

Fallbrook Regional HEALTH DISTRICT

Annual Financial Report

For the Fiscal Year Ended June 30, 2020



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FALLBROOK REGIONAL HEALTH DISTRICT

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Fallbrook Regional Health District
Fallbrook, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activity and general fund of the Fallbrook Regional Health District (the District) as of June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's 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. 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 auditors' 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 auditors consider 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 activity and general fund of the District as of June 30, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussion in note 8, the financial statement reporting method was changed from previous years' audited financial statements. Our opinions are not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the budgetary comparison schedule - budgetary basis, identified as Required Supplementary Information (RSI) in the accompanying table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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.



CliftonLarsonAllen LLP

Carlsbad, California
January 7, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

FALLBROOK REGIONAL HEALTH DISTRICT

Management's Discussion and Analysis For the Year Ended June 30, 2020

The Fallbrook Regional Health District (District) has issued its annual financial report for the fiscal year ended June 30, 2020 in conformity with the format prescribed by the provisions of Government Accounting Standards Board Statement No. 34 (GASB 34). This report, Management's Discussion and Analysis, is an overview of the financial activities for the fiscal year and is an integral part of the accompanying Basic Financial Statements.

ACCOUNTING METHOD

The District's operations are accounted for as a Governmental Fund. Governmental Funds 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.

THE BASIC FINANCIAL STATEMENTS

The Basic Financial Statements of the District include both Government-wide financial statements as well as fund based financial statements. Due to the limited number of accounts, these two reporting methods have been combined. The financial statement Government Fund Balance Sheet and Statement of Net Position provides information regarding the financial position of the District, including its capital assets and debts. The Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance and Statement of Activities provides information regarding the revenues received by the District, and the expenses incurred in carrying out the District's programs. The ultimate focus of the income statement is the balance of effective current use of funds and planning for the future, as reflected by the amount of net income generated for the fiscal year. Together with this report, the Basic Financial Statements provide information about the significant events, assumptions, and decisions resulting in the financial performance reflected in those statements.

FINANCIAL ACTIVITIES & FISCAL YEAR 2020 HIGHLIGHTS

Governmental Fund Balance Sheet and Statement of Net Position

The District is a government entity operating under the Local Health Care District Law. In 1950, the residents of the area voted to establish the Fallbrook Hospital District (changed to Fallbrook Healthcare District in 1999). In 2017, the District changed its name to the Fallbrook Regional Health District, upon selling the building that once housed the hospital, hospital operations permanently ceased in 2015.

A condensed version of the Statement of Net Position is presented in Table A below and the changes which occurred between Fiscal Year ended 2020 and 2019.

FALLBROOK REGIONAL HEALTH DISTRICT

Management's Discussion and Analysis For the Year Ended June 30, 2020

TABLE A

	<u>2020</u>	<u>2019</u>	<u>Change</u>
Assets:			
Cash and investments	\$ 8,973,048	\$ 9,327,108	\$ (354,060)
All other assets	2,930,553	2,441,427	476,663
Total Assets	11,903,601	11,768,535	122,603
Liabilities:			
Current liabilities	36,985	44,375	(7,390)
Long-term liabilities	20,624	13,927	6,697
Total Liabilities	57,609	58,302	(693)
Net Position:			
Net investment in capital assets	2,418,255	2,384,799	33,456
Unrestricted	9,427,737	9,325,434	102,303
Total Net Position	\$11,845,992	\$11,710,233	\$ 135,759

The increase in Total Assets reflects the investment in the redevelopment of the 1636 E. Mission Road Wellness Center project and the capital improvements in the S. Brandon Road Administration property.

Governmental Fund Revenues, Expenditures, and Changes in Fund Balance and Statement of Activities

The District's business is comprised of two major segments:

- *Community Health Contract Grant Program* – The District administers a Community Health Contract Grant program, giving a portion of the District's annual property tax revenues to non-profit health-related programs serving residents of the Fallbrook, Bonsall, Rainbow, and De Luz areas of northern San Diego County.
- *Community Collaborative for Health and Wellness* – Representatives of the District's healthcare organizations and interested community members meet to network their programs to identify, develop, and initiate District-sponsored health-related community programs and to address concerns. It also provides an additional education opportunity for guest presentations relative to health, health services, and health conditions, ranging in scope from Alzheimer's and COVID-19 to suicide, drug abuse, and legislative issues impacting health and well-being.

FALLBROOK REGIONAL HEALTH DISTRICT

Management's Discussion and Analysis For the Year Ended June 30, 2020

Table B, below, is a condensed version of the Statement of Activities; it summarizes the District's revenues and expenses, and compares Fiscal Year 2020 results to Fiscal Year 2019.

TABLE B

	<u>2020</u>	<u>2019</u>	<u>Change</u>
EXPENDITURES/EXPENSES			
Community Health Contracts	1,225,328	932,916	292,412
Blue Zone projects			-
Direct care services	202,743	154,517	48,226
General and administrative services	713,956	767,166	(53,210)
Management and maintenance	114,287	280,144	(165,857)
Other expenditures/expenses	161,536	28,203	133,333
TOTAL EXPENDITURES/EXPENSES	2,417,850	2,162,946	254,904
GENERAL REVENUES			
Property tax revenues	1,898,524	1,972,693	(74,169)
Investment earnings	322,069	311,365	10,704
Lease income	67,200	57,600	9,600
Gain on sale	265,816	-	265,816
TOTAL GENERAL REVENUES	2,553,609	2,341,658	211,951
EXCESS OF REVENUES OVER EXPENDITURES/CHANGE IN NET POSITION	135,759	178,712	(42,953)
FUND BALANCE/NET POSITION			
BEGINNING OF YEAR	11,710,233	11,531,521	178,712
END OF YEAR	\$ 11,845,992	\$ 11,710,233	\$ 135,759

The Community Health Contract Grant allocation increased by \$292,412 because the amounts requested and provided through the Community Health Contract Grant process vary from year-to-year.

Direct Care Services were supplemented monthly, in accordance with an extended Memorandum of Understanding (M.O.U.), to provide economic support for expanded hours of urgent care services in the amount of \$10,000 per month in July and was reduced to \$8,000 for the remainder of the fiscal year. This monthly support was slated to end in March, 2020 in conjunction with the sale of the urgent care facility and land; however, additional support was provided in response to the COVID-19 pandemic. The final support payment was issued in June 2020.

General and administrative services reflect a decrease of \$53,210. This decrease is related to the change of the District's employment of their previous CEO and General Counsel expenses.

FALLBROOK REGIONAL HEALTH DISTRICT

Management's Discussion and Analysis For the Year Ended June 30, 2020

Management and maintenance decreased by \$165,857 due to extensive deferred maintenance that required property oversight to rectify; including, trees trimming, landscape and other aspects of the property's aesthetics and the capitalization of the E Mission Road Wellness Center project development.

Other expenditures/expenses in the year ended June 30, 2020 includes \$157,328 of costs incurred to the Elder Street property, pursuant to the sale contract.

Property taxes drive the District's operations and are its primary source of revenues. The decrease of \$74,169 in property taxes reflects the multiple effects of the turbulent political environment, volatile investment markets, the onset of the COVID-19 pandemic and the public's ability to pay real estate taxes.

The Gain on sale of \$265,816 is from the sale of the Alvarado property in March, 2020.

CAPITAL ASSETS

At June 30, 2020, the District had \$2,536,245 in capital assets and \$117,990 accumulated depreciation resulting in \$2,418,255 net capital assets.

A summary of the activity and balances in capital assets is presented in Table C below:

TABLE C

	Balance			Balance
	July 1, 2019	Additions	Deletions	June 30, 2020
Capital assets, not depreciated:				
Land	\$ 644,477	\$ -	\$(154,186)	\$ 490,291
Capital assets, being depreciated:				
Buildings and improvements	1,760,562	455,052	(231,495)	1,984,119
Equipment	59,778	17,941	(15,884)	61,835
Subtotal	1,820,340	472,993	(247,379)	2,045,954
Accumulated depreciation	(80,018)	(59,853)	21,881	(117,990)
CAPITAL ASSETS, NET	\$2,384,799	\$ 413,140	\$(379,684)	\$2,418,255

ECONOMIC OUTLOOK

The Fiscal Year 2019/2020 budget reflects an 5-6% increase in revenues, as property values/taxes have increased. Investment income grew substantially due to market increases. Capital expenditures are expected to increase in the coming fiscal year, due to renovations and improvements to all District properties. The Community Investment Fund will be used to complete such renovations and improvements.

FALLBROOK REGIONAL HEALTH DISTRICT

Management’s Discussion and Analysis
For the Year Ended June 30, 2020

MAJOR INITIATIVES

COMMUNITY HEALTH CONTRACT GRANT PROGRAMS 2019-2020

The Community Health Contracts Grants (CHC) undertaken each year by the District are open for nonprofit 501(c)(3) agencies. Those who are awarded CHCs must meet strict criteria and provide both comprehensive financial and service reports quarterly that demonstrate measurable outcomes.

The District’s focus: Prevention, Education, Treatment, and Ancillary Services

- Amount requested: \$1,468,821.50
- Amount funded: \$1,225,327.50, which include funds to North County Fire Protection District per existing grant agreements and a \$3,872 credit from a previous year’s grant that was not funded per contract.
- 18 Nonprofit organizations were funded, for 22 programs – see descriptions below.
 - 6 Youth Focused
 - 5 General Community Health & Wellbeing
 - 5 Senior Citizen Focused
 - 6 Special Population Services

Youth Programming	
<p>Boys & Girls Club of North County, Summer Water Safety Program:</p> <p>Aims to inspire and enable youth members, from ages 5 to 18, on how to be safe around water and realize their full potential as productive, caring and responsible citizens.</p>	\$9,240.00
<p>Boys & Girls Club of North County, Triple Play:</p> <p>Allows youths ages 5 to 14 to learn skills such as living a full productive life in good health, engaging in positive social behaviors, to forming good habits and setting goals throughout their lives.</p>	\$40,000.00

<p>Fallbrook Citizens Crime Prevention Committee, GANAS Mentoring Program:</p> <p>Provides youth mentorship that focuses on a comprehensive approach to crime awareness, prevention, and reduction by taking the leadership role in promoting community dialogue on crime issues and implementing anti-crime programs.</p>	\$11,300.00
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School Site Based Youth Services	
<p>Fallbrook Smiles Project:</p> <p>The Fallbrook Smiles Program helps residents of all ages and genders achieve optimal physical health through dental and medical screenings.</p>	\$90,180.00

FALLBROOK REGIONAL HEALTH DISTRICT

Management's Discussion and Analysis For the Year Ended June 30, 2020

Mental Health Systems, Fallbrook Youth Advocacy Coalition:	\$10,137.00
Mental Health Systems works to improve the lives of individuals, families and communities impacted by substance abuse and behavioral health disorders. The program promotes healthy living and leads prevention strategies to reduce underage and illegal use of alcohol and other drugs.	
Palomar Family Counseling Service, Inc., Healthy Bodies, Healthy Minds:	\$67,423.00
This program addresses health disparities of childhood obesity and behavioral health through prevention and treatment: parent workshops, presentations on healthy lifestyles, individual counseling, and counseling services and parenting classes at the Wellness Center.	
Community Health & Fitness	
Fallbrook Food Pantry, Preventing Hunger in the Greater Fallbrook Area:	\$130,000.00
Provides an adequate and nutritious supply of food to any individuals in the community who are in need.	
Neighborhood Healthcare, Diabetes Footcare Education Project:	\$15,000.00
Provides programs and resources for seniors with podiatry issues resulting from diabetes.	
North County Community Emergency Response Team:	\$5,220.00
The organization seeks to educate the general public about disaster preparedness including the hazards that may negatively impact their communities in the event of an extraordinary event and to promote public safety by organizing one or more community emergency response teams (CERT) to support and lessen the burdens of local government activities in dealing with disasters or emergencies.	
San Diego North County Lions:	\$5,000.00
The Gift of Sight project will support the community with free vision screening, prescription eye glasses and reading glasses to those in need.	
Trauma Intervention Programs:	\$10,000.00
TIP citizen volunteers provide emotional first aid to survivors of tragedy in order to ease their immediate suffering and facilitate their healing and long-term recovery.	
Senior Citizens	
Fallbrook Senior Center Service Club, Inc., Home Delivered Meals Program:	\$125,000.00
This program brings awareness of the importance of a healthy diet and delivers food to seniors in our District.	
Foundation for Senior Care, Senior Care Advocacy Program:	\$88,739.46
Provides programs and resources enabling seniors to enhance their well-being and safely age at home.	
Foundation for Senior Care, Senior Transportation Services:	\$94,579.47
Provides accessible, inexpensive reliable transportation that allows their clients to determine when to make their medical appointments and other basic needs at minimal costs and no delays. Helps their riders stay active, independent, and in control of their lives.	
Foundation for Senior Care, Door-Through-Door (Hospital to Home):	\$62,287.99
Provides seniors and disabled adults, a bridge of care when they experience a hospitalization or stay at a skilled nursing facility and then discharged home to recover.	

FALLBROOK REGIONAL HEALTH DISTRICT

Management’s Discussion and Analysis
For the Year Ended June 30, 2020

Foundation for Senior Care, Respite Support at the Adult Day Care:	\$41,754.94
The Fallbrook Day Care Center, “The Club”, provides resources for seniors and the disabled, to have an enriched life, provides socialization, and allows for respite support for those caregivers who work so hard caring for their family members.	
Support Services for Special Populations	
Be Well Therapy: Be Well Yoga for Cancer Recovery:	\$23,174.00
Be Well Therapy, provides yoga, reiki and mindfulness practices to individuals battling cancer, by providing a respectful, safe and nurturing environment.	
Community Health Systems, Inc., Women of Wellness:	\$120,000.00
The Fallbrook Family Health Center offers a wide range of culturally competent services to women of reproductive age. Including obstetric care services, health & diet information are all provided to the patient and their family.	
D’Vine Path, Life I Can:	\$7,640.00
This program provides a dynamic program for adults with autism, developmental delays and/or learning disabilities providing vocational and life skills development in viticulture, hospitality & the arts.	
Michelle’s Place Cancer Resource Center, Cancer Assistance Program:	\$32,162.00
This program provides health resources, education navigation, financial assistance, transportation, and support to underinsured and underserved individuals and their families dealing with cancer.	
REINS Therapeutic Horsemanship Prgm, Behavioral Health & Wellness Therapy:	\$60,000.00
Provides advanced physical, mental, and emotional therapy by specialized, highly educated therapists. The students usually ride almost 3 miles on the Equine Therapists.	
REINS Therapeutic Horsemanship Prgm, Healthy Volunteer Prgm:	\$38,865.00
Provides resources to properly train volunteers to assist in providing a positive and enriched therapy program.	

During the fiscal year 2019/2020, the Board of Directors approved distribution of the foregoing amounts to qualified applicants, plus funds to North County Fire. This brings the total amount granted by the District since June 1999 to \$11,045,163.

CONTACTING THE DISTRICT’S FINANCIAL MANAGEMENT

Fallbrook Regional Health District
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Fallbrook, CA 92028
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BASIC FINANCIAL STATEMENTS

FALLBROOK REGIONAL HEALTH DISTRICT

**GOVERNMENTAL FUND BALANCE SHEET
AND STATEMENT OF NET POSITION**

June 30, 2020

	General Fund	Adjustments (Note 1D)	Statement of Net Position
ASSETS:			
Current Assets:			
Cash and investments	\$ 8,973,048	\$ -	\$ 8,973,048
Property tax receivable	18,347	-	18,347
Interest receivable	4,671	-	4,671
Prepaid expenses	1,780	-	1,780
Total Current Assets	8,997,846	-	8,997,846
Noncurrent Assets:			
Capital Assets:			
Not being depreciated	-	490,291	490,291
Capital Assets, net of depreciation	-	1,927,964	1,927,964
Total Capital Assets	-	2,418,255	2,418,255
Note Receivable	487,500	-	487,500
Total Noncurrent Assets	487,500	2,418,255	2,905,755
TOTAL ASSETS	\$ 9,485,346	2,418,255	11,903,601
LIABILITIES:			
Current Liabilities:			
Accounts payable	\$ 17,932	-	17,932
Accrued payroll	19,053	-	19,053
Total Current Liabilities	36,985	-	36,985
Noncurrent Liabilities:			
Compensated absences	-	20,624	20,624
Total Noncurrent Liabilities	-	20,624	20,624
TOTAL LIABILITIES	36,985	20,624	57,609
DEFERRED INFLOWS OF RESOURCES:			
Unavailable Revenues	487,500	(487,500)	-
TOTAL DEFERRED INFLOWS OF RESOURCES	487,500	(487,500)	-
FUND BALANCE/NET POSITION			
FUND BALANCE			
Nonspendable for prepaid items	1,780		
Unassigned	8,959,081		
TOTAL FUND BALANCE	8,960,861	\$ (8,960,861)	
TOTAL LIABILITIES AND FUND BALANCE	\$ 9,485,346		
NET POSITION			
Net investment in capital assets			2,418,255
Unrestricted		\$ (8,960,861)	9,427,737
TOTAL NET POSITION			\$ 11,845,992

The accompanying notes are an integral part of the financial statements.

FALLBROOK REGIONAL HEALTH DISTRICT

**GOVERNMENTAL FUND REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
AND STATEMENT OF ACTIVITIES**

For the year ended June 30, 2020

	General Fund	Adjustments (Note 1D)	Statement of Activities
EXPENDITURES/EXPENSES			
Community healthcare programs	\$ 1,225,328	\$ -	\$ 1,225,328
Direct care services	163,145	39,598	202,743
General and administrative services	687,004	26,952	713,956
Management and maintenance	114,287	-	114,287
Other expenditure/expense	161,536	-	161,536
Capital outlay	472,993	(472,993)	-
TOTAL EXPENDITURES/EXPENSES	2,824,293	(406,443)	2,417,850
GENERAL REVENUES			
Property tax revenues	1,898,524	-	1,898,524
Investment earnings	322,069	-	322,069
Lease income	67,200	-	67,200
Gain on sale	-	265,816	265,816
TOTAL GENERAL REVENUES	2,287,793	265,816	2,553,609
OTHER FINANCING SOURCES			
Proceeds from sale of land and building	158,000	(158,000)	-
TOTAL OTHER FINANCING SOURCES	158,000	(158,000)	-
EXCESS OF REVENUES OVER EXPENDITURES/CHANGE IN NET POSITION	(378,500)	514,259	135,759
FUND BALANCE/NET POSITION			
BEGINNING OF YEAR	9,339,361		11,710,233
END OF YEAR	\$ 8,960,861		\$ 11,845,992

The accompanying notes are an integral part of the financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Reporting Entity

The District, formerly known as the Fallbrook Hospital District, is organized under the provisions of the Health and Safety Code of the State of California to provide and operate health care facilities in Fallbrook, California, and unincorporated area within the County of San Diego, California (County)

B. Financial Statement Presentation

Local governmental units are required to report information on a government-wide basis and on a fund basis (with emphasis placed on major funds of the entity). The government-wide financial statements (i.e., statement of net position and statement of activities) report information on all of the activities of the primary government and its component units. The governmental fund financial statements (i.e., balance sheet and statement of revenues, expenditures, and changes in fund balance) report information on individual funds of the government. A fund is considered to be separate accounting entity with a self-balancing set of accounts.

Since the District utilizes a single governmental fund, and it has no component units, the government-wide and governmental fund financial statements have been combined on the same statement with a reconciliation of the individual line items in a separate column titled "Adjustments." The government-wide financial statements are reported in the "Statement of Net Position" and "Statement of Activities" columns. The governmental fund financial statements are reported in the "General Fund" column.

C. Basis of Accounting and Measurement Focus

Government-wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole, except for its fiduciary activities. The District has no fiduciary activities. Government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Measurement focus indicates the type of resources being measured, such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements. Under the economic resources measurement focus, all assets, deferred outflows of resources, liabilities (current and long term), and deferred inflows of resources are reported. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**C. Basis of Accounting and Measurement Focus (Continued)****Fund Financial Statements**

Governmental fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Under the current financial resources measurement focus, only current assets, deferred outflows of resources, current liabilities, and deferred inflows of resources are generally included on the governmental fund balance sheet. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in fund balance. Under the modified accrual basis of accounting, revenues are recognized as soon as they are both measurable and available. Measurable means that the amounts can be estimated or otherwise determined. Available means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the current reporting period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The District's levied property taxes and investment earnings associated with the current period are considered to be susceptible to accrual. Expenditures generally are recorded when a liability is incurred. However expenditures related to compensated absences are recorded only when payment is due.

The funds designated as major funds are determined by a mathematical calculation consistent with GASB Statement No. 34. The District reports the following major governmental funds:

The **General Fund** is the primary operating fund. It accounts for and reports all financial resources of the District, except those not accounted for and reported in another fund.

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for governmental accounting financial reporting purposes.

The District distinguishes operating revenues and expenses from those revenues and expenses that are non-operating. Operating revenues are property tax revenues that are received for general operations and pertain directly to the mission of the District. Non-operating revenues and expenses are those revenues and expenses generated that are not directly associated with the normal activities of the District.

Deferred Inflows of Resources

Deferred inflows from unavailable revenues, which arise only under a modified accrual basis of accounting, are reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from the \$487,500 note receivable for the sale of the land in fiscal year ended June 30, 2020. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**C. Basis of Accounting and Measurement Focus (Continued)**

- Deferred inflows from unavailable revenues, which arise only under a modified accrual basis of accounting, are reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source, which is the not receivable on the sale of land. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

D. Reconciliation of Fund Financial Statements to Government-wide Financial Statements

In order to adjust the fund balance on the governmental (general) fund balance sheet to arrive at net position on the statement of net position, certain adjustments are required as a result of the differences in accounting basis and measurement focus between the government-wide and fund financial statements.

For the year ended June 30, 2020, purchases of capital are reported as a Capital Outlay expenditure on the Governmental Fund Revenues, Expenditures and Changes in Fund Balance and as an addition to capital assets on the government-wide Statement of Net Position. The associated depreciation expense reduces capital assets, net of depreciation on the Statement of Net Position.

The gain on the sale of the East Alvarado Street property is reflected on the Statement of Activities as the difference between the sales price and the net book value on the Statement of Net Position; while only the portion received in the current year is reflected as an other financing source on the Governmental Fund Revenues, Expenditures and Changes in Fund Balance. The remainder of the proceeds will be recognized in the General Fund in future periods when collections occur on the note receivable. At June 30, 2020, the unrecognized portion is reflected as a deferred inflow of resources on the Governmental Fund Balance Sheet.

The District's accrued compensated absences are reflected on the Statement of Net Position, and changes to the compensated absences are recognized as expenses on the Statement of Activities.

E. New Accounting Pronouncements**Governmental Accounting Standards Board (GASB) Current Year Standards**

GASB 95 - *Postponement of the Effective Dates of Certain Authority Guidance*, effective during fiscal year 2019-2020 and resulted delaying the implementation requirements for certain Statements and Implementation Guides to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. New Accounting Pronouncements (Continued)

GASB Pending Accounting Standards

GASB has issued the following statements, which may impact the District's financial reporting requirements in the future.

- GASB 84 - *Fiduciary Activities*, effective for periods beginning after December 15, 2018.
- GASB 87 - *Leases*, effective for periods beginning after December 15, 2019.
- GASB 89 – *Accounting for Interest Cost Incurred before the End of a Construction Period*, effective for periods beginning after December 15, 2019.
- GASB 90 - *Majority Equity Interests - an amendment of GASB Statements No. 14 and No. 61*, effective for periods beginning after December 15, 2018.
- GASB 91 - *Conduit Debt Obligations*, effective for periods beginning after December 15, 2020.
- GASB 92 - *Omnibus 2020*, effective for periods beginning after June 15, 2020.
- GASB 93 - *Replacement of Interbank Offered Rates*, effective for periods beginning after June 15, 2021.
- GASB 94 - *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, effective for periods beginning after June 15, 2022.
- GASB 96 - *Subscription-Based Information Technology Arrangements*, effective for fiscal years beginning after June 15, 2022.
- GASB 97 - *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*, effective for fiscal years beginning after June 15, 2021.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Investments

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.

G. Note Receivable

The District’s note receivable is from the sale of one of the district’s properties in the amount of \$487,500. Interest only payments are due monthly with the entire amount of principal due by March 27, 2022.

H. Property Taxes

Property taxes in California are levied in accordance with Article XIII A of the State Constitution at 1% of countywide assessed valuations. This levy is allocated pursuant to state law to the appropriate units of local government. Additional levies require two-thirds approval by the voters and are allocated directly to the specific government. Taxes and assessments are recognized as revenue based on amounts reported to the District by the San Diego County Tax Collector’s Offices. The San Diego County Tax Collector’s Offices acts as a collection agent for the property taxes which are normally collected twice a year.

The property tax calendar is as follows:

Lien Date:	January 1
Levy Date:	July 1
Due Dates:	First Installment - November 1 Second Installment - February 1
Delinquent Dates:	First Installment - December 10 Second Installment - April 10

I. Capital Assets

The District defines capital assets as assets with initial, individual costs of more than \$500 and an estimated useful life in excess of one year. The District’s capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their acquisition value on the date donated. Depreciation has been provided over the estimated useful lives of the assets using the straight-line method, generally 3-10 years.

J. Compensated Absences

It is the District’s policy to permit contract employees to accumulate earned but unused vacation leave time. Non-contract employees may accumulate earned but unused vacation leave time up to a maximum of thirty (30) days. All employees may accrue unused sick leave time up to a maximum of thirty (30) days. Upon termination, all employees are entitled to a lump sum payment of 25% of accrued sick leave, not to exceed fifteen (15) days. At June 30, 2020, compensated absences balance was \$20,624.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**K. Net Position/Fund Balance Classification**

Net position of the District is classified into three components - net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

Net investment in capital assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. The District has no outstanding debt at June 30, 2020.

Restricted - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted - This component of net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

The fund balances reported on the fund statements consist of the following categories:

Nonspendable – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally contractually required to be maintained intact.

Restricted – This classification includes amounts that can be spent only for specific purposes stipulated by constitutional, external resource providers or through enabling legislation.

Committed – This classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's Board of Directors.

Assigned – This classification includes amounts to be used by the District, authorized by the Board of Directors, for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

Unassigned – This classification includes the residual balance for the District's general fund and includes all spendable amounts not contained in other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Use of Estimates

The preparation of the basic financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the basic financial statements, as well as the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results could differ from those estimates.

2. CASH AND INVESTMENTS

Cash and investments at June 30, 2020 consist of:

Petty cash	\$ 309
Deposits with financial institutions	1,629,169
Investments	<u>7,343,570</u>
 Total cash and Investments	 <u>\$ 8,973,048</u>

This balance is reported as Cash and Investments under Current Assets on the Governmental Fund Balance Sheet and Statement of Net Position.

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

The table below identifies the investment types that are authorized for the for the District by the California Government Code (or the District’s investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or District’s investment policy, where more restrictive) that addresses interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer	Quality Requirements (S & P Rating)
Local Agency Investment Fund (LAIF)	No Limitation	75%	No Limitation	No Limitation
U.S. Treasury Obligations	5 Years	75%	No Limitation	No Limitation
Cal-Trust Mutual Funds	2 Years	75%	No Limitation	AA+/A1
Federal Agency Obligations	5 Years	25%	No Limitation	No Limitation
San Diego County Pooled Investment Funds	No Limitation	20%	No Limitation	No Limitation
Insured CDs	1 Year	20%	No Limitation	AA+/A1
Savings Accounts	No Limitation	25%	No Limitation	No Limitation

2. CASH AND INVESTMENTS (CONTINUED)

State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements 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). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

CalTrust Investment

The District also participates in CalTrust, which is a pool of diversified marketable bonds; including federal, federal agency, corporate, and California municipal bonds. The bonds are pooled in a Medium-Term account. CalTrust investments are subject to market risk as a result of changes in interest rates.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio matures or comes close to maturity evenly over time as necessary to provide requirements for cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity date at June 30, 2020:

Investment Type	Total	Remaining Maturity (in Months)	
		12 Months or Less	13 to 24 Months
Local Agency Investment Fund (LAIF)	\$ 1,255,310	\$ 1,255,310	\$ -
CalTRUST Medium Term Fund	6,088,260	-	6,088,260
Total	<u>\$ 7,343,570</u>	<u>\$ 1,255,310</u>	<u>\$ 6,088,260</u>

2. CASH AND INVESTMENTS (CONTINUED)

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. Presented below is the minimum rating required by (where applicable) the California Government Code, the District's investment policy, or debt agreements, and the S & P's rating for each investment type at June 30, 2020.

Investment Type	Total	Minimum Legal Rating	Ratings as of Year End	
			AA	Not Rated
Local Agency Investment Fund (LAIF)	\$ 1,255,310	Exempt	\$ -	\$ 1,255,310
CalTRUST Medium Term Fund	6,088,260	AA+/A1	6,088,260	-
Total	\$ 7,343,570		\$ 6,088,260	\$ 1,255,310

Concentration of Credit Risk

The investment policy of the District is in accordance with limitations on the amount that can be invested in any one issuer as stipulated by the California Government Code. The District holds no investments in any one issuer other than mutual funds and external investment pools that represents 5% or more of total District investments at June 30, 2020.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits.

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. Of the bank balances, up to \$250,000 held at each institution were federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name. As of June 30, 2020 \$1,399,749, of the District's deposits with financial institutions in excess of federal depository insurance limits were held in collateralized accounts.

2. CASH AND INVESTMENTS (CONTINUED)

Fair Value Measurements

The District categorizes its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the relative inputs used to measure the fair value of the investments. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Investments measured at cost or net asset value (NAV) are not subject to fair value measurement hierarchy.

The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the District has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs reflect the District's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the District's own data.

The District's only investment subject to the fair value measurement hierarchy is its investment in CalTRUST Medium Term Fund, which is measured at observable input Level 2. LAIF is valued at its net asset value and therefore is not subject to fair value measurement hierarchy.

3. CAPITAL ASSETS

Capital assets activities for the year ended June 30, 2020 are as follows:

	Balance at July 1, 2019	Additions	Deletions	Balance at June 30, 2020
Capital assets, not being depreciated:				
Land	\$ 644,477	\$ -	\$ (154,186)	\$ 490,291
Total capital assets, not being depreciated	<u>644,477</u>	<u>-</u>	<u>(154,186)</u>	<u>490,291</u>
Capital assets, being depreciated:				
Building and improvements	1,760,562	455,052	(231,495)	1,984,119
Equipment	59,778	17,941	(15,884)	61,835
Total capital assets, being depreciated	<u>1,820,340</u>	<u>472,993</u>	<u>(247,379)</u>	<u>2,045,954</u>
Less accumulated depreciation for:				
Building and improvements	(44,014)	(53,715)	5,997	(91,732)
Equipment	(36,004)	(6,138)	15,884	(26,258)
Total accumulated depreciation	<u>(80,018)</u>	<u>(59,853)</u>	<u>21,881</u>	<u>(117,990)</u>
Total capital assets, being depreciated, net	<u>1,740,322</u>	<u>413,140</u>	<u>(225,498)</u>	<u>1,927,964</u>
Total Capital Assets	<u>\$ 2,384,799</u>	<u>\$ 413,140</u>	<u>\$ (379,684)</u>	<u>\$ 2,418,255</u>

Depreciation expense was allocated as follows for the year ended June 30, 2020:

Governmental activities:	
General and Administrative	\$ 20,255
Direct Care Services	<u>39,598</u>
Total depreciation expense - governmental activities	<u>\$ 59,853</u>

4. OPERATING LEASE COMMITMENT

The District is under contract for one operating lease for its copy machine, located in the administrative office. The minimum future equipment rental payments under this noncancelable, unsecured 60-month operating lease as of June 30, 2020 are as follows:

Year Ending June 30,	Minimum Lease Commitments
2021	\$ 8,664
2022	8,664
2023	6,498
2024	-
	<u>\$ 23,826</u>

5. DEFINED CONTRIBUTION PENSION PLAN

The District has a Section 408(p) defined contribution pension plan as allowed under the Internal Revenue Code. The plan type sponsored by the District is the Savings Incentive Match Plan for Employees of Small Employers (SIMPLE), which was effective on January 6, 2006. The Plan is a defined contribution retirement plan in which the employer's contribution is nondiscretionary and is based on a formula that is not related to profit. The Plan sponsor guarantees no benefit and bears no investment risk while the Plan participants bear all investment risk and have no guaranteed level of benefits.

Eligible non-contract employees may begin participating in the Pension Plan following a one-month probationary employment period. The Administrator may begin participating the first day of the month following the employment date of work. The Plan is entirely funded by District contributions of up to 3% of the participants' gross pay for employees hired on or after March 1, 2006 who contribute up to 3% of their salary to the deferred compensation plan. Participants are fully vested upon joining the plan. Plan provisions and contribution requirements are established and may be amended by the District. Participants are eligible to begin receiving benefits at age 55.

Total employer contributions paid by the District amounted to \$0.

Funds paid into the Plan by the District are placed in a SIMPLE IRA account at a financial institution determined by the Plan participants. The financial information of the defined contribution pension plan is not in the accompanying financial statements.

6. 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; and natural disasters for which the District carries insurance through Special District Risk Management Authority (SDRMA). SDRMA is a risk pooling joint powers authority formed under the California Government Code to provide insurance coverage for SDRMA's member districts. SDRMA purchases excess insurance from commercial carriers to reduce its exposure to large losses.

At June 30, 2020, the District participated in SDRMA as follows:

General and Auto Liability, Public Officials and Employees' Errors and Omissions and Employment Practices Liability - Single limit of \$2,500,000 per occurrence, subject to deductibles of \$500 per occurrence for third party general liability property damage; \$1,000 per occurrence for third party auto liability property damage, 50% co-insurance of cost expended by SDRMA, in excess of \$10,000 up to \$50,000 per occurrence for employment related claims.

Employee Dishonesty Coverage – Total of \$1,000,000 per loss includes Public employee dishonesty, forgery or alteration and theft, disappearance and destruction.

Property Loss – Replacement cost for property on file, if replaced, and if not replaced within two years after the loss, paid on an actual cash value basis, to a combined total of \$1 billion per occurrence, subject to a \$1,000 deductible per occurrence.

Boiler and Machinery – Replacement cost up to \$100 million per occurrence, subject to a \$1,000 deductible.

Public Officials Personal Liability - \$500,000 each occurrence, with an annual aggregate of \$500,000 per each elected/appointed official to which coverage applies, subject to a \$1,000 deductible per claim.

Comprehensive and Collision – on selected vehicles, with deductibles of \$250/\$500 or \$500/\$1,000 as elected.

There were no instances in the past three years where a settlement exceeded the District's coverage provided through SDRMA.

7. COMMITMENTS AND CONTINGENCIES

Litigation

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

COVID-19

On January 30, 2020 the World Health Organization (WHO) announced a global health emergency based on an outbreak of a new strain of coronavirus (the COVID-19 outbreak) and the risks that are posed to the international community as the virus spread globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the District's financial condition, liquidity, and future results of operations. Management is actively monitoring the impact of the global situation on the District's financial condition, liquidity, operations, and workforce. The District cannot estimate the length or gravity of the impact of the COVID-19 outbreak at this time; however, if the pandemic continues, it may have a material effect on the District's results of future operations and financial position in fiscal year 2021.

8. CHANGE IN FINANCIAL STATEMENT REPORTING FROM PREVIOUS YEARS

In previous years, the District's financial statements were reported as an Enterprise Fund. Enterprise Funds are used by government agencies to account for operations which are financed and managed in a similar manner to private business enterprises, where the costs and expenses (including depreciation) of providing services to the public on a continuing basis are recovered primarily through user charges. In an Enterprise Fund revenues and expenses are recognized on a full accrual basis in the period incurred.

Since the District's operations are funded by property tax revenues and not user charges, the financial statements for June 30, 2020 are reported as a governmental fund. Governmental funds are reported using the current financial resources measurement focus and modified accrued basis of accounting. Beginning fund balance of the General Fund was computed by adjusting prior year ending Net Position for certain assets and liabilities not normally reported on the modified accrual basis of accounting.

9. SUBSEQUENT EVENTS

In preparing these financial statements, the District has evaluated all other events and transactions for potential recognition or disclosure through January 7, 2021, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

For the year ended June 30, 2020

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
FUND BALANCE, JULY 1	\$ 9,339,361	\$ 9,339,361	\$ 9,339,361	\$ -
Resources (inflows):				
Property tax revenues	\$ 2,046,000	\$ 2,046,000	\$ 1,898,524	\$ (147,476)
Investment earnings	235,000	235,000	322,069	87,069
Lease Income	54,600	54,600	67,200	12,600
Proceeds from sale of land and building	-	-	158,000	158,000
Amount Available for Appropriations	<u>2,335,600</u>	<u>2,335,600</u>	<u>2,445,793</u>	<u>110,193</u>
Charges to Appropriations (Outflows):				
General and Administrative services	611,277	611,277	687,004	(75,727)
Management and maintenance	279,180	279,180	114,287	164,893
Direct care services	206,000	206,000	163,145	42,855
Community healthcare programs	1,193,243	1,193,243	1,225,328	(32,085)
Other expenditure/expense	-	-	161,536	(161,536)
Capital outlay	-	-	472,993	(472,993)
Total Charges to Appropriations	<u>2,289,700</u>	<u>2,289,700</u>	<u>2,824,293</u>	<u>(534,593)</u>
Excess of Resources Over (Under) Charges To Appropriations	<u>45,900</u>	<u>45,900</u>	<u>(378,500)</u>	<u>(424,400)</u>
FUND BALANCE, JUNE 30	<u>\$ 9,385,261</u>	<u>\$ 9,385,261</u>	<u>\$ 8,960,861</u>	<u>\$ (424,400)</u>

General Budget Policies

The Board of Directors adopts an annual budget that begins on July 1. Annual appropriations are approved by the Board of Directors prior to the beginning of each year. The Board of Directors has the legal authority to amend the budget at any time during the fiscal year.

Budgetary Basis of Accounting

The District's budget is administered on a cash basis that differs from the actual balances which are reported on the modified basis of accounting. The main difference in the June 30, 2020 fiscal year is that capital outlay and proceeds from sale of land and building, reportable on the modified accrual basis of accounting are not budgeted items.

