

**MORRO HILLS
COMMUNITY SERVICES DISTRICT
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
For the Fiscal Year Ended
June 30, 2023
(With Comparative Amounts as of June 30, 2022)**

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MORRO HILLS COMMUNITY SERVICES DISTRICT

For the Fiscal Year Ended June 30, 2023

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Financial Section



INDEPENDENT AUDITORS' REPORT

Board of Directors
Morro Hills Community Services District
Fallbrook, California

Opinion

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, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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, 2023, 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Morro Hills Community Services District and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

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 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

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, 2022, from which such partial information was derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a separate report dated August 31, 2023, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Murrieta, California
August 31, 2023

MORRO HILLS COMMUNITY SERVICES DISTRICT*Statement of Net Position**June 30, 2023**(With Comparative Amounts as of June 30, 2022)*

	Governmental Activities	
	2023	2022
ASSETS		
Cash and cash equivalents (Note 2)	\$ 175,033	\$ 265,870
Accrued interest receivable	45	-
Property taxes receivable	1,075	804
Prepaid items	175	175
Capital assets, net (Note 3)	439,491	312,061
Total assets	615,819	578,910
LIABILITIES		
Accounts payable and accrued expenses	-	-
Total liabilities	-	-
NET POSITION		
Investment in capital assets	439,491	312,061
Unrestricted	176,328	266,849
Total net position	\$ 615,819	\$ 578,910

MORRO HILLS COMMUNITY SERVICES DISTRICT*Statement of Activities**For the Fiscal Year Ended June 30, 2023**(With Comparative Amounts for the Year Ended June 30, 2022)*

	Governmental Activities	
	2023	2022
EXPENSES		
Road operations:		
Maintenance and operations	\$ 10,527	\$ 6,450
General and administrative	18,104	17,393
Depreciation	40,679	32,273
Total expenses	69,310	56,116
GENERAL REVENUES		
Property taxes	105,813	96,187
Investment earnings	156	48
Other revenue	250	-
Total general revenues	106,219	96,235
CHANGE IN NET POSITION	36,909	40,119
NET POSITION		
Beginning of year	578,910	538,791
End of year	<u>\$ 615,819</u>	<u>\$ 578,910</u>

MORRO HILLS COMMUNITY SERVICES DISTRICT*Balance Sheet – Governmental Funds**June 30, 2023**(With Comparative Amounts as of June 30, 2022)*

	General Fund	
	2023	2022
ASSETS		
Cash and cash equivalents	\$ 175,033	\$ 265,870
Accrued interest receivable	45	-
Property taxes receivable	1,075	804
Prepaid items	175	175
Total assets	\$ 176,328	\$ 266,849
<u>LIABILITIES AND FUND BALANCES</u>		
LIABILITIES		
Accounts payable and accrued expenses	\$ -	\$ -
Total liabilities	-	-
FUND BALANCE (Note 4)		
Nonspendable	175	175
Unassigned	176,153	266,674
Total fund balances	176,328	266,849
Total liabilities and fund balances	\$ 176,328	\$ 266,849

MORRO HILLS COMMUNITY SERVICES DISTRICT***Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2023******(With Comparative Amounts as of June 30, 2022)***

	<u>2023</u>	<u>2022</u>
Fund Balance – Governmental Fund	<u>\$ 176,328</u>	<u>\$ 266,849</u>
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.	<u>439,491</u>	<u>312,061</u>
Total adjustments	<u>439,491</u>	<u>312,061</u>
Net Position of Governmental Activities	<u><u>\$ 615,819</u></u>	<u><u>\$ 578,910</u></u>

MORRO HILLS COMMUNITY SERVICES DISTRICT***Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
For the Fiscal Year Ended June 30, 2023******(With Comparative Amounts for the Year Ended June 30, 2022)***

	General Fund	
	2023	2022
REVENUES		
Property taxes	\$ 105,813	\$ 96,187
Investment earnings	156	48
Other revenue	250	-
Total revenues	106,219	96,235
EXPENDITURES		
Current:		
Maintenance and operations	10,527	6,450
General and administrative	18,104	17,393
Capital outlay	168,109	-
Total expenditures	196,740	23,843
NET CHANGE IN FUND BALANCE	(90,521)	72,392
FUND BALANCE:		
Beginning of year	266,849	194,457
End of year	\$ 176,328	\$ 266,849

MORRO HILLS COMMUNITY SERVICES DISTRICT*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, 2023**(With Comparative Amounts for the Year Ended June 30, 2022)*

	<u>2023</u>	<u>2022</u>
Net Change in Fund Balance – Governmental Fund	<u>\$ (90,521)</u>	<u>\$ 72,392</u>
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	168,109	-
Depreciation expense	<u>(40,679)</u>	<u>(32,273)</u>
Total adjustments	<u>127,430</u>	<u>(32,273)</u>
Change in Net Position of Governmental Activities	<u><u>\$ 36,909</u></u>	<u><u>\$ 40,119</u></u>

MORRO HILLS COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2023

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.

MORRO HILLS COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2023

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.

MORRO HILLS COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2023

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:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Road improvements	20-50 years
Equipment	5-20 years

MORRO HILLS COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2023

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, 2023.

MORRO HILLS COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2023

NOTE 2 – CASH AND INVESTMENTS

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

Description	Balance
Demand deposits held with financial institutions	<u>\$ 175,033</u>

Demand Deposits with Financial Institutions

At June 30 2023, the carrying amount of the District's demand deposits were \$175,033 and the financial institution's balance was \$175,033. There was no difference representing outstanding checks, deposits-in-transit and/or other reconciling items.

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 July 1, 2022	Additions/ Transfers	Deletions/ Transfers	Balance June 30, 2023
Depreciable capital assets:				
Road improvements	<u>\$ 1,210,012</u>	<u>\$ 168,109</u>	<u>\$ -</u>	<u>\$ 1,378,121</u>
Total depreciable capital assets	<u>1,210,012</u>	<u>168,109</u>	<u>-</u>	<u>1,378,121</u>
Accumulated depreciation:				
Road improvements	<u>(897,951)</u>	<u>(40,679)</u>	<u>-</u>	<u>(938,630)</u>
Total accumulated depreciation	<u>(897,951)</u>	<u>(40,679)</u>	<u>-</u>	<u>(938,630)</u>
Total capital assets, net	<u>\$ 312,061</u>	<u>\$ 127,430</u>	<u>\$ -</u>	<u>\$ 439,491</u>

MORRO HILLS COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2023

NOTE 4 – FUND BALANCES

At June 30, 2023, fund balances of the District's governmental funds were classified as follows:

<u>Description</u>	<u>General Fund</u>
Nonspendable:	
Prepaid items	\$ 175
Unassigned	<u>176,153</u>
Total fund balances	<u><u>\$ 176,328</u></u>

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, 2022 – 493 member agencies	
D. Governing board	Seven representatives employed by members	
E. District payments for FY 2023:		
Property/Liability policy	\$11,359	
F. Condensed financial information	June 30, 2022	
Statement of net position:		<u>June 30, 2022</u>
Total assets		<u>\$ 140,005,598</u>
Deferred outflows		<u>750,427</u>
Total liabilities		<u>72,967,545</u>
Deferred inflows		<u>445,351</u>
Net position		<u><u>\$ 67,343,129</u></u>
Statement of revenues, expenses and changes in net position:		
Total revenues		\$ 82,252,069
Total expenses		<u>(81,252,227)</u>
Change in net position		999,842
Beginning – net position		<u>66,343,287</u>
Ending – net position		<u><u>\$ 67,343,129</u></u>
G. Member agencies share of year-end financial position		Not Calculated

MORRO HILLS COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2023

NOTE 5 – RISK MANAGEMENT (continued)

At June 30, 2023, 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 \$1,000,000 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 \$800 million 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 2023, 2022 and 2021. 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, 2023, 2022 and 2021.

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.

NOTE 7 – SUBSEQUENT EVENTS

The District has evaluated subsequent events through August 31, 2023, the date which the financial statements were available to be issued.

Required Supplementary Information

MORRO HILLS COMMUNITY SERVICES DISTRICT*Budgetary Comparison Schedule – General Fund**For the Fiscal Year Ended June 30, 2023*

	Adopted and Final Budget	Actual	Variance Positive (Negative)
REVENUES:			
Property taxes	\$ 95,000	\$ 105,813	\$ 10,813
Investment earnings	-	156	156
Other revenue	-	250	250
Total revenues	<u>95,000</u>	<u>106,219</u>	<u>11,219</u>
EXPENDITURES:			
Current:			
Maintenance and operations	18,000	10,527	7,473
General and administrative	20,000	18,104	1,896
Capital outlay	<u>185,000</u>	<u>168,109</u>	<u>16,891</u>
Total expenditures	<u>223,000</u>	<u>196,740</u>	<u>26,260</u>
NET CHANGE IN FUND BALANCE	<u>\$ (128,000)</u>	<u>(90,521)</u>	<u>\$ 37,479</u>
FUND BALANCES:			
Beginning of year		<u>266,849</u>	
End of year		<u>\$ 176,328</u>	

Other Independent Auditors' Reports



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Morro Hills Community Services District
Fallbrook, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Morro Hills Community Services District (District) as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated August 31, 2023.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Murrieta, California
August 31, 2023