

Tenaja Community Service District
(A California Special District)

**Financial Statements and
Independent Auditors' Report**

June 30, 2019



Listing of Principal Officials..... 1
Independent Auditors' Report..... 2
Management's Discussion and Analysis..... 4

Financial Statements

Statement of Net Position..... 10
Statement of Activities..... 12
Balance Sheet..... 13
Reconciliation of Balance Sheet of Governmental Funds to
the Statement of Net Position..... 15
Statement of Revenues, Expenditures, and Changes in Fund Balances..... 16
Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balances of Governmental Funds to the Statement of Activities..... 17
Notes to Financial Statements..... 18

Required Supplemental Information

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual:
General Fund..... 25

Tenaja Community Service District

Listing of Principal Officials

The principal officers we comprised of the following individuals as of June 30, 2019:

Name	Title	Term
Peter Millington	President	12/6/2020
Karol Ann Hoboy-Tenore	President Pro Tem	12/6/2020
Ronald R. McDaniel	Director	12/6/2020
Debra Natale	Director	12/1/2022
Scott Becker	Director	12/1/2022

In addition to the above Officers, the Administration of the Tenaja Community Service District was Arlene Miller, who served as the General Manager.



Smith Marion & Co. · Certified Public Accountants
Redlands Office · 1940 Orange Tree Lane, Suite 100 · Redlands, CA 92374 · (909) 307-2323

Independent Auditors' Report

The Governing Body of
Tenaja Community Service District

We have audited the accompanying financial statements of the governmental activities and each major fund of Tenaja Community Service District (District), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The 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. 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 District'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 District'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 and each major fund of the District, as of June 30, 2019, and the respective changes in financial position 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 the management's discussion and analysis and Statement of Revenues, Expenditures, and Changes in Fund Balance Budget to Actual, as described in the table of contents, 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.

A handwritten signature in blue ink that reads 'Smith Marion & Co.' The signature is written in a cursive, flowing style.

February 10, 2020
Redlands, CA

As management of the Tenaja Community Service District we offer the readers of the accompanying financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ending June 30, 2019. The *Notes to the Financial Statements* provide key definitions and accounting policies used by the District in presenting its annual financial statements. You are encouraged to read those notes to understand why the financial statements classify various revenues and expenses in the proper, yet odd, way they do.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the fiscal year by \$6,411,739 (*net position*). Of this amount, \$244,186 may be used to meet the District's ongoing obligations to citizens and creditors. Accounting for the District's assets is by a modified-accrual method of accounting, which recognizes revenues and expenses as they are reported during the year, regardless of the timing of cash flows for the same items. Hence, revenues (property taxes) are recognized twice per fiscal year, even though Riverside County may actually send the cash in separate calendar years.
- An artifact of accrual accounting is the recording of *depreciation* as an expense, even though it is simply a book entry and does not involve the payment of cash. Thus, \$189,125 was charged as an expense in FY2019 on the *Statement of Activities* but is not included on the *Statement of Revenues, Expenditures, and Change in Fund Balance*. The District's annual budget expenditures for FY 2018-19 was \$187,850, the difference of (\$302,146) to the actual expenditures indicates a negative variance meaning more expenses were incurred for the fiscal year than what was budgeted. The Budget expenses presented are a combined budget of the General Fund and AD2004-1 Fund.
- The District had several Road Projects this Fiscal Year including, grinding and repaving Tenaja Road from Calle Pino to Corona Cala Camino (\$288,600), Weed Abatement (\$2450), Culvert Clean out (\$7850), sign replacement and new installs (\$4895), Pavement Patches (\$13,000) Shoulder maint. (\$4,500) insurance and Inspections (\$10389), county charges (\$286), Storm Damage (\$5,000) and garbage pickup/tree clean up (\$2595). This was a total of \$339,565 for the main arterial road system (Tenaja Road and Calle Pino). The District paid for these projects from the following funds:
 - General Fund \$ 271,300.
 - AD 2004-1 Fund \$67,807

Overview of the Financial Statements

This discussion and analysis intends to serve as an introduction to the basic Financial Statements of the Tenaja Community Service District. These financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The report also contains other, supplementary information to amplify the basic financial statements.

Government-wide financial statements. The intent of these statements is to provide a broad overview of the District's finances, in a format similar to a private sector business.

The Statement of Net Position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position, otherwise known as net assets. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. In FY2018, the net position was \$6,503,721. For FY2019, the net position was \$6,411,739 representing a deteriorating net position value of \$128,472 due to increased expenditures on road maintenance and depreciation in the current fiscal year. Road maintenance costs did increase the value of our assets (capital) because they involved, primarily, grinding and repaving a section of roadway on Tenaja Road from Calle Pino to Corona Cala Camino which was classified as Capital Outlay (Table 2 Statement of Revenues, Expenditures and Changes in Fund New Position). The cost for this road rebuilding was \$285,579 which will be depreciated over 15 year period. (Table 3 Capital Assets At Year-End). The District received slight more revenues than budgeted or anticipated. Our net asset position deteriorated due to the continuing aging of our roadways. In FY2018-19, the District completed Phase III of the Road Repair by grinding and repaving Tenaja Road from Calle Pino to Corona Cala Camino increasing the amount of road work using existing cash assets.

**TABLE 1
STATEMENT OF NET POSITION**

The District's financial position and operations for the past two years are summarized below based on the information included in the current and prior financial statements.

	2019	2018	Change	
Current and Other Assets	\$ 1,106,227	\$ 1,331,153	\$ (224,926)	-17%
Capital Assets, Net	5,632,259	5,535,805	96,454	2%
Deferred Outflow of Resources (DOR)	-	-	-	0%
Total Assets and DOR	\$ 6,738,486	\$ 6,866,958	\$ (128,472)	-15%
Current Liabilities	\$ 19,410	\$ 11,980	\$ 7,430	62%
Non-current Liabilities	-	5,328	(5,328)	-100%
Deferred Inflow of Resources (DIR)	307,337	345,929	(38,592)	-11%
Net Position	6,411,739	6,503,721	(91,982)	-1%
Total Liabilities, DIR, and Net Position	\$ 6,738,486	\$ 6,866,958	\$ (128,472)	-51%

The *Statement of Activities* presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

The governmental activities of the Tenaja Community Service District include constructing, managing and maintaining the core road system for the Tenaja area of Riverside County, California.

TABLE 2
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET POSITION

The following schedule compares the revenues and expenses for the current and previous fiscal year:

	2019	2018	Change	
Revenues:				
Tax assessments	\$ 302,879	\$ 293,517	\$ 9,362	3%
Penalty assessments	-	1,382	(1,382)	-100%
Investment earnings	20,012	17,130	2,882	17%
Other revenues	3,200	6,000	(2,800)	-47%
Total Revenues	<u>326,091</u>	<u>318,029</u>	<u>8,062</u>	<u>3%</u>
Expenditures:				
Administrative	14,982	12,266	2,716	22%
Personnel	67,164	68,773	(1,609)	-2%
Road maintenance	83,387	232,425	(149,038)	-64%
Outside services	43,750	23,665	20,085	85%
Office expense	20,668	20,530	138	1%
County services	4,325	4,488	(163)	-4%
Capital outlays	285,579	-	285,579	0%
Total Expenditures	<u>519,855</u>	<u>362,147</u>	<u>157,708</u>	<u>44%</u>
Excess (Deficiency) of Revenues				
Over Expenditures	<u>\$ (193,764)</u>	<u>\$ (44,118)</u>	<u>\$ (149,646)</u>	<u>339%</u>

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 or objectives. The Tenaja Community Service District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. For example, separate fund accounts are maintained for each zone of benefit, of which there are seven, so that road maintenance and repair revenues and costs are segregated according to which property owners contribute to and benefit from these efforts.

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

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 Tenaja Community Service District maintained seven funds on a modified accrual basis of accounting: 1) the *General Fund*, which covers revenues and expenditures of the government office and of those roads not included in *zones of benefit*; 2) the *Redemption Fund*, which includes the residual monies from AD 88-01 used for the initial paving of the District's roads;(which is now closed) 3) the *Reserve Fund*, which constitutes monies available for specific projects authorized by the Board and not for current expenditures in the General Fund; (which is now closed) 4) the *AD 2004 Fund*, which includes funds voted by the property owners for the core roads construction and maintenance; 5) the *Zone 2-3 Fund*, which holds dedicated funds for revenues and funds in zones of benefit 2 and 3 property owners; 6) the *Zone 4 Fund*, which holds funds of dedicated revenues and funds for zone 4 property owners; and 7) the *Zone 8 Fund*, which holds funds of dedicated revenues and funds for zone 8 property owners. In the financial statements, expenditures in the zone funds are listed as "Capital Projects" yet they represent slurry-seal projects that qualify as current maintenance expense items and not as capital expenditures.

Notes to the Financial Statements. The notes provide key definitions and explanations of accounting method for the figures listed in the Financial Statements. The content is important for understanding how the various revenue and expenditure items have been classified and, in combination with this discussion and analysis, the reader will find useful information for comprehending the financial statements.

Required Supplementary Information. In addition to the basic financial information and accompanying notes, the Tenaja Community Service District provides certain required information. The District annually adopts an appropriated budget for its general and special reserve funds. A budgetary comparison statement has been provided to show compliance with this budget.

Government-wide Financial Analysis. As noted earlier, net positions over time may serve as a useful indicator of a government's financial status. In the case of the Tenaja Community Service District, assets exceeded liabilities by \$6,411,739 at the close of the most recent fiscal year.

The largest portion of the District's net position reflects its investment in the core road structure (roads and water flow drainage).

Governmental Activities. Governmental activities represented a net reduction in the net position by \$91,982 due primarily to depreciation of \$189,125.

The *Statement of Revenues, Expenditures, & Charges in Fund Balances - Budget to Actual - General Fund* as of June 30, 2019 shows a comparison between the budget to actual amounts and the variance between the two. We received an Increase in *benefit fees* (property taxes) of \$30,835 due to a 20-year payoff of certain assessments, a CPI increase on direct billings, and parcel splits. We received an unanticipated increase in revenue of \$3,200 for permit income, and \$4,930 more than planned for investment income. Our actual revenue was \$38,965 more than budgeted. The final variance of budget versus actual is a negative variance in *road maintenance* (\$257,385) due to extensive road repairs.

Capital Assets. At June 30, 2019, the District had \$5,600,232 invested in capital assets (net of accumulated depreciation).

**TABLE 3
CAPITAL ASSETS AT YEAR-END**

	2019	2018	Change	
Right of Way	\$ 3,474,900	\$ 3,474,900	\$ -	0%
Roads	4,716,098	4,430,519	285,579	6%
Repairs	141,452	141,452	-	0%
Equipment	32,027	32,027	-	0%
Less Accumulated Depreciation	<u>(2,732,218)</u>	<u>(2,543,093)</u>	<u>(189,125)</u>	<u>7%</u>
Capital Assets, Net	<u>\$ 5,632,259</u>	<u>\$ 5,535,805</u>	<u>\$ 96,454</u>	<u>2%</u>

Further detail of changes in capital assets can be found in the Notes to the Financial Statements.

Long Term Liabilities and Debt

The District has no debt as of June 30, 2019.

Economic Factors. The District depends upon the property tax assessments collected through the County of Riverside for the funding of its operations; therefore, the District is highly affected mostly by local economic conditions. The District budgets are approved by the District's Board of Directors.

FINANCIAL CONTACT

This financial report is designed to provide a general overview of the District's accountability for all those interested. If you have additional questions concerning any of the information provided in this report or need additional financial information you should address your concerns to the District's General Manager at Tenaja Community Service District, 24837 Jefferson #207, Murrieta, California 92562.

Tenaja Community Service District

Statement of Net Position

June 30, 2019

Assets and Deferred Outflows of Resources

Current assets:

Cash and equivalents - operating	\$	15,195
Deposits held in trust		5,000
Benefit fees receivable		31,724
Accrued interest receivable		5,761
Investments - operating		1,044,943
Prepays and deposits		<u>3,604</u>
Total current assets		<u>1,106,227</u>

Non-current assets:

Capital assets, at cost		
Right of ways		3,474,900
Roads		4,716,098
Repairs		141,452
Equipment		<u>32,027</u>
Total acquisition costs		<u>8,364,477</u>
Less accumulated depreciation		<u>(2,732,218)</u>
Capital assets, net		<u>5,632,259</u>

Total non-current assets 5,632,259

Total assets 6,738,486

Deferred outflows of resources -

Total Assets and Deferred Outflows of Resources **\$ 6,738,486**

See accompanying notes.

Tenaja Community Service District

Statement of Net Position

June 30, 2019

Liabilities, Deferred Inflows of Resources, and Net Position

Current liabilities:

Accounts payable	\$	10,255
Deposits held in trust, contra		5,000
Accrued wages payable		2,151
Accrued benefits and taxes payable		163
Accrued vacations payable		1,841
Total current liabilities		<u>19,410</u>

Total liabilities 19,410

Deferred inflows of resources:

Prepaid tax assessments		<u>307,337</u>
Total deferred inflows of resources		<u>307,337</u>

Net position:

Investment in capital assets		5,632,259
Restricted for:		
Capital improvements		535,294
Unrestricted		<u>244,186</u>
Total net position		<u>6,411,739</u>

Total Liabilities, Deferred Inflows of Resources, and Net Position \$ 6,738,486

See accompanying notes.

Tenaja Community Service District

Statement of Activities
Year Ended June 30, 2019

Functions/Program Activities	Expenses	Program Revenues			Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities					
Road maintenance	\$ 418,073	\$ 3,200	\$ -	\$ -	\$ (414,873)
Total governmental activities	<u>418,073</u>	<u>3,200</u>	<u>-</u>	<u>-</u>	<u>(414,873)</u>
Total primary government	<u>\$ 418,073</u>	<u>\$ 3,200</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(414,873)</u>
General revenues:					
Tax assessments					302,879
Investment earnings					<u>20,012</u>
Total general revenues					<u>322,891</u>
Change in net position					(91,982)
Net position, beginning of year					<u>6,503,721</u>
Net position, end of year					<u>\$ 6,411,739</u>

See accompanying notes.

Tenaja Community Service District

Balance Sheet

June 30, 2019

	General Fund	Capital Projects	Total Governmental Funds
Assets and Deferred Outflows of Resources			
Assets:			
Cash and equivalents - operating	\$ 15,195	\$ -	\$ 15,195
Deposits held in trust	5,000	-	5,000
Benefit fees receivable	22,541	9,183	31,724
Accrued interest receivable	1,395	4,366	5,761
Investments - operating	322,021	722,922	1,044,943
Prepays and deposits	3,604	-	3,604
Total assets	369,756	736,471	1,106,227
Deferred outflows of resources:	-	-	-
Total Assets and Deferred Outflows of Resources	\$ 369,756	\$ 736,471	\$ 1,106,227

See accompanying notes.

Tenaja Community Service District

Balance Sheet

June 30, 2019

	General Fund	Capital Projects	Total Governmental Funds
Liabilities, Deferred Inflows of Resources, and Fund Balances			
Liabilities:			
Accounts payable	\$ 10,255	\$ -	\$ 10,255
Deposits held in trust, contra	5,000	-	5,000
Accrued wages payable	2,151	-	2,151
Accrued benefits and taxes payable	163	-	163
Accrued vacations payable	1,841	-	1,841
Total liabilities	19,410	-	19,410
Deferred inflows of resources:			
Prepaid tax assessments	158,731	148,606	307,337
Total deferred inflows of resources	158,731	148,606	307,337
Fund balances:			
Nonspendable - Prepaid expenses and deposits	3,604	-	3,604
Restricted for:			
Capital improvements	-	535,294	535,294
Unassigned	188,011	52,571	240,582
Total fund balances	191,615	587,865	779,480
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 369,756	\$ 736,471	\$ 1,106,227

See accompanying notes.

Tenaja Community Service District
Reconciliation of Balance Sheet of Governmental Funds to the
Statement of Net Position
June 30, 2019

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

Total Fund Balance	\$ 779,480
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds.	<u>5,632,259</u>
Net position of governmental activities	<u>\$ 6,411,739</u>

See accompanying notes.

Tenaja Community Service District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2019

	General Fund	Capital Projects	Total Governmental Funds
Revenues:			
Tax assessments	\$ 228,535	\$ 74,344	\$ 302,879
Investment earnings	6,130	13,882	20,012
Other revenues	3,200	-	3,200
Total revenues	<u>237,865</u>	<u>88,226</u>	<u>326,091</u>
Expenditures:			
Administrative	14,982	-	14,982
Personnel	67,164	-	67,164
Road maintenance	53,528	29,859	83,387
Outside services	43,750	-	43,750
Office expense	20,668	-	20,668
County services	4,325	-	4,325
Capital outlays	285,579	-	285,579
Total expenditures	<u>489,996</u>	<u>29,859</u>	<u>519,855</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(252,131)</u>	<u>58,367</u>	<u>(193,764)</u>
Other financing sources (uses):			
Transfers in	5,796	-	5,796
Transfers out	-	(5,796)	(5,796)
Total other financing sources (uses)	<u>5,796</u>	<u>(5,796)</u>	<u>-</u>
Net change in fund balance	(246,335)	52,571	(193,764)
Fund balances, beginning of year	<u>437,950</u>	<u>535,294</u>	<u>973,244</u>
Fund balances, end of year	<u>\$ 191,615</u>	<u>\$ 587,865</u>	<u>\$ 779,480</u>

See accompanying notes.

Tenaja Community Service District
Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended June 30, 2019

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

Net change in fund balances - total governmental funds	\$ (193,764)
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 is the amount by which depreciation exceeded capital outlays in the current period.	96,454
Some employee benefits reported in the statement of activities do not require the use of current financial resources and , therefore, are not reported as expenditures in governmental funds.	<u>5,328</u>
Change in net position of governmental activities	<u><u>\$ (91,982)</u></u>

See accompanying notes.

Note 1 - Summary of Significant Accounting Policies

Nature of business and organization

The Tenaja Community Service District (District) was organized on July 30, 1985, by Resolution 85-409 of the Board of Supervisors, County of Riverside. The District was formed primarily for the purpose of providing road maintenance, public recreation, fire and police protection, and waste and storm water disposal. The District has no component units and is not a component unit of another primary government.

Basis of presentation

The financial statements of 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 position and the statement of activities) report information on all of the nonfiduciary 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 statement of activities demonstrates the degree to which the direct expenses of the given function or segment are 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*.

Fund financial statements

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measure focus, basis of accounting, and financial statement presentation

The District's financial statements have been prepared using the *economic resources measurement focus* and the *accrual basis of accounting*, in conformity with generally accepted accounting principles (GAAP). Under this basis, 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 revenue as soon as all eligibility requirements imposed by the provider have been met.

The District has elected to follow all pronouncements of the Governmental Accounting Standards Board (GASB).

The District reports the following major governmental funds:

- 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.
- The capital project fund accounts for deposits and expenditures related to the capital construction, improvements and equipment of the District.

Amounts reported as *miscellaneous 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.

Budgetary data

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

Explanation of Certain Differences between the Governmental Funds Statements of Revenues, Expenditures and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental funds statement of revenues, expenditures, and changes in fund balances includes reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities.

Property tax calendar

Our 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

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles as applied to governmental units require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Investments

Investments are stated at fair value (the value at which financial instruments could be exchanged in a current transaction between willing parties, other than in a forced liquidation sale). Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

Capital assets

Capital assets, which include property, equipment, and infrastructure assets (e.g. roads, bridges and similar items), 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 \$5,000 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 is depreciated using the straight-line method over estimated useful lives that range from 5 – 35 years.

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District currently does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has only one type of item, which arose through the prepayment of twenty years' worth of property tax assessments by the Nature Conservancy, received by the District in 2006.

Accrued vacations payable

Under the terms of the employment contracts and District personnel policies, the District's employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is paid for vacation leave accumulated and vested accumulated sick leave. Vesting of sick leave by employees and the maximum number of hours that can be accumulated for vacation and sick leave are dependent upon an employee's years of service.

A liability has been recorded within the government-wide financial statements for accrued vacation and sick leave and certain salary payments associated with the payment of compensated absences. An estimate by management of 30% of this liability is classified as current and is expected to be used during the next 12-month period. A liability for compensated absences is only reported in governmental funds if they have matured, for example, as a result of employee resignations and retirements.

Deposits held in trust

Deposits held in trust are comprised of permit deposits paid by property owners for encroachments on their property. Permits are paid in advance and must be completed within 2 years or the deposit is forfeited to the District.

Net position

In the government-wide financial statements, equity is classified as net position and displayed in three components:

- a) Investment in capital assets – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balance of any notes or other borrowings attributable to those capital assets.
- b) Restricted net position – Consists of net assets with constraints placed on the use either by external groups, such as grantors or laws and regulations of other governments, or law through constitutional provisions or enabling legislation.
- c) Unrestricted net position – All other assets that do not meet the definition of “restricted” or “investment in capital assets”.

Fund equity

Fund balance in governmental funds are reported in classifications that comprise a hierarchy based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first and then use unrestricted resources as they are needed. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the District considers committed amounts to be reduced first, followed by assigned amounts and then unassigned amounts.

- Nonspendable Fund Balance - Includes amounts that cannot be spent because they are either not in spendable form, or, for legal or contractual reasons, must be kept intact.
- Restricted Fund Balance - Constraints placed on the use of these resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors or other governments; or are imposed by law (through constitutional provisions or enabling legislation).
- Committed Fund Balance - Amounts that can only be used for specific purposes because of a formal action (ordinance) by the government's highest level of decision-making authority. The Board of Directors is the highest level of decision-making authority for the District that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken to remove or revise the limitation.
- Assigned Fund Balance - Amounts that are constrained by the District's intent to be used for specific purposes, but that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body, another body, or by an official to whom the authority has been given. The Board of Directors has by resolution the authority to assign fund balance. However, unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment.
- Unassigned Fund Balance - These are either residual positive net resources of the General Fund in excess of what can properly be classified in one of the other categories, or negative balances in all other funds.

Subsequent events

We evaluated subsequent events through February 10, 2020, the date these financial statements were issued.

Note 2 - Cash and Investments

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

The following table identifies the investment types that are authorized by the District's investment policy and in accordance with Section 53601 of the California Government Code. The table also identifies certain provisions of the District's investment policy that address interest rate risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity ⁽¹⁾	Maximum Percentage of Portfolio ⁽²⁾	Maximum Investment in One Issuer
Local Agency Bonds	5 years	None	None
US Treasury Obligations	5 years	None	None
US 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%	None
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

⁽¹⁾ Investments may exceed maximum maturity only with prior approval by the Board of Directors

⁽²⁾ Excluding amounts held by bond trustee that are not subject to California Code Restrictions

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.

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

At June 30, 2019, the District did not hold investments that were highly sensitive to interest rate fluctuations beyond that already indicated in the information provided above.

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.

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 custodial credit risk for *investments* is the risk that in the event of the failure of the counterparty 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 deposits or investments, 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.

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF), which is part of the Pooled Money Investment Account that is regulated by the California Government Code under the oversight of the State Treasurer, Director of Finance, and State Controller. The District may invest up to \$65 million in the LAIF fund. Investments in LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. All investments with LAIF are secured by the full faith and credit of the State of California. Separate LAIF financial statements are available from the California State Treasurer's Office on the Internet at www.treasurer.ca.gov.

The District investment in this pool is reported in the accompanying financial statements at cost which approximates fair value at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). Included in LAIF's investment portfolio are certain derivative securities or similar products in the form of structured notes and asset-backed securities totaling \$1.9 billion and \$2.4 billion, which represents 1.49% and 1.89% of the total LAIF portfolio of \$105.7 billion and \$88.8 billion as of June 30, 2019 and 2018, respectively. LAIF's (and the District's) exposure to risk (credit, market or legal) is not currently available.

Fair Value Measurements

Generally accepted accounting principles establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of quoted prices (unadjusted) for identical assets and liabilities in active markets that a government can access at the measurement date, Level 2 inputs consist of inputs other than quoted prices that are observable for an asset or liability, either directly or indirectly, and Level 3 inputs that have the lowest priority and consist of unobservable inputs for an asset or liability.

Tenaja Community Service District

Notes to Financial Statements

Year Ended June 30, 2019

The following table presents the balances of the assets measured at fair value on a recurring basis as of June 30, 2019:

	Total	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Investment by fair value level:				
None	\$ -	\$ -	\$ -	\$ -
Investment measure at the net asset value (NAV):				
Local Agency Investment Fund	1,044,943			
Total investments measured at fair value	\$ 1,044,943			

Note 3 - Capital Assets

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

	2018	Additions	Deletions	2019
Non-depreciable				
Right of Way	\$ 3,474,900	\$ -	\$ -	\$ 3,474,900
Depreciable				
Roads	4,430,519	285,579	-	4,716,098
Repairs	141,452	-	-	141,452
Equipment	32,027	-	-	32,027
	4,603,998	285,579	-	4,889,577
Total acquisition costs	8,078,898	285,579	-	8,364,477
Less accumulated depreciation	(2,543,093)	(189,125)	-	(2,732,218)
Capital assets, net	\$ 5,535,805	\$ 96,454	\$ -	\$ 5,632,259

Depreciation expense for the year ended June 30, 2019 was \$189,125.

Note 4 - Proposition 111 Appropriation Limits

Proposition 111, which added Article XIII B to the State Constitution, established limits on budget appropriations in order to restrict government spending. We have reviewed the appropriations of taxes received by the District during the 2018-2019 fiscal year, and have found them to be within the guidelines established by Proposition 111.

Tenaja Community Service District
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
General Fund
Year Ended June 30, 2019

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Tax assessments	\$ 197,700	\$ 197,700	\$ 228,535	\$ 30,835
Investment earnings	1,200	1,200	6,130	4,930
Other revenues	-	-	3,200	3,200
Total revenues	<u>198,900</u>	<u>198,900</u>	<u>237,865</u>	<u>38,965</u>
Expenditures:				
Administrative	32,400	32,400	14,982	17,418
Personnel	74,900	74,900	67,164	7,736
Road maintenance	46,500	46,500	53,528	(7,028)
Outside services	25,300	25,300	43,750	(18,450)
Office expense	5,250	5,250	20,668	(15,418)
County services	3,500	3,500	4,325	(825)
Capital outlays	-	-	285,579	(285,579)
Total expenditures	<u>187,850</u>	<u>187,850</u>	<u>489,996</u>	<u>(302,146)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>11,050</u>	<u>11,050</u>	<u>(252,131)</u>	<u>341,111</u>
Other financing sources (uses):				
Transfers in	-	-	5,796	5,796
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>5,796</u>	<u>5,796</u>
Net change in fund balance	<u>\$ 11,050</u>	<u>\$ 11,050</u>	<u>\$ (246,335)</u>	<u>\$ (257,385)</u>