MORRO HILLS COMMUNITY SERVICES DISTRICT FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

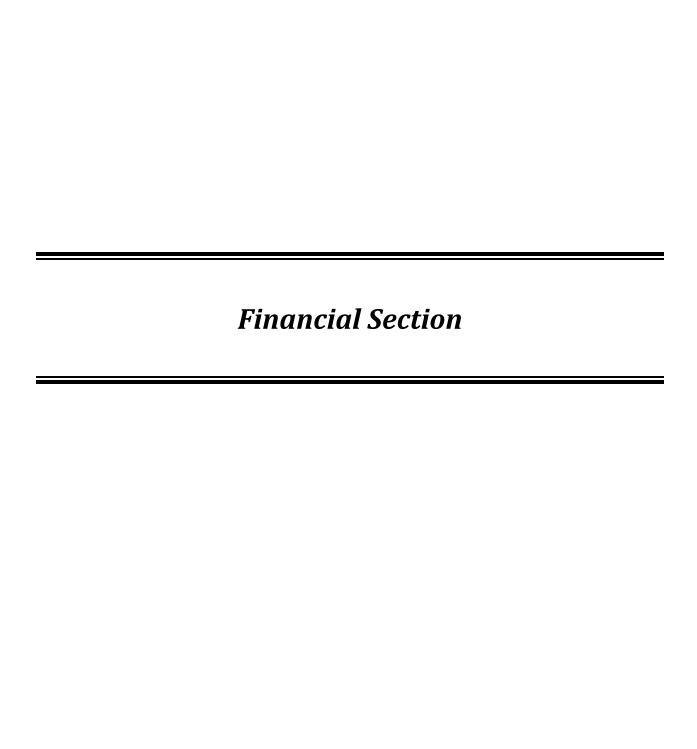
For the Fiscal Year Ended June 30, 2020 (With Comparative Amounts as of June 30, 2019)



For the Fiscal Year Ended June 30, 2020 Table of Contents

FINANCIAL SECTION

	<u>Page</u>
Independent Auditors' Report	1
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net PositionStatement of Activities	3
Statement of Activities	4
Governmental Funds Financial Statements:	
Governmental Funds Balance Sheet	
Reconciliation of the Governmental Funds Balance Sheet to Statement of Net Position	6
Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund	
Fund Balances	7
Reconciliation of the Statement of Governmental Fund Revenues, Expenditures, and Changes	
in Fund Balances to the Statement of Activities	8
Notes to Financial Statements	9
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule – General Fund	16





INDEPENDENT AUDITORS' REPORT

Board of Directors Morro Hills Community Services District Fallbrook, California

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the District, as of June 30, 2020, and the respective changes in financial position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 16 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.

Prior-Year Comparative Information

Nigro & Nigro, PC

The financial statements include partial prior-year comparative information. Such information does not include sufficient detail to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2019, from which such partial information was derived.

Murrieta, California October 31, 2020

Statement of Net Position June 30, 2020 (With Comparative Amounts as of June 30, 2019)

	Governmental Activities			
	2020			2019
ASSETS				
Cash and cash equivalents (Note 2)	\$	118,004	\$	141,716
Accrued interest receivable		26		26
Property taxes receivable		823		879
Prepaid items		125		22,729
Capital assets, net (Note 3)		383,279		305,476
Total assets	502,257		470,8	
LIABILITIES				
Accounts payable and accrued expenses		-		_
Total liabilities		_		
NET POSITION				
Investment in capital assets		383,279		305,476
Unrestricted		118,978		165,350
Total net position	\$	502,257	\$	470,826

Statement of Activities For the Fiscal Year Ended June 30, 2020 (With Comparative Amounts for the Year Ended June 30, 2019)

	Governmental Activities			
	2020			2019
EXPENSES				
Road operations:				
Maintenance and operations	\$	7,056	\$	14,814
General and administrative		14,236		17,360
Depreciation		38,945		36,842
Total expenses		60,237		69,016
GENERAL REVENUES				
Property taxes		88,867		84,910
Investment earnings		132		143
Other revenue		2,669		153
Total general revenues		91,668		85,206
CHANGE IN NET POSITION		31,431		16,190
NET POSITION				
Beginning of year		470,826		454,636
End of year	\$	502,257	\$	470,826

Balance Sheet – Governmental Funds June 30, 2020 (With Comparative Amounts as of June 30, 2019)

	General Fund 2020 2019		d	
<u>ASSETS</u>			2019	
ASSETS				
Cash and cash equivalents	\$	118,004	\$	141,716
Accrued interest receivable		26		26
Property taxes receivable		823		879
Prepaid items		125		22,729
Total assets	\$	118,978	\$	165,350
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable and accrued expenses	\$	-	\$	
Total liabilities				-
FUND BALANCE (Note 4)				
Nonspendable		125		22,729
Unassigned		118,853		142,621
Total fund balances		118,978		165,350
Total liabilities and fund balances	\$	118,978	\$	165,350

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position June 30, 2020

(With Comparative Amounts as of June 30, 2019)

	 2020	2019
Fund Balance – Governmental Fund	\$ 118,978	\$ 165,350
Amounts reported for governmental activities in the statement of net position are different because:		
Amounts reported for governmental activities in the statement of net position are different because capital assets used for governmental activities are not financial resources and therefore are not reported as assets in governmental		
funds.	383,279	 305,476
Total adjustments	 383,279	 305,476
Net Position of Governmental Activities	\$ 502,257	\$ 470,826

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds For the Fiscal Year Ended June 30, 2020

(With Comparative Amounts for the Year Ended June 30, 2019)

	General Fund				
	2020			2019	
REVENUES	<u>-</u>				
Property taxes	\$	88,867	\$	84,910	
Investment earnings		132		143	
Other revenue		2,669		153	
Total revenues	91,668			85,206	
EXPENDITURES					
Current:					
Maintenance and operations		7,056		14,814	
General and administrative		14,236		17,360	
Capital outlay		116,748		-	
Total expenditures		138,040	4032		
NET CHANGE IN FUND BALANCE	(46,372)			53,032	
FUND BALANCE:					
Beginning of year		165,350		112,318	
End of year	\$	118,978	\$	165,350	

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities
For the Fiscal Year Ended June 30, 2020
(With Comparative Amounts for the Year Ended June 30, 2019)

	2020	2019
Net Change in Fund Balance – Governmental Fund	\$ (46,372)	\$ 53,032
Amounts reported for governmental activities in the statement of activities are different because:		
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 as depreciation expense.		
Capital outlay	116,748	-
Depreciation expense	(38,945)	(36,842)
Total adjustments	77,803	(36,842)
Change in Net Position of Governmental Activities	\$ 31,431	\$ 16,190

Notes to Financial Statements June 30, 2020

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Description of Organization

The Morro Hills Community Services District (the District) is a separate governmental unit established in March 21, 1961. The purpose of the District is to build and maintain roads within its boundaries which encompasses approximately six miles of road surface and related drainage facilities.

B. Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, and agencies that are not legally separate from the District.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Statements No. 61, The Financial Reporting Entity. The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The District has no component units as of year-end.

C. Basis of Presentation, Basis of Accounting

1. Basis of Presentation

Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the primary government (the District) and its component units. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Major Governmental Funds

The District maintains the following major governmental fund:

General Fund: This fund is used to account for all financial resources of the District, except those required to be accounted for in another fund when necessary.

Notes to Financial Statements June 30, 2020

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation, Basis of Accounting (continued)

2. Measurement Focus, Basis of Accounting

Government-Wide Financial Statements

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 at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and financing from capital leases are reported as other financing sources.

3. Revenues - Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year. Generally, available is defined as collectible within 60 days.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose requirements. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Notes to Financial Statements June 30, 2020

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, Deferred Outflows of Resources, Liabilities, and Net Position

1. Cash and Cash Equivalents

The District considers cash and cash equivalents to be cash on hand and demand deposits.

2. Fair Value Measurements

In accordance with fair value measurements, the District categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement.

Financial assets and liabilities recorded on the balance sheet are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical investments, such as stocks, corporate and government bonds. The District has the ability to access the holding and quoted prices as of the measurement date.

Level 2 – Inputs, other than quoted prices, that are observable for the asset or liability either directly or indirectly, including inputs from markets that are not considered to be active.

Level 3 – Inputs that are unobservable. Unobservable inputs reflect the District's own assumptions about the factors market participants would use in pricing an investment, and is based on the best information available in the circumstances.

3. Capital Assets

Capital assets are recorded in the government-wide financial statements. Included in capital assets are land, building, building improvements, equipment and furniture and fixtures. District policy has set the capitalization threshold for reporting capital assets at \$5,000. Donated assets are recorded at estimated fair market value at the date of donation. Capital outlay is recorded as expenditures of the General Fund and as assets in the government-wide financial statements to the extent the District's capitalization threshold is met. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

		Estimated
_	Asset Class	Useful Lives
	Road improvements Equipment	20-50 years 5-20 years

Notes to Financial Statements June 30, 2020

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, Deferred Outflows of Resources, Liabilities, and Net Position (continued)

4. Net Position

Net position is classified into two components: net investment in capital assets and unrestricted. These classifications are defined as follows:

Investment in capital assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation.

Unrestricted net position - This component of net position consists of net position that is available for operations.

5. Fund Balances

The fund balance for governmental funds is reported in classifications based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Nonspendable: Fund balance is reported as nonspendable when the resources cannot be spent because they are either in a nonspendable form or legally or contractually required to be maintained intact. Resources in nonspendable form include inventories and prepaid assets.

Unassigned: Unassigned fund balance represents fund balance that has not been restricted, committed, or assigned and may be utilized by the District for any purpose.

E. Use of Estimates

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

F. Property Taxes

Property taxes attach as an enforceable lien on property as of January 1, each year. Secured property taxes are levied on July 1 and are payable in two installments, on December 10 and April 10. The County of San Diego Assessor's Office assesses all real and personal property within the County each year. Property tax in California is levied in accordance with Article 13A of the State Constitution at one (1%) of countywide assessed valuations. The County of San Diego Treasurer's Office remits an undisclosed portion of the one (1%) current and delinquent property tax collections to the District throughout the year.

G. Budgetary Accounting

An annual unappropriated budget, which establishes the total spending authority for the General Fund, is adopted by the Board of Directors just prior to the beginning of the District's fiscal year. Estimated revenue is the original estimate with modifications for new programs which are anticipated to be received during the fiscal year. Expenditures cannot legally exceed appropriations at the fund level. Appropriations for the General Fund lapse at the end of the fiscal year. The Board of Directors may authorize amendments to the budget during the year as deemed necessary. Budgeted amounts were not amended for the fiscal year ended June 30, 2020.

Notes to Financial Statements June 30, 2020

NOTE 2 - CASH AND INVESTMENTS

Cash was reported at fair value and consisted of the following as of June 30:

Description	1	Balance
Demand deposits held with financial institutions	\$	118,004

Demand Deposits with Financial Institutions

At June 30 2020, the carrying amount of the District's demand deposits were \$118,004 and the financial institution's balance was \$118,129. The net difference represents outstanding checks, deposits-in-transit and/or other reconciling items between the financial institution's balance and the District's balance for each year.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC) and are collateralized by the respective financial institutions. In addition, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits.

NOTE 3 - CAPITAL ASSETS

Changes in capital assets for the year were as follows:

Description	Balance Additions/ Description July 1, 2019 Transfers		Deletions/ Transfers		Balance June 30, 202		
Depreciable capital assets: Road improvements Equipment	\$	1,093,264 193	\$ 116,748 -	\$	- (193)	\$	1,210,012
Total depreciable capital assets		1,093,457	116,748		(193)		1,210,012
Accumulated depreciation: Road improvements Equipment		(787,788) (193)	(38,945)		- 193		(826,733)
Total accumulated depreciation		(787,981)	(38,945)		193		(826,733)
Total capital assets, net	\$	305,476	\$ 77,803	\$		\$	383,279

Notes to Financial Statements June 30, 2020

NOTE 4 - FUND BALANCES

At June 30, 2020, fund balances of the District's governmental funds were classified as follows:

Description		General Fund
Nonspendable: Prepaid items	\$	125
Unassigned		118,853
Total fund balances	_ \$	118,978

NOTE 5 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Special District Risk Management Authority (SDRMA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California special districts. The purpose of the SDRMA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage.

A.	Entity	SDRMA					
B.	Purpose	To pool member contributions and realize the advantages of self-insurance					
C.	Participants	As of June 30, 2019 – 509 member ag	gencie	es			
D.	Governing board	Seven representatives employed by r	nemb	ers			
E.	District payments for FY 2020: Property/Liability policy	\$8,107					
F.	Condensed financial information	June 30, 2019					
	Statement of net position: Total assets Deferred outflows		Ju \$	nne 30, 2019 117,357,664 590,733			
	Total liabilities Deferred inflows			61,466,303 117,531			
	Net position		\$	56,364,563			
	Statement of revenues, expenses and control revenues Total expenses	hanges in net position:	\$	76,136,955 (74,357,125)			
	Change in net position			1,779,830			
	Beginning – net position Ending – net position		\$	54,584,733 56,364,563			
G.	Member agencies share of year-end fin	ancial position	Not	Calculated			

Notes to Financial Statements June 30, 2020

NOTE 5 - RISK MANAGEMENT (continued)

At June 30, 2020, the District participated in the liability and property programs of the SDRMA as follows:

• General and auto liability, public officials and employees' errors and omissions: Total risk financing self-insurance limits of \$2,500,000, combined single limit at \$2,500,000 per occurrence. The District purchased additional excess coverage layers: \$10,000,000 for general, auto and public officials liability, which increases the limits on the insurance coverage noted above.

In addition to the above, the District also has the following insurance coverage:

- Employee dishonesty coverage up to \$400,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverage's.
- Property loss is paid at the replacement cost for property on file, if replaced within three years after the loss, otherwise paid on an actual cash value basis, to a combined total of \$1.0 billion per occurrence, subject to a \$2,000 deductible per occurrence.
- Boiler and machinery coverage for the replacement cost up to \$100 million per occurrence, subject to a \$1,000 deductible per occurrence.
- Public officials personal liability up to \$500,000 each occurrence, with an annual aggregate of \$500,000 per each elected/appointed official to which this coverage applies, subject to the terms, with a deductible of \$500 per claim.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years. There were no reductions in insurance coverage in fiscal year 2020, 2019 and 2018. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2020, 2019 and 2018.

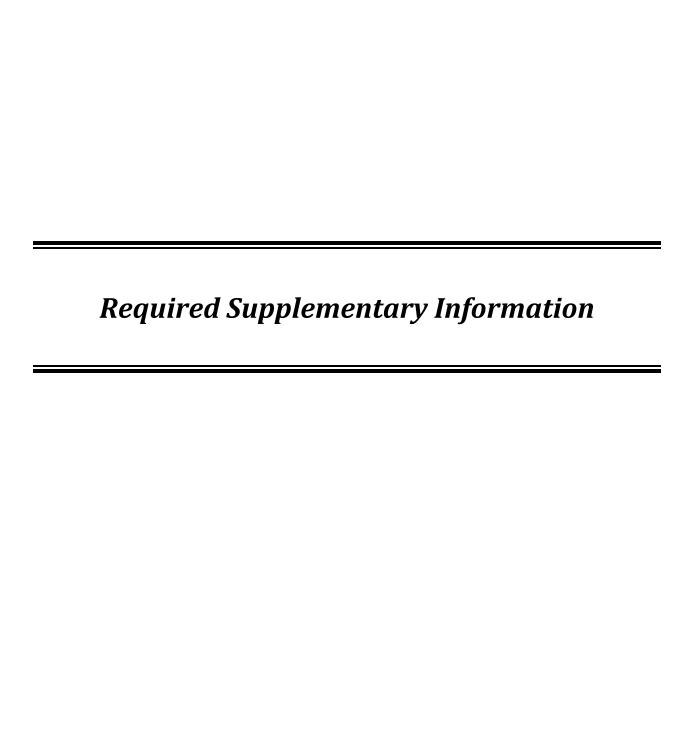
NOTE 6 - COMMITMENTS AND CONTINGENCIES

Litigation

The District is involved in routine litigation incidental to its business and may be subject to claims and litigation from outside parties. After consultation with legal counsel and/or management, management believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

Global Pandemic

At the end of the first quarter of calendar year 2020, the United States and global economy suffered a major decline due to the impact of the COVID-19 virus. This economic decline may affect the District's operations and investment earnings for the remainder of calendar year 2020 and beyond. However, the potential impact to the District is unknown at this time.



Budgetary Comparison Schedule – General Fund For the Fiscal Year Ended June 30, 2020

	Adopted and Final Budget		Actual		Variance Positive (Negative)	
REVENUES:						
Property taxes	\$	83,000	\$	88,867	\$	5,867
Investment earnings		-		132		132
Other revenue				2,669		2,669
Total revenues		83,000		91,668		8,668
EXPENDITURES:						
Current:						
Maintenance and operations		3,000		7,056		(4,056)
General and administrative		16,300		14,236		2,064
Capital outlay		134,000		116,748		17,252
Total expenditures		153,300		138,040		15,260
NET CHANGE IN FUND BALANCE	\$	(70,300)		(46,372)	\$	23,928
FUND BALANCES:						
Beginning of year				165,350		
End of year			\$	118,978		