (14,123) |
| OTHER FINANCING SOURCES AND (USES) | | | | |
| Transfers to/from other funds | 22,667 | 33,819 | - | (33,819) |
| Net Other Financing Sources and (Uses) | 22,667 | 33,819 | - | (33,819) |
| Net Change in Fund Balances | - | - | (47,942) | (47,942) |
| FUND BALANCE - BEGINNING | - | - | 565,347 | 565,347 |
| Adjustment to Beginning Fund Balance | - | - | (47,836) | (47,836) |
| FUND BALANCE - END OF YEAR | \$ - | \$ - | \$ 469,569 | \$ 469,569 |

SUPPLEMENTARY INFORMATION

MORONGO VALLEY COMMUNITY SERVICES DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2013

| | General Fund | | | Total Governmental Funds |
|-----------------------------------------------------|--------------------|------------------------|------------------|--------------------------------|
| | Fire Operations | Park and Recreation | Street Lights | |
| REVENUES | | | | |
| Tax revenue | \$ 325,437 | \$ 34,754 | \$ 5,645 | \$ 365,836 |
| Fire assesment | 292,076 | - | - | 292,076 |
| Tax revenue - homeowners' property tax relief | - | - | - | - |
| Grant income | 13,951 | - | - | 13,951 |
| Interest | - | 3,168 | - | 3,168 |
| Fire service | 9,222 | - | - | 9,222 |
| Rents and concessions | - | 4,279 | - | 4,279 |
| Donations | 1,572 | 869 | - | 2,441 |
| Other revenue | - | 3,384 | - | 3,384 |
| TOTAL REVENUES | 642,258 | 46,454 | 5,645 | 694,357 |
| EXPENDITURES | | | | |
| Salaries and wages | 412,277 | 27,235 | 840 | 440,352 |
| Employee benefits | 57,448 | 10,775 | - | 68,223 |
| Operations expense | 188,040 | 39,425 | 4,805 | 232,270 |
| Debt service | 1,454 | - | - | 1,454 |
| TOTAL EXPENDITURES | 659,219 | 77,435 | 5,645 | 742,299 |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | (16,961) | (30,981) | - | (47,942) |
| OTHER FINANCING SOURCES AND (USES) | | | | |
| Transfers in from other funds | - | - | - | - |
| Transfers out to other funds | - | - | - | - |
| Net Other Financing Sources and (Uses) | - | - | - | - |
| Net change in fund balances | (16,961) | (30,981) | - | (47,942) |
| FUND BALANCE - BEGINNING OF YEAR | 444,693 | 119,316 | 1,338 | 565,347 |
| Adjustment to Beginning Fund Balance | (47,836) | - | - | (47,836) |
| FUND BALANCE - END OF YEAR | \$ 379,896 | \$ 88,335 | \$ 1,338 | \$ 469,569 |

MORONGO VALLEY COMMUNITY SERVICES DISTRICT
CALCULATION OF APPROPRIATION SPENDING LIMIT (Prop. 4 "Gann Limit")
FOR THE YEAR ENDED JUNE 30, 2013

Calculation of Spending Limit:

| | | |
|---------------------------------------------------|-----------------|-------------------|
| Last Year's Limit | | \$ 512,305 |
| Adjustment Factors: | | |
| Change in Population/City | 1.0073 | |
| 2012/13 Growth Factor | x <u>1.0377</u> | |
| | 1.0453 | |
| Total Adjustment (Dollars) | | <u>23,207</u> |
| New Appropriation Limit for Fiscal Year 2012-2013 | | <u>\$ 535,512</u> |

Appropriations in Fiscal Year 2012-2013 Compared to Limit:

| | |
|---------------------------------------|-------------------|
| Proceed from Taxes | \$ 697,324 |
| Less Exclusions | <u>(331,058)</u> |
| Appropriations Subject to Limitation | 366,266 |
| Appropriations Limit for FY 2012-2013 | <u>535,512</u> |
| Amount Under Limit | <u>\$ 169,246</u> |

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

MORONGO VALLEY COMMUNITY SERVICES DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY AND SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2013

A. REQUIRED SUPPLEMENTARY INFORMATION

Budgets are developed consistent with generally accepted accounting principles. All annual appropriations lapse at yearend.

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

B. SUPPLEMENTARY INFORMATION

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

MORONGO VALLEY COMMUNITY SERVICES DISTRICT



FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED JUNE 30, 2014

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LAFCO
San Bernardino County

SM&Co
Smith Marion
& Company, LLP
Certified Public Accountants

MORONGO VALLEY COMMUNITY SERVICES DISTRICT
FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED JUNE 30, 2014

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Smith Marion & Company, LLP · Certified Public Accountants
Grand Terrace Office · 22365 Barton Road, Suite 108 · Grand Terrace, CA 92313 · (909) 825-6600

Board of Directors
Morongo Valley Community Services District
Morongo Valley, CA

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities of Morongo Valley Community Services District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Morongo Valley Community Services District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of Morongo Valley Community Services District, as of June 30, 2014, and the respective changes in financial position and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

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



October 30, 2014
Grand Terrace, CA

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

As management of the Morongo Valley Community Services District and Fire Department (the District), we offer readers of the District's financial statement this narrative overview and analysis of the financial activities of the District for the fiscal year which ended on June 30, 2014.

Financial Highlights:

- As can be viewed from the Government-Wide Financial Reports, assets of the Morongo Valley Community Services District exceeded its liabilities at the close of the 2013-2014 fiscal year by \$849,115 (Total Net Position/Net Position of Governmental Activities). Because of unearned revenues and short term debt, the District's liabilities were \$45,567, and when added to the net assets, resulted in Total Assets of \$894,682. Unearned revenues are future payments due from the County of San Bernardino or the State Office of Emergency Services for assistance provided by the District for regional emergency response services.
- The District's governmental funds total revenues over the fiscal year were \$738,663 of which tax and property assessments provided a combined \$676,974 and other sources of income provided the balance. Total Expenditures over the same period were \$851,053 or \$112,390 in excess of total expenses. This required transfers from the District's Money Market Savings Account to offset expenditures with a corollary reduction in the District's Net Position.
- While the District's beginning Fund Balance at the start of the fiscal year was \$469,569 the Fund Balance at close of the fiscal year was \$357,179 reflecting the \$112,390 excess expense noted in the above statement.
- There were many factors contributing to the decrease in fund balance this year. The largest factor was the increase in minimum wage. This one factor alone, created a \$50,000 addition to the Fire Budget that was not anticipated. Other Fire Department factors affecting the budget were escalating costs associated with the paramedics; the cost of medication increased in many cases over double what we have paid in the past. Other increases were; the cost of the uniforms and gear we provide, the cost of equipment and maintenance of the fire apparatus, and the cost of fuel.
- On the CSD side of the budget, one of the main contributing factors was a 68 page report from our insurance carrier SDRMA detailing compliance issues with Workers Compensation, Liability loss control and OSHA. We brought everything into compliance that was detailed on the report, and many of the items had a cost associated with them; electrical issues, fencing, signs, and repair work. On the plus side of the CSD costs, the General Manager took a \$14,000 reduction in pay.

Overview of the Financial Statements

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

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

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

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

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

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

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

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

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

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

Notes to the Financial Statements. The notes provide additional information considered essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes can be found on pages 8-14 of the annual fiscal year-end audit report.

Other information. In addition to the basic financial statements and accompanying notes, the audit report also presents certain *required supplementary information*. The District adopts an annual appropriated budget for its general operations and any special revenue funds. A budgetary comparison statement is provided for these operations and special revenue funds to demonstrate compliance with this budgeting process. The *required supplementary information* can be found on pages 15 of the annual fiscal year-end audit report.

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

Table 1
STATEMENT OF NET POSITION

| | 2014 | 2013 |
|----------------------------------|-------------------|---------------------|
| Current and other assets | \$ 428,361 | \$ 537,949 |
| Capital assets | 466,321 | 509,882 |
| Total Assets | <u>894,682</u> | <u>1,047,831</u> |
| Deferred Outflows of Resources | - | - |
| Current liabilities | 30,231 | 26,437 |
| Long-term liabilities | 15,336 | 20,607 |
| Total Liabilities | <u>45,567</u> | <u>47,044</u> |
| Deferred Inflows of Resources | - | - |
| Net Position: | | |
| Net investment in capital assets | 466,321 | 509,882 |
| Restricted | 13,569 | 11,348 |
| Unrestricted | 369,225 | 479,557 |
| Total Net Position | <u>\$ 849,115</u> | <u>\$ 1,000,787</u> |

As noted earlier, net position may serve over time as a useful indicator of a District’s financial position. For the Morongo Valley CSD, total assets were reflected at \$894,682 and total liabilities at \$45,567 at the close of the fiscal year.

The largest portion of the District’s net position reflects capital assets such as land, buildings, apparatus, machinery or equipment. This was valued net of depreciation at \$466,321 less any related debt used to acquire those assets still outstanding. These debts included notes payable such as the outstanding balance due on the purchase of a Fire Command Vehicle which was financed at favorable rates through the Los Angeles Firefighter’s Credit Union (\$20,607).

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

The District’s net position also included cash in a Money Market Account and cash which is considered “restricted” in that it is earmarked for specific projects. Total cash held by financial institutions for the District amounted to \$349,632 at the close of the fiscal year. This cash is generally utilized to assist in meeting the District’s ongoing obligations to residents and creditors which may occur within any fiscal cycle; the balance of these funds adds to the District’s fiscal position. Some of this cash is related to unspent fees or assessments collected in current or prior years. A portion of which was collected for park improvements and additions which do not include expenses for the maintenance and operation of the District’s parks.

Table 2
STATEMENT OF ACTIVITIES

| | 2014 | 2013 |
|------------------------------------|-------------------|---------------------|
| Revenues: | | |
| Program Revenues: | | |
| Charges for services | \$ 34,880 | \$ 13,501 |
| Operating grants and contributions | 11,692 | 2,441 |
| Capital grants and contributions | 11,516 | 13,951 |
| General Revenues: | | |
| Property taxes | 363,061 | 365,836 |
| Assessments | 313,913 | 292,076 |
| Other | 2,763 | 5,776 |
| Total Revenues | <u>737,825</u> | <u>693,581</u> |
| Expenses: | | |
| Fire operations | 795,807 | 729,398 |
| Parks and recreation | 88,911 | 49,194 |
| Street lights | 4,080 | 5,645 |
| Other | 699 | 178 |
| Total Expenses | <u>889,497</u> | <u>784,415</u> |
| Change in net position | (151,672) | (90,834) |
| Net Position - Beginning | 1,000,787 | 1,091,621 |
| Net Position - Ending | <u>\$ 849,115</u> | <u>\$ 1,000,787</u> |

Capital Asset and Debt Administration:

Capital assets.

There were no significant changes in capital assets and debt administration over the fiscal year.

Debt administration.

Purchase of the Fire Command Vehicle resulted in an increase in the long-term debt of the District as a loan was obtained in the amount of \$27,000 at 2.99% over a 60 month period starting in March of 2013. The added debt requires a monthly payment of \$484 over this period of time.

General Fund Budgetary Highlights.

**Table 3
BUDGET**

| | Original | Final | Variance |
|------------------------------------|----------|----------|----------|
| Revenues: | | | |
| Program Revenues: | | | |
| Charges for services | \$ 7,900 | \$ 7,900 | \$ - |
| Operating grants and contributions | 1,600 | 1,600 | - |
| Capital grants and contributions | - | - | - |
| General Revenues: | | | |
| Property taxes | 362,362 | 362,362 | - |
| Assessments | 298,000 | 298,000 | - |
| Other | 3,583 | 3,583 | - |
| Total Revenues | 673,445 | 673,445 | - |
| Expenses: | | | |
| General government | 159,324 | 159,324 | - |
| Fire operations | 523,261 | 523,261 | - |
| Parks and recreation | 53,066 | 53,066 | - |
| Street lights | 4,200 | 4,200 | - |
| Other | 6,000 | 6,000 | - |
| Total Expenses | 745,851 | 745,851 | - |
| Change in net position | (72,406) | (72,406) | - |
| Transfers to/from other funds | 72,406 | 72,406 | - |
| Net Position - Ending | \$ - | \$ - | \$ - |

As indicated in table 3 the net position did not change there was only a shift of amounts between various line items.

Financial Analysis of the Government’s Funds:

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

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

Unreserved fund balances can also be used by a governmental agency to designate portions of such a net balance as future **designated reserves** within following fiscal cycles. Sort of like a designated savings account set aside for a specific purpose. Some governmental agencies utilize *designated reserves* and identify their

use to offset unplanned for emergency needs which may occur due to a localized or regional disaster such as fires, floods or other such needs. Additionally, governmental agencies may designate reserves to be used for contingencies which may occur within a current fiscal cycle, or to set aside funds to meet future *capital expenses* such as for replacement of structures, facilities or major fire apparatus and equipment. Quite commonly, agencies faced with significant cash on hand balances; designate a portion of such cash for investments in bonds or other assets which may provide available funding sources to meet future long-term needs of their agencies.

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

At the end of the 2013-2014 fiscal year, the District's governmental funds reported combined ending fund balances of \$357,149, a decrease of \$112,390 in comparison with the prior fiscal year end. Of that balance \$341,941 constitutes an *unassigned fund balance* and potentially available for new spending in subsequent fiscal periods; the reduction over the prior fiscal year serves as an indicator that continued similar reductions from fiscal year to fiscal year is not sustainable, and would surely result in decreased service levels for the community unless additional sources of revenue can be found or fees increased to augment existing fiscal resources.

Economic Factors, Trends and Following Fiscal Year Needs

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

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

Emphasis on fiscal responsibility and accountability.

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

Establishment of taking a conservative approach.

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

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

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

Emphasis on establishment of stable reserves.

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

Investment in infrastructure maintenance.

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

Economic Factors and Next Year's Budget

The District expects revenues in the 2014-2015 fiscal year to increase less than 1% over the prior year. The majority of this increase is expected to be from the resident voter approved fire assessment fee adopted in fiscal year 2007-08 providing for a modest increase tied to the experienced cost-of-living increase over the prior year. Recreation and park facilities use fees are expected to remain level or slightly increased and property tax revenues are projected to remain relatively flat as the economy slowly shifts forward.

Requests for Information

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

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

BASIC FINANCIAL STATEMENTS

MORONGO VALLEY COMMUNITY SERVICES DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2014

| | Primary Government | | |
|-------------------------------------------|----------------------------|-----------------------------|-------------------|
| | Governmental Activities | Business-Type Activities | Total |
| ASSETS | | | |
| Cash | \$ 336,063 | \$ - | \$ 336,063 |
| Cash - restricted | 13,569 | - | 13,569 |
| Total cash | 349,632 | - | 349,632 |
| Accounts receivable | 30,838 | - | 30,838 |
| Prepaid insurance | 1,669 | - | 1,669 |
| Notes receivable | 46,222 | - | 46,222 |
| Capital assets (Net) | 466,321 | - | 466,321 |
| TOTAL ASSETS | 894,682 | - | 894,682 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| | - | - | - |
| TOTAL ASSETS AND DEFERRED OUTFLOWS | \$ 894,682 | \$ - | \$ 894,682 |
| LIABILITIES | | | |
| Accounts payable | \$ 11,391 | \$ - | \$ 11,391 |
| Unearned revenue | 13,569 | - | 13,569 |
| Notes payable - Current | 5,271 | - | 5,271 |
| Notes payable - Noncurrent | 15,336 | - | 15,336 |
| TOTAL LIABILITIES | 45,567 | - | 45,567 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| | - | - | - |
| NET POSITION | | | |
| Net investment in capital assets | 466,321 | - | 466,321 |
| Restricted net position | 13,569 | - | 13,569 |
| Unrestricted net position | 369,225 | - | 369,225 |
| TOTAL NET POSITION | \$ 849,115 | \$ - | \$ 849,115 |

MORONGO VALLEY COMMUNITY SERVICES DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position |
|----------------------------------------------------------------------------|-------------------|----------------------|------------------------------------|----------------------------------|---------------------------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | |
| Primary Government | | | | | |
| Governmental Activities: | | | | | |
| Fire operations | \$ 777,928 | \$ 25,482 | \$ 9,992 | \$ 11,516 | \$ (730,938) |
| Parks and recreation | 106,084 | 9,398 | 1,700 | - | (94,986) |
| Street lights | 4,786 | - | - | - | (4,786) |
| Interest on long-term debt | 699 | - | - | - | (699) |
| Total Governmental Activities | 889,497 | 34,880 | 11,692 | 11,516 | (831,409) |
| Business-type activities: | - | - | - | - | - |
| Total Business-Type Activities | - | - | - | - | - |
| Total Primary Government | \$ 889,497 | \$ 34,880 | \$ 11,692 | \$ 11,516 | (831,409) |
| General revenues: | | | | | |
| Property taxes | | | | | 363,061 |
| Assessment | | | | | 313,913 |
| Grants, contributions and other income not restricted to specific programs | | | | | 2,546 |
| Unrestricted interest income | | | | | 217 |
| Total General Revenues | | | | | 679,737 |
| Change in net position | | | | | (151,672) |
| Net position - beginning | | | | | 1,000,787 |
| Net position - ending | | | | | \$ 849,115 |

MORONGO VALLEY COMMUNITY SERVICES DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2014

| | General Fund | Total Governmental Funds |
|------------------------------------------------------------------|-------------------|--------------------------------|
| ASSETS | | |
| Cash | \$ 336,063 | \$ 336,063 |
| Cash - restricted | 13,569 | 13,569 |
| Accounts receivable | 30,838 | 30,838 |
| Prepaid insurance | 1,669 | 1,669 |
| TOTAL ASSETS | <u>382,139</u> | <u>382,139</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| | - | - |
| TOTAL ASSETS AND DEFERRED OUTFLOWS | <u>\$ 382,139</u> | <u>\$ 382,139</u> |
| LIABILITIES | | |
| Accounts payable | \$ 11,391 | \$ 11,391 |
| Other liabilities | 13,569 | 13,569 |
| TOTAL LIABILITIES | <u>24,960</u> | <u>24,960</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| | - | - |
| FUND BALANCE | | |
| Nonspendable: | | |
| Prepaid expenses | 1,669 | 1,669 |
| Restricted for: | | |
| General Government | 13,569 | 13,569 |
| Unassigned | 341,941 | 341,941 |
| TOTAL FUND BALANCE | <u>357,179</u> | <u>357,179</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCE | <u>\$ 382,139</u> | |

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

| | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds | 466,321 |
| Governmental funds focus on current financial resources. Accordingly, they report only those receivables that are considered potentially relevant to near-term liquidity | 46,222 |
| Governmental funds focus on current financial resources. Accordingly, they report only those liabilities that are considered potentially relevant to near-term liquidity | <u>(20,607)</u> |
| Net Position of governmental activities | <u>\$ 849,115</u> |

MORONGO VALLEY COMMUNITY SERVICES DISTRICT
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2014

| | General Fund |
|-----------------------------------------------------|-------------------|
| REVENUES | |
| Tax assessments | \$ 363,061 |
| Fire assesment | 313,913 |
| Tax revenue - homeowners' property tax relief | - |
| Grant income | 11,516 |
| Interest | 217 |
| Fire service | 25,482 |
| Park concessions | 9,398 |
| Donations | 11,692 |
| Other revenue | 3,384 |
| TOTAL REVENUES | <u>738,663</u> |
| EXPENDITURES | |
| Fire operations | 734,367 |
| Parks and recreation | 106,084 |
| Street lights | 4,786 |
| Debt service | 5,816 |
| TOTAL EXPENDITURES | <u>851,053</u> |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | (112,390) |
| OTHER FINANCING SOURCES AND (USES) | |
| Transfers in from other funds | - |
| Transfers out to other funds | - |
| Net Other Financing Sources and (Uses) | <u>-</u> |
| Net change in fund balances | (112,390) |
| FUND BALANCE - BEGINNING OF YEAR | <u>469,569</u> |
| FUND BALANCE - END OF YEAR | <u>\$ 357,179</u> |

MORONGO VALLEY COMMUNITY SERVICES DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

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

| | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|
| Net change in fund balances-total governmental funds | \$ (112,390) |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This amount represents the amount by which depreciation exceeded capital outlays. | (43,561) |
| Governmental funds report loan receivable payments as income. However, in the statement of activities the payment is applied to reduce the loan receivable principal. | (838) |
| Governmental funds report loan payments as expenditures. However, in the statement of activities the payment is applied to reduce the loan principal. | <u>5,117</u> |
| Change in net position of governmental activities | <u>\$ (151,672)</u> |

MORONGO VALLEY COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

1. NATURE OF ORGANIZATION

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

BOARD OF DIRECTORS

| | |
|--------------------------------------------------------------|----------------|
| President..... | Johnny Tolbert |
| Vice-President..... | Kristina Brook |
| Director of Finance..... | Karen Lowe |
| Director of Legislative/Projects & Fire Commissioner..... | Gayle Swarat |
| Parks Commissioner..... | Chuck Osborne |

ADMINISTRATION

| | |
|----------------------|-------------|
| General Manager..... | Donna Munoz |
|----------------------|-------------|

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Government-wide and fund financial statements

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

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

Measurement focus, basis of accounting, and financial statement presentation

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

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

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

The government reports the following major governmental fund:

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

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

Revenue

Revenue consists primarily of property tax assessments.

Federal and State Grant Revenue

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

Budgets

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

Cash and Cash Equivalents

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

Estimates

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

Investments

Under provision of the District’s Investment Policy, and in accordance with Section 53601 of the California Government Code, the District may invest in the following types of investments:

- Securities of the U.S. Government, or its agencies
- Small Business Administration Loans
- Negotiable Certificates of Deposits
- Bankers Acceptances
- Commercial Paper
- Local Agency Investment Fund (State Pool Deposits)
- Passbook Savings Account Demand Deposits
- Repurchase Agreements
- Reverse Repurchase Agreements

Capital Assets

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

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

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

Long-Term Obligations

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

3. CASH AND INVESTMENTS

Cash and cash equivalents consist of the following:

| | <u>Fair Value</u> |
|---------------------------------------------------------------------------|-------------------|
| Cash in bank | \$ 336,063 |
| Cash - restricted | 13,569 |
| Total Cash and Cash Equivalents on deposit with Financial Institutions | <u>\$ 349,632</u> |

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

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

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

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

Disclosure Relating to Interest Rate Risk

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

Disclosure Relating to Credit Risk

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

Concentration of Credit Risk

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

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy do not contain legal or policy requirement that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposit. Therefore, all cash funds of the District deposited with financial institutions are fully insured by such collateral pools.

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

4. CAPITAL ASSETS

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

| | Beginning Balance | Increases | Decreases | Ending Balance |
|----------------------------------------------|----------------------|-------------|-----------|-------------------|
| Governmental Activities | | | | |
| Assets: | | | | |
| <i>Capital assets not being depreciated:</i> | | | | |
| Land | \$ 203,330 | \$ - | \$ - | \$ 203,330 |
| <i>Capital assets being depreciated:</i> | | | | |
| Buildings and improvements | 588,312 | - | - | 588,312 |
| Furniture and equipment | 437,564 | - | - | 437,564 |
| Fire equipment | 596,785 | - | - | 596,785 |
| Total Capital Assets being depreciated | 1,622,661 | - | - | 1,622,661 |
| Accumulated Depreciation: | | | | |
| Buildings and improvements | (400,801) | (16,182) | - | (416,983) |
| Furniture and equipment | (387,358) | (12,598) | - | (399,956) |
| Fire equipment | (527,950) | (14,781) | - | (542,731) |
| Total Accumulated Depreciation | (1,316,109) | (43,561) | - | (1,359,670) |
| <i>Net capital assets being depreciated</i> | 306,552 | (43,561) | - | 262,991 |
| Net Governmental Activities | | | | |
| Capital Assets | \$ 509,882 | \$ (43,561) | \$ - | \$ 466,321 |

5. PROPERTY TAX CALENDAR

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

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

6. CREDIT LINE PAYABLE

The District has entered into a line of credit agreement with a bank. Under this agreement the District can borrow working capital advances up to \$200,000. The agreement requires interest only payments. As of yearend the interest rate was 9.25%. The balance as of yearend on the credit line was \$-0-

7. LONG-TERM DEBT

The following represents the long-term debt of the District:

Chevy Tahoe: the District obtained a loan in the amount of \$27,000 on 3/11/13. The interest rate was 2.99% and required a monthly payment of \$484 for a 60 month period.

A summary of changes in long-term debt is as follows:

| | Beginning Balance | Additions | Reduction | Ending Balance | Due Within One Year |
|--------------------|----------------------|-----------|------------|-------------------|------------------------|
| Chevy Tahoe | \$ - | \$ 25,724 | \$ (5,117) | \$ 20,607 | \$ 5,117 |
| Total | \$ - | \$ 25,724 | \$ (5,117) | \$ 20,607 | \$ 5,117 |

Annual debt service requirements to maturity are as follows:

| | Principal | Interest | Total |
|------------------------------|-----------|----------|-----------|
| For the year ending June 30: | | | |
| 2015 | \$ 5,271 | \$ 545 | \$ 5,816 |
| 2016 | 5,432 | 384 | 5,816 |
| 2017 | 5,596 | 220 | 5,816 |
| 2018 | 4,308 | 54 | 4,362 |
| 2019 | | | - |
| Total | \$ 20,607 | \$ 1,203 | \$ 21,810 |

8. RISK MANAGEMENT

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

9. RESTRICTED CASH

The District held restricted cash on hand at yearend. The restricted cash includes amounts received for various programs the District has, including: the tennis program, library improvements, MAPS program, and the senior nutrition program. There is also an amount included for future improvements to be made to the Mojave property owned by the District.

10. NOTES RECEIVABLE

The District sold property on September 29, 2009 for cash and an installment note in the amount of \$50,000. The note requires an annual payment of \$3,333 on July 1 each year, continuing until July 1, 2040 at which time any remaining balance is due and payable. Interest rate is 5.3050%.

Annual notes receivable maturities are as follows:

| | Principal | Interest | Total |
|------------------------------|------------------|------------------|------------------|
| For the year ending June 30: | | | |
| 2015 | \$ 960 | \$ 2,374 | \$ 3,334 |
| 2016 | 979 | 2,355 | 3,334 |
| 2017 | 1,031 | 2,303 | 3,334 |
| 2018 | 1,085 | 2,249 | 3,334 |
| 2019 | 1,043 | 2,291 | 3,334 |
| Thereafter | 41,124 | 25,217 | 66,341 |
| Total | <u>\$ 46,222</u> | <u>\$ 36,789</u> | <u>\$ 83,011</u> |

11. SUBSEQUENT EVENTS

Accounting standards require that the District assess and disclose the date and the basis for that date through which potential subsequent events have been evaluated. The date represents the date the financial statements were issued or were available to be issued. The District evaluated all potential subsequent events as of October 30, 2014, when the financial statements were authorized and available to be issued. No subsequent events or transactions were identified after the balance sheet date or as of October 30, 2014 that require disclosure in the financial statements.

* * * *

**REQUIRED SUPPLEMENTARY
INFORMATION**

MORONGO VALLEY COMMUNITY SERVICES DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014

| | General Fund | | | Variance with Final Budget Positive (Negative) |
|---------------------------------------------------------|------------------|-----------------|-------------------|------------------------------------------------------------|
| | Budgeted amounts | | Actual Amounts | |
| | Original | Final | | |
| REVENUES | | | | |
| Tax revenue | \$ 362,362 | \$ 362,362 | \$ 363,061 | \$ 699 |
| Fire assesment | 298,000 | 298,000 | 313,913 | 15,913 |
| Tax revenue - homeowners' property tax relief | - | - | - | - |
| Grant income | - | - | 11,516 | 11,516 |
| Interest | 250 | 250 | 217 | (33) |
| Fire services | 3,900 | 3,900 | 25,482 | 21,582 |
| Park concessions | 4,000 | 4,000 | 9,398 | 5,398 |
| Donations | 1,600 | 1,600 | 11,692 | 10,092 |
| Other revenue | 3,333 | 3,333 | 3,384 | 51 |
| TOTAL REVENUES | 673,445 | 673,445 | 738,663 | 65,218 |
| EXPENDITURES | | | | |
| General Government | | | | |
| Wages and benefits | 86,472 | 86,472 | 76,564 | 9,908 |
| Operations expense | 72,852 | 72,852 | 49,531 | 23,321 |
| Total General Government | 159,324 | 159,324 | 126,095 | 33,229 |
| Fire Operations | | | | |
| Wages and benefits | 416,571 | 416,571 | 448,411 | (31,840) |
| Operations expense | 106,690 | 106,690 | 176,291 | (69,601) |
| Total Fire Operations | 523,261 | 523,261 | 624,702 | (101,441) |
| Parks and Recreation | | | | |
| Wages and benefits | 20,016 | 20,016 | 36,046 | (16,030) |
| Operations expense | 33,050 | 33,050 | 54,314 | (21,264) |
| Total Parks and Recreation | 53,066 | 53,066 | 90,360 | (37,294) |
| Street Lights | | | | |
| Repairs and maintenance | 4,200 | 4,200 | 4,080 | 120 |
| Total Street Lights | 4,200 | 4,200 | 4,080 | 120 |
| Debt Service | | | | |
| Principal expense | - | - | 5,117 | (5,117) |
| Interest expense | 6,000 | 6,000 | 699 | 5,301 |
| Total Debt Service | 6,000 | 6,000 | 5,816 | 184 |
| TOTAL EXPENDITURES | 745,851 | 745,851 | 851,053 | (105,202) |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | (72,406) | (72,406) | (112,390) | (39,984) |
| OTHER FINANCING SOURCES AND (USES) | | | | |
| Transfers to/from other funds | 72,406 | 72,406 | - | (72,406) |
| Net Other Financing Sources and (Uses) | 72,406 | 72,406 | - | (72,406) |
| Net Change in Fund Balances | - | - | (112,390) | (112,390) |
| FUND BALANCE - BEGINNING | - | - | 469,569 | 469,569 |
| Adjustment to Beginning Fund Balance | - | - | - | - |
| FUND BALANCE - END OF YEAR | \$ - | \$ - | \$ 357,179 | \$ 357,179 |

SUPPLEMENTARY INFORMATION

MORONGO VALLEY COMMUNITY SERVICES DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2014

| | General Fund | | | Total Governmental Funds |
|-----------------------------------------------------|--------------------|------------------------|------------------|--------------------------------|
| | Fire Operations | Park and Recreation | Street Lights | |
| REVENUES | | | | |
| Tax revenue | \$ 266,673 | \$ 91,602 | \$ 4,786 | \$ 363,061 |
| Fire assesment | 313,913 | - | - | 313,913 |
| Tax revenue - homeowners' property tax relief | - | - | - | - |
| Grant income | 11,516 | - | - | 11,516 |
| Interest | 217 | - | - | 217 |
| Fire service | 25,482 | - | - | 25,482 |
| Rents and concessions | - | 9,398 | - | 9,398 |
| Donations | 9,992 | 1,700 | - | 11,692 |
| Other revenue | - | 3,384 | - | 3,384 |
| TOTAL REVENUES | 627,793 | 106,084 | 4,786 | 738,663 |
| EXPENDITURES | | | | |
| Salaries and wages | 441,253 | 35,268 | 364 | 476,885 |
| Employee benefits | 73,745 | 10,325 | 64 | 84,134 |
| Operations expense | 219,369 | 60,491 | 4,358 | 284,218 |
| Debt service | 5,816 | - | - | 5,816 |
| TOTAL EXPENDITURES | 740,183 | 106,084 | 4,786 | 851,053 |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | (112,390) | - | - | (112,390) |
| OTHER FINANCING SOURCES AND (USES) | | | | |
| Transfers in from other funds | - | - | - | - |
| Transfers out to other funds | - | - | - | - |
| Net Other Financing Sources and (Uses) | - | - | - | - |
| Net change in fund balances | (112,390) | - | - | (112,390) |
| FUND BALANCE - BEGINNING OF YEAR | 379,896 | 88,335 | 1,338 | 469,569 |
| FUND BALANCE - END OF YEAR | \$ 267,506 | \$ 88,335 | \$ 1,338 | \$ 357,179 |

MORONGO VALLEY COMMUNITY SERVICES DISTRICT
CALCULATION OF APPROPRIATION SPENDING LIMIT (Prop. 4 "Gann Limit")
FOR THE YEAR ENDED JUNE 30, 2014

Calculation of Spending Limit:

| | | |
|---------------------------------------------------|---|--------------------------|
| Last Year's Limit | | \$ 535,511 |
| Adjustment Factors: | | |
| Change in Population/City | | 1.0079 |
| Growth Factor | x | <u>1.0512</u> |
| | | 1.0595 |
| Total Adjustment (Dollars) | | <u>31,863</u> |
| New Appropriation Limit for Fiscal Year 2013-2014 | | <u><u>\$ 567,374</u></u> |

Appropriations in Fiscal Year 2013-2014 Compared to Limit:

| | |
|---------------------------------------|--------------------------|
| Proceed from Taxes | \$ 688,910 |
| Less Exclusions | <u>(312,600)</u> |
| Appropriations Subject to Limitation | 376,310 |
| Appropriations Limit for FY 2012-2013 | <u>567,374</u> |
| Amount Under Limit | <u><u>\$ 191,064</u></u> |

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

MORONGO VALLEY COMMUNITY SERVICES DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY AND SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2014

A. REQUIRED SUPPLEMENTARY INFORMATION

Budgets are developed consistent with generally accepted accounting principles. All annual appropriations lapse at yearend.

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

B. SUPPLEMENTARY INFORMATION

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