

Mission Hills Community Services District

Financial Statements

Year Ended June 30, 2021

**Mission Hills Community Services District
Financial Statements
Year Ended June 30, 2021**

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Independent Auditors' Report

To the Board of Directors of
Mission Hills Community Services District

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Mission Hills Community Services District (the District) as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Mission Hills Community Services District as of June 30, 2021, and the changes in its net position and its cash flows 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 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Mission Hills Community Services District's basic financial statements. The schedule of directors is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of directors has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2022, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that

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testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mission Hills Community Services District's internal control over financial reporting and compliance.

GLENN BURDETTE ATTEST CORPORATION

Glenn Burdette Attest Corporation
San Luis Obispo, California

August 25, 2022

**Mission Hills Community Services District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2021**

Our Management's Discussion and Analysis of the Mission Hills Community Services District's financial performance provides an overview of the District's financial activities for the year ended June 30, 2021. It should be considered in conjunction with the information within the body of the audited financial statements.

Mission Statement

The Mission Hills Community Services District is committed to providing the residents within the District reliable, high quality water and wastewater services in an efficient, cost-effective and environmentally safe manner.

Basic Financial Statements

The basic financial statements provide readers with a broad overview of the District's finances, combining the water, sewer, and street sweeping enterprise fund data.

The District's financial statements include four components:

- Statement of Net Position
- Statement of Revenues, Expenses and Changes in Net Position
- Statement of Cash Flows
- Notes to Financial Statements

The Statement of Net Position includes all of the District's assets and liabilities, with the difference between the two reported as net position. The Statement of Net Position provides the basis for evaluating the capital structure of the District and assessing its liquidity and financial flexibility.

The Statement of Revenue, Expenses and Changes in Net Position present information which shows how the District's position changed during the year. All of the year's revenues and expenses are recorded when the underlying transaction occurs, regardless of the timing of the related cash flows. The Statement of Revenue, Expenses and Changes in Net Position measure the success of the District's operations during the year and determine whether the District has recovered its costs through user fees and other charges.

The Statement of Cash Flows provides information regarding the District's cash receipts and cash disbursements during the year. This statement reports cash activity in three categories:

- Operating
- Capital and Related Financing
- Investing

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Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2021
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This statement differentiates from the Statement of Revenues, Expenses and Changes in Net Position by only accounting for transactions that result in cash receipts or cash disbursements.

The basic financial statements can be found on pages 11 to 13.

The Notes to the Financial Statements provide a description of the accounting policies used to prepare the financial statements and present material disclosures required by generally accepted accounting principles that are not otherwise present in the financial statements.

The notes to the financial statements can be found on pages 14 to 22.

Financial Highlights

- Total assets were \$10,768,050 on June 30, 2021.
- Operating revenue was \$2,846,594, which consisted of Water Charges, Wastewater Charges, Street Sweeping Charges and Service Charges.
- Total Expenses were \$2,038,182, which consisted primarily of Salaries, Benefits, Depreciation, Government Charges, Contractual Services, Engineering Services, Operating Expenses, Utilities and Repairs and Maintenance.

Basic Financial Analysis

Net Position

Net position may serve over time as a useful indicator of the District's financial position. Assets exceeded liabilities by \$10,628,204 as of June 30, 2021.

The largest portion of net position reflect investment in capital assets (i.e. land, easements, wells and pumping, mains and distribution systems, buildings and improvements, vehicles, furniture, and equipment). The District uses these capital assets to provide services to residents; consequently, these assets are not available for future spending.

The next largest portion of net position is reserved for future spending. This portion includes cash and investments.

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Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2021
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Please see Table A below for a current year to previous year comparison of the district’s assets and liabilities.

**Table A
Statement of Net Position
June 30, 2021**

	<u>2021</u>	<u>2020</u>	<u>% Change</u>
Assets:			
Current assets	\$ 3,115,446	\$ 2,194,486	42.0%
Non-current assets	1,179,323	1,201,862	-1.9%
Capital assets	<u>6,473,281</u>	<u>6,583,075</u>	-1.7%
 Total assets	 <u>10,768,050</u>	 <u>9,979,423</u>	 7.9%
Liabilities:			
Current liabilities	<u>139,846</u>	<u>165,204</u>	-15.3%
Net Position:			
Invested in capital assets	6,473,281	6,583,075	-1.7%
Restricted	661,269	48,159	100.0%
Unrestricted	<u>3,493,654</u>	<u>3,182,985</u>	9.8%
 Total net position	 <u>\$ 10,628,204</u>	 <u>\$ 9,814,219</u>	 8.3%

The following are significant current fiscal year transactions that have an impact on the Statement of Net Position:

- Current assets have increased while non-current assets have decreased due to District investments approaching maturity.
- Liabilities have stayed in line with prior year.
- Regular straight-line depreciation for the fiscal year ending June 30, 2021 decreased capital assets by \$393,069, but purchases of additional assets ultimately increased total capital assets.

Revenues, Expenses, and Changes in Net Position

The District’s financial position results from operating activities, investment activities, the acquisition and disposal of capital assets, and the depreciation of capital assets.

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Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2021
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Please see Table B below for a current year to previous year comparison of the districts revenues, expenses and changes in net position.

**Table B
Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2021**

	<u>2021</u>	<u>2020</u>	<u>% Change</u>
Operating revenues	\$ 2,846,594	\$ 2,271,151	25%
Nonoperating revenues	5,573	96,047	-94%
Total revenues	<u>2,852,167</u>	<u>2,367,198</u>	20%
Depreciation expense	393,069	343,786	14%
Other operating expenses	<u>1,645,113</u>	<u>1,595,508</u>	3%
Total operating expenses	<u>2,038,182</u>	<u>1,939,294</u>	5%
Change in net position	813,985	427,904	90%
Beginning net position	<u>9,814,219</u>	<u>9,386,315</u>	5%
Ending net position	<u>\$ 10,628,204</u>	<u>\$ 9,814,219</u>	8%

The following are significant current fiscal year transactions that have had an impact on the statement of revenues, expenses and changes in net position:

- Water utilities exceeded revenue projections for current fiscal year by \$99,430; Wastewater utilities exceeded revenue projections for the current fiscal by \$45,460.
- Total expenses were \$80,277 higher than last fiscal year, and \$124,403 lower than projected. This consists of a combination of unspent budgeted amounts in Salaries & Benefits, as a result of position vacancies and staff turnover, lower Professional Fees, and lower Utilities Cost, due to changing equipment use to off peak hours.

Economic Outlook

Mission Hills Community Services District (Mission Hills CSD) has incrementally increased revenues beginning with our 2016 Rate Study. The Rate Study included a review and analysis of the water and wastewater enterprise revenue based on the cost of service principles and industry methods that resulted in fair and equitable rates for water and wastewater users following the State of California’s Proposition 218 procedures.

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Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2021
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In 2018, Mission Hills CSD retained the professional services of NBS to update our water and wastewater capacity charges (connection fees) to reflect the cost of infrastructure needed to serve future customers. The NBS Study was completed in February of 2019 and gives the Mission Hills CSD legally defensible connection fees that can help maintain quality water and wastewater utilities for the proposed future growth while recognizing the District’s commitment not to harm existing ratepayers.

In combination with our new Rate and Capacity Charge Study, Mission Hills CSD created a Board approved, comprehensive Capital Improvement Plan. This Capital Improvement Plan (CIP) contains capital projects, equipment purchases, and significant future rate studies for Mission Hills CSD. The CIP provides a working blueprint for sustaining and improving the District’s infrastructure. It will also help identify, prioritize, and optimize the financing of capital projects to align with operations and maintenance.

Mission Hills CSD works with the State Water Board to help protect water quality in the Lompoc Uplands and Lompoc Basin. The State Water Board oversees the implementation of programs throughout the state and coordinates its efforts via Regional Water Quality Control Boards. Mission Hills CSD worked cooperatively with our Regional Water Quality Control Board to renew our Waste Discharge Requirements (WDRs). This renewal requires making modifications to our existing wastewater treatment process, and a portion is included in this year’s Capital Improvement Plan and extended to our five-year draft Operations and Maintenance Plan.

Mission Hills CSD is also participating in the Western Management Area Groundwater Sustainability Agency. This Agency is responsible for implementing the requirements of California’s Sustainable Groundwater Management Act (SGMA). This District will continue to work with Regional Water Quality Control Board, the Groundwater Sustainability Agency in our area, and to participate and support all applicable local and regional efforts that have the potential to influence and benefit Mission Hills CSD.

Contacting the District

This financial report is designed to provide the District’s customers and other interested parties with an overview of the District’s financial operations and financial condition. Questions concerning any of the information in this report or requests for additional information should be addressed to the General Manager, Mission Hills Community Services District, 1550 Burton Mesa Boulevard, Lompoc, CA 93436.

Mission Hills Community Services District
Statement of Net Position
June 30, 2021

Assets

Current assets:

Cash and cash equivalents	\$ 1,782,748
Accounts receivable, net of allowance	56,273
Investments	573,783
Prepays and deposits	<u>41,373</u>
Total current assets	2,454,177

Property and equipment, net of accumulated depreciation 6,473,281

Other assets:

Restricted cash	661,269
Investments	<u>1,179,323</u>

Total assets 10,768,050

Liabilities

Current liabilities:

Accounts payable and accrued liabilities	62,087
Compensated absences	36,163
Customer and developer deposits and advances	<u>41,596</u>
Total current liabilities	139,846

Total liabilities 139,846

Net Position

Net investment in capital assets	6,473,281
Restricted	661,269
Unrestricted	<u>3,493,654</u>

Total net position \$ 10,628,204

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

Mission Hills Community Services District
Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2021

Operating revenues:	
Service charges	\$ 2,270,474
Late charges and other revenue	576,120
Total operating revenues	<u>2,846,594</u>
 Operating expenses:	
Chemicals	48,263
Contractual services	98,067
Depreciation	393,069
Directors' fees	23,065
Engineering services	42,493
Equipment rentals	8,824
Government charges	50,603
Insurance	26,640
Memberships and dues	19,989
Miscellaneous expense	12,077
Office expense	22,868
Operating supplies	18,757
Printing and publications	5,674
Professional services	169,731
Repairs and maintenance	138,832
Research and monitoring	29,539
Safety expense	5,987
Salaries, benefits and payroll taxes	737,504
Travel and meetings	4,329
Utilities	160,852
Vehicle expense	21,019
Total operating expenses	<u>2,038,182</u>
Operating income	<u>808,412</u>
 Nonoperating revenues and expenses:	
Decrease in fair value of investments	(51,451)
Investment income, net of fees	57,024
Total nonoperating revenues and expenses	<u>5,573</u>
Increase in net position	813,985
Net position - beginning of year	<u>9,814,219</u>
Net position - end of year	<u><u>\$ 10,628,204</u></u>

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

Mission Hills Community Services District
Statement of Cash Flows
Year Ended June 30, 2021

Cash flows from operating activities:		
Cash received from customers	\$ 2,853,650	
Cash payments to suppliers for goods and services	(918,448)	
Cash payments to employees for services	<u>(759,910)</u>	
Net cash provided by operating activities		\$ 1,175,292
Cash flows from capital and related financing activities:		
Purchases of property and equipment	<u>(283,275)</u>	
Net cash used in capital and financing activities		(283,275)
Cash flows from investing activities:		
Purchase of investments	(48,732)	
Proceeds from sale of investments	396,798	
Investment income, net of fees	<u>57,024</u>	
Net cash provided by investing activities		<u>405,090</u>
Net increase in cash		1,297,107
Cash and cash equivalents - beginning of year		<u>1,146,910</u>
Cash and cash equivalents - end of year		<u>\$ 2,444,017</u>
Summary of cash and cash equivalents - end of year:		
Cash and cash equivalents		\$ 1,782,748
Restricted cash		<u>661,269</u>
Total cash and cash equivalents - end of year		<u>\$ 2,444,017</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income		808,412
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	393,069	
Changes in operating assets and liabilities:		
Accounts receivable, net of allowance	4,432	
Prepays and deposits	(5,263)	
Accounts payable and accrued liabilities	(5,576)	
Accrued payroll	(14,043)	
Compensated absences	(8,363)	
Customer and developer deposits and advances	<u>2,624</u>	
Total adjustments		<u>366,880</u>
Net cash provided by operating activities		<u>\$ 1,175,292</u>
Supplemental disclosures of cash flow information:		
Noncash transactions:		
Decrease in fair value of investments		\$ (51,451)

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

Mission Hills Community Services District
Notes to Financial Statements
June 30, 2021

Note 1: Nature of Business

The Mission Hills Community Services District (the District) began operations in November of 1979, under the authorization of Section 61000, et. seq., of the Government Code of the State of California, for the purpose of providing water and wastewater disposal services. Prior to the formation of the District, these services were provided by Park Water Company. The District is a political subdivision of the State of California and operates under a Board of Directors – Manager form of government.

Note 2: Summary of Significant Accounting Policies

Basis of Presentation

For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities. The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). Under the accrual basis, revenues are recognized when earned and expenses are recognized when incurred.

The principal operating revenues of the District are sewer and water usage charges and other related income. Interest income is considered non-operating revenue. When both restricted and unrestricted revenues are available for an expense, the District's policy is to use restricted revenues first, and then unrestricted fees as they are needed.

Budgets and Budgetary Accounting

An annual budget is adopted by the Board of Directors at the start of each fiscal year. Any changes or revisions to that budget throughout the year must be approved by the Board of Directors.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

The District considers all unrestricted highly-liquid investments with an initial maturity of three months or less to be cash equivalents for purposes of the Statement of Cash Flows. Cash equivalents held by brokers at year-end pending long-term reinvestment are considered investments.

Mission Hills Community Services District

Notes to Financial Statements

June 30, 2021

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Note 2: Summary of Significant Accounting Policies (Continued)

Investments

Investments are reported at fair value. Marketable securities' fair values are based on quoted market prices from independent sources. Short-term investments may consist of equity securities, open-ended mutual funds, certificates of deposit and U.S. government and municipal obligations with an original maturity date of one year or less, and U.S. government and municipal obligations with a maturity date of one year or less.

Investment income consists of interest and dividends. The amounts are presented net of investment management and custodian fees.

Services and Interest Receivable

The District's accounts receivable is primarily comprised of water, wastewater, and street sweeping fees billed on a monthly basis. Customer receivables are written off in full when the receivable is deemed uncollectible. The allowance for uncollectible services is based on prior experience and management's analysis of possible bad debts. At June 30, 2021, the allowance for uncollectible services receivable was \$0.

Prepays and Deposits

Payments made to vendors for services that will benefit any period beyond June 30, 2021 are recorded as prepaid expenses or deposits.

Property and Equipment

Depreciation is provided for on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives of the assets are as follows:

Office furniture and fixtures	5-15 years
Machinery and equipment	2-25 years
Supply distribution system	10-75 years
Building and improvements	10- 40 years
Treatment collection system	10-100 years
Vehicles	7 years

All purchased fixed assets are valued at historical cost. Donated fixed assets were recorded at their estimated net book value when the District was formed. Other donated fixed assets are valued at their estimated fair value on the date received. It is the policy of the District to capitalize assets that have a unit cost of more than \$5,000.

Mission Hills Community Services District

Notes to Financial Statements

June 30, 2021

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Note 2: Summary of Significant Accounting Policies (Continued)

Net Position

The District's net position is required to be classified for accounting and reporting purposes into the following net position categories:

- Net investment in capital assets includes capital assets net of accumulated depreciation and amortization, deferred outflows of resources, less the outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.
- Restricted consists of net position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the District cannot unilaterally alter. At June 30, 2021, \$661,269 of the District's net position—representing developer fees paid to the District is restricted for use on water and sewer capital improvement projects.
- Unrestricted consists of all other categories of net position. Unrestricted may be designated for use by management of the District. These designations limit the area of operations for which expenditures of net position may be made and require that unrestricted net position be used to support future operations in these areas.

The District has adopted a policy of utilizing restricted, expendable funds, when available, prior to unrestricted funds.

Fair Value Measurements

As defined in GASB Statement No. 72, *Fair Value Measurement and Application*, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The District uses valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

GASB Statement No. 72 establishes a hierarchy of inputs to valuation techniques used to measure fair value. That hierarchy has three levels:

Level 1 — Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 — Observable inputs, other than Level 1 prices, for the asset or liability, either directly or indirectly;

Level 3 — Unobservable inputs for the asset or liability.

For fiscal year ended June 30, 2021, the application of valuation techniques applied to the District's financial statements has been consistent.

Mission Hills Community Services District

Notes to Financial Statements

June 30, 2021

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Note 3: Cash and Cash Equivalents

Cash and cash equivalents at June 30, 2021, consisted of the following:

Cash in bank	\$	649,370
Restricted cash in bank		661,269
Cash in Local Agency Investment Fund (LAIF)		<u>1,133,378</u>
	\$	<u><u>2,444,017</u></u>

Custodial Credit Risk-Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk in addition to the California Government Code collateral requirements. Cash balances held in bank are insured up to \$250,000 by the National Credit Union Administration (NCUA). As of June 30, 2021, the District had \$1,092,404 in excess of NCUA insured limits. All deposits held by financial institutions are fully insured or collateralized with securities, held by pledging financial institutions’ trust departments in the District’s name.

The Board has recommended certain restrictions on cash for purposes including capital replacement, emergency and operating reserves.

Local Agency Investment Fund (LAIF)

The District maintained investments with the State of California Local Agency Investment Fund (LAIF). The LAIF is an external investment pool sponsored by the State of California. These pooled funds approximate fair value. The administration of the LAIF is provided by the California State Treasurer and regulatory oversight is provided by the Pooled Money Investment Board and the Local Investment Advisory Board. State statutes, bond resolutions, and LAIF investment policy resolutions allow investments in United States government securities, negotiable certificates of deposit, bankers’ acceptances, commercial paper, corporate bonds, bank notes, mortgage loans and notes, other debt securities, repurchase agreements, reverse repurchase agreements, equity securities, real estate, mutual funds and other investments. The LAIF’s report discloses the required information in accordance with Governmental Accounting Standards Board Statements No. 3 and 40. Pooled investments are not required to be categorized by risk category.

Mission Hills Community Services District

Notes to Financial Statements

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Note 4: Investments

At June 30, 2021, investments comprised the following:

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
Corporate bonds	\$ 112,491	\$ 850,705	\$ 963,196
Treasury bonds	461,292	328,618	789,910
Total	<u>\$ 573,783</u>	<u>\$ 1,179,323</u>	<u>\$ 1,753,106</u>

Investment Policies

The District's Board of Directors (Board) oversees the management of its investments and establishes investment policy. The Board has delegated the implementation of the investment policy to staff. The Board advises on investment guidelines and selection of investment managers. The District prohibits investments that jeopardize the safety of principal concept, while maintaining a market rate of return and providing sufficient liquidity to enable the District to meet its cash flow requirements.

Investment Risk Factors

Interest Rate Risk:

Interest rate risk is the risk that fixed income securities will decline because of rising interest rates. The District manages interest rate risk by maintaining large coupons with short durations within its portfolio. This practice is utilized to assist the District with a positive total return.

Credit Risk:

Fixed income securities are subject to credit risk, which is the chance that a bond issue will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. The District maintains policies to manage credit risk which include requiring minimum credit ratings issued by nationally recognized statistical rating organizations, including Standard and Poor's or Moody's Investor Services, for certain investments.

Mission Hills Community Services District

Notes to Financial Statements

June 30, 2021

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Note 4: Investments (Continued)

The weighted average duration and average credit ratings of the District’s fixed income securities held in investments at June 30, 2021 were as follows:

	<u>Fair Value</u>	<u>Weighted Average Duration (in years)</u>	<u>Average Rating</u>
Corporate bonds	\$ 613,852	2.3	A
Treasury bonds	<u>1,139,254</u>	1.7	AAA
Total	<u>\$ 1,753,106</u>		

Concentration of Credit Risk:

Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers; thereby exposing the organization to greater risks resulting from adverse conditions or developments. GASB requires disclosure of investments in any one individual issuer that represent 5% or more of total investments. At June 30, 2021, the District had no investments that exceeded this threshold.

Custodial Risk:

Custodial risk is the risk that in the event of the failure of the custodian, the investments may not be returned. Substantially all of the District’s investments are issued, registered or held in the name of the District by custodian banks and brokers, as its agent.

Equity Securities Risk:

Equities are subject to both unsystematic and systematic risk. Unsystematic risk is the risk of a price change due to the unique circumstances of a specific security or group of related securities. Equity securities are also subject to systematic risk or market risk. Systematic risk recognizes that equity securities, as an asset class, can change in value as a result of such factors as inflation, exchange rates, political instability, war, economic conditions and interest rates. This type of risk is not specific to a particular company or industry and cannot be substantially mitigated by diversification. The District does not have any equity securities at this time but is not prohibited by their investment policy to invest in equity securities.

Investment Fair Values:

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The District’s investments are all classified in Level 1 of the fair value hierarchy, which values investments at the unadjusted quoted prices for identical assets in active markets that the District has the ability to access.

Mission Hills Community Services District

Notes to Financial Statements

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Note 5: Property and Equipment

At June 30, 2021, property and equipment consisted of the following:

	<u>Balance June 30, 2020</u>	<u>Increases</u>	<u>Decreases/ Transfers</u>	<u>Balance June 30, 2021</u>
Land	\$ 624,862	\$	\$	\$ 624,862
Plant and equipment	<u>12,163,165</u>	<u>283,275</u>	<u></u>	<u>12,446,440</u>
	12,788,027	283,275	-	13,071,302
Less accumulated depreciation	<u>(6,204,952)</u>	<u>(393,069)</u>	<u></u>	<u>(6,598,021)</u>
Property and equipment, net	<u>\$ 6,583,075</u>	<u>\$ (109,794)</u>	<u>\$ -</u>	<u>\$ 6,473,281</u>

Note 6: Service Revenues

The operations of the District are primarily funded through the collection of service fees for connection fees, water, wastewater, and street sweeping services provided for by the District. Revenues earned by type during the year ended June 30, 2021, were as follows:

Water charges	\$ 1,274,422
Wastewater charges	978,143
Street sweeping charges	<u>17,909</u>
Total	<u>\$ 2,270,474</u>

Note 7: Deferred Compensation Plan

The District is currently participating in an FTJ FundChoice governmental eligible 457 Plan administered by Bayhill Advisors, Inc. effective January 1, 2007. The Mission Hills CSD 457 Plan is a deferred compensation plan and covers all employees of the District. Employees may elect to contribute a portion of their salary to the plan with no limitations other than those legally imposed. An employee can also elect to contribute their social security taxes in lieu of paying into social security and the District contributes the employer portion as well. All other District contributions are discretionary and all contributions are vested 100% immediately. Assets are held separately from the District's funds.

Total District contributions were \$48,364 for the year ended June 30, 2021.

Mission Hills Community Services District

Notes to Financial Statements

June 30, 2021

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Note 8: Risk Management

The District is a member of the Association of California Water Agencies Joint Powers Insurance Authority (ACWA/JPIA), which was organized for the purpose of providing general liability, automobile, errors and omission, and property loss insurance coverage to water agencies. The ACWA/JPIA is financed through premium charges to each member. The ACWA/JPIA does not meet the reporting entity criteria and is therefore not included in the accompanying financial statements.

The ACWA/JPIA is administered by a board of directors, consisting of one member of each participating water agency. In addition, the water agencies' board members and staff are eligible to participate on the various committees and subcommittees of the ACWA/JPIA. The board is responsible for establishing premium rates and making budgeting decisions.

Coverage under current policies provide for the District to pay for the first \$2,500 of property loss for buildings, personal property, fixed equipment, and mobile equipment and the agency to pay for the next \$497,500. There is a \$1,000 deductible for licensed vehicles. The auto and general liability program has no deductible. Property losses are limited to the value of the property as assessed by the ACWA/JPIA. The ACWA/JPIA is self-insured for the first \$500,000. Claims over the self-insured amounts are covered by a group purchased commercial insurance policy. Each member district is assessed a premium in accordance with the JPIA agreement, creating the ACWA/JPIA.

Condensed financial information of the ACWA/JPIA was as follows:

	September 30, 2021 *
Total assets and deferred outflows	\$ 272,959,501
Total liabilities and deferred inflows	123,148,969
Net assets	<u>\$ 149,810,532</u>
Total operating revenues	\$ 189,317,732
Total nonoperating revenues	11,566,049
Total operating expenses	<u>(174,760,456)</u>
Net increase in net position	<u>\$ 26,123,325</u>

* Latest information available.

Mission Hills Community Services District

Notes to Financial Statements

June 30, 2021

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Note 9: Operating Lease

The District has three leases for equipment with terms ranging from two to five years expiring in September 2025. Monthly lease payments are \$814. The total operating lease expense was \$8,824 for the year ended June 30, 2021.

At June 30, 2021, future minimum lease payments were as follows:

<u>For the Year Ending June 30,</u>	
2022	\$ 9,769
2023	7,974
2024	1,332
2025	704
2026	176
Total	<u>\$ 19,955</u>

Note 10: Commitments and Contingencies

Santa Ynez River Valley Basin Western Management Area Groundwater Sustainability Agency

Effective January 11, 2017, the District entered into a Memorandum of Agreement (MOA) with various parties within the Santa Ynez River Water Conservation District under the Sustainable Groundwater Management Act to create the Santa Ynez River Valley Basin Western Management Area Groundwater Sustainability Agency (GSA). The parties agreed to cooperate under the MOA to create the GSA and for the GSA to create a Groundwater Sustainability Plan (GSP) on or before January 30, 2022. Under the MOA, the District will have one voting member on the board of eight. Costs incurred to create and implement the GSP will be shared by the voting parties as agreed to by the voting parties. On February 2, 2017, the parties filed a notice to become a GSA with the California Department of Water Resources, Sustainable Groundwater Management Section. For the year ended June 30, 2021, the District contributed \$72,113 to the project.

Litigation

From time to time, in the normal course of operations, the District may become involved in litigation for which the District has insurance coverage. Management does not believe these will result in a material impact to the financial statements.

Note 11: COVID-19 Pandemic

The District has been impacted by the recent COVID-19 pandemic. Due to the uncertainty surrounding the pandemic, the length and severity of the outbreak, and the volatility in the world investment markets, there is uncertainty as to how these events will ultimately affect the District's services and resources.

Mission Hills Community Services District

Notes to Financial Statements

June 30, 2021

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Note 12: Subsequent Events

Events subsequent to June 30, 2021, have been evaluated through August 25, 2022, which is the date the financial statements were available to be issued. Management did not identify any subsequent events that required disclosure.

**Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards***

To the Board of Directors of
Mission Hills Community Services District

We have audited, in accordance with the auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the business-type activities of Mission Hills Community Services District, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise Mission Hills Community Services District's basic financial statements and have issued our report thereon dated August 25, 2022.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questions costs as 21.001 that we consider to be a material weakness.

Board of Directors
Mission Hills Community Services District
Page 2

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "GLENN BURDETTE ATTEST CORPORATION". The letters are in all caps and have a slightly cursive, hand-drawn appearance.

Glenn Burdette Attest Corporation
San Luis Obispo, California

August 25, 2022

Mission Hills Community Services District
Schedule of Findings and Recommendations
Year Ended June 30, 2021

Finding 21.001: Inadequate Segregation of Duties (Material Weakness)

Finding:

There are generally four phases for an accounting process or operation: authorization, custody, record keeping and reconciliation. A well-designed system of internal control contemplates the allocation of duties among personnel such that each of these four functions would be performed by a different person. During our audit, we noticed that, due to the small size of the District staff, many of these duties are being performed by the same individuals and that the majority of the employees have access to the cash drawer.

Management has informed us that based upon the size of the District, they believe the cost to employ a sufficient number of employees with sufficient education and training to accomplish this would be cost prohibitive. While the District does not have all four phases of their accounting processes segregated, they have designed their controls to limit the potential of a material misstatement by having mitigating controls in place to detect any material misstatements that might occur. This includes detail oversight review of the trial balance on a monthly basis by both the General Manager and District Accountant.

The effect on the District of not fully segregating these functions could be to have a misappropriation of assets, although the District has mitigated the impact by the controls discussed above.

Recommendation:

We recommend that the District continue to evaluate the assignment of responsibilities and authority in the accounting department and segregate duties to the best of their ability given the size of the District and the resources available.

Supplementary Information

Mission Hills Community Services District
Schedule of Directors
June 30, 2021

Myron Heavin	President
Stephen Dietrich	Vice President
Karina Naughton	Finance Officer
Bruce Nix	Director
James MacKenzie	Director

See independent auditors' report.