

**Mission Hills Community Services District**

**Financial Statements**

**Year Ended June 30, 2017**

**Mission Hills Community Services District  
Financial Statements  
Year Ended June 30, 2017**

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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, 2017, 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 of 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.

**Board of Directors of  
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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, 2017, 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 October 13, 2017, 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

**Board of Directors**

**Mission Hills Community Services District**

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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

October 13, 2017

**Mission Hills Community Services District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2017**

Our Management's Discussion and Analysis of the Mission Hills Community Services District's (MHCS or District) financial performance provides an overview of the District's financial activities for the year ended June 30, 2017. 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.

**Government-Wide Financial Statements**

The government-wide 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.

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Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2017  
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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

This statement differentiates from the Statement of Revenues, Expenses and Changes in Net Assets by only accounting for transactions that result in cash receipts or cash disbursements.

The government-wide financial statements can be found on pages 12 to 14.

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 15 to 24.

**Financial Highlights**

- Total assets were \$9,266,125 on June 30, 2017.
- Operating revenue was \$1,735,662, which consisted of Water Charges, Wastewater Charges, Street Sweeping Charges, Service Charges and Connection Fees.
- Total Expenses were \$1,880,462, which consisted primarily of Salaries, Benefits, Depreciation, Insurance, Office Expenses, Operating Expenses, Professional Services, Travel, Utilities, Chemicals and Repairs and Maintenance.

**Government-Wide Financial Analysis**

**Net Position**

Net position may serve over time as a useful indicator of the District's financial position. Assets exceeded liabilities by \$9,045,115 as of June 30, 2017.

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Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2017  
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The largest portion of net position reflects 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 the residences of the MHCSO; 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.

Please see Table A below for a current year to previous year comparison of the districts assets and liabilities.

**Table A  
Statement of Net Position  
June 30, 2017**

|                            | <u>2017</u>         | <u>2016</u>         | <u>% Change</u> |
|----------------------------|---------------------|---------------------|-----------------|
| Assets:                    |                     |                     |                 |
| Current assets             | \$ 3,579,652        | \$ 3,554,665        | 0.7%            |
| Capital assets             | 5,686,473           | 5,813,676           | -2.2%           |
| Total assets               | <u>9,266,125</u>    | <u>9,368,341</u>    | -1.1%           |
| Liabilities:               |                     |                     |                 |
| Current liabilities        | 129,057             | 113,053             | 14.2%           |
| Long-term liabilities      | 104,273             | 81,432              | 28.0%           |
| Total liabilities          | <u>233,330</u>      | <u>194,485</u>      | 20.0%           |
| Net Position:              |                     |                     |                 |
| Invested in capital assets | 5,686,473           | 5,813,676           | -2.2%           |
| Unrestricted               | 3,346,322           | 3,360,180           | -0.4%           |
| Total net position         | <u>\$ 9,032,795</u> | <u>\$ 9,173,856</u> | -1.5%           |



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Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2017  
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The following are significant current fiscal year transactions that have an impact on the Statement of Net Position:

- Total liabilities have increased due to a \$22,841 increase in long-term compensated absences.
- Regular straight-line depreciation for the fiscal year ending June 30, 2017 decreased capital assets by \$298,533.

**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.

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  
June 30, 2017**

|                          | <u>2017</u>         | <u>2016</u>         | <u>% Change</u> |
|--------------------------|---------------------|---------------------|-----------------|
| Operating revenues       | \$ 1,723,342        | \$ 1,448,931        | 18.9%           |
| Nonoperating revenues    | 16,059              | 75,203              | -78.6%          |
| Total revenues           | <u>1,739,401</u>    | <u>1,524,134</u>    | 14.1%           |
| Depreciation expense     | 298,533             | 280,659             | 6.4%            |
| Other operating expenses | <u>1,581,929</u>    | <u>1,493,021</u>    | 6.0%            |
| Total operating expenses | <u>1,880,462</u>    | <u>1,773,680</u>    | 6.0%            |
| Change in net position   | (141,061)           | (249,546)           | -43.5%          |
| Beginning net position   | <u>9,173,856</u>    | <u>9,423,402</u>    | -2.6%           |
| Ending net position      | <u>\$ 9,032,795</u> | <u>\$ 9,173,856</u> | -1.5%           |

**Mission Hills Community Services District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2017  
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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 revenues fell short of projections by \$15,169 and Wastewater revenues exceeded projections by \$5,822.
- Nonoperating revenues fell by \$59,144 from last fiscal year due to lower interest income.
- Total expenses were \$106,782 higher than last fiscal year, and \$153,731 higher than projected.

**Economic Outlook**

Currently the District is increasing its revenue base while the customer base remains constant. MHCS D has experienced extremely limited growth in recent years, though areas of the District are tentatively designated for development in the future. The general economic trend has been slowly improving. This year's above average rainfall led to the state mandated water conservation requirements being lifted and customer concerns over water wastage are slowly easing. These factors are causing the income of the District to improve moderately. Meanwhile, the costs to provide services have continued to increase. This trend of raising costs and slowly rising revenues caused the District to perform a Proposition 218 Engineering and Financial study, as required by statute, in order to evaluate service rates. The results of this study were utilized as a basis for an increase in the water and wastewater rates which took effect in September 2016. The initial rate increase for the FY 2016-17 was averaged at 22.5% for water, and 31.7% for wastewater services for a household with moderate usage.

The major economic events of this fiscal year will be listed by service. The water department improvements include upgrading the butterfly valves in the Treatment Plant, replacement and upgrading of the fuel control valve and emissions control system on Well #6, the replacement of the soft start equipment on Well #5 and the installation of an isolation valve and fire hydrant on Calle Lindero. The wastewater department improvements include replacement of the Auger Monster rotor assembly, and the installation of an air scrubber to remove sewer gases, an equipment failure at the Lift Station also caused a large expenditure of funds to remove waste product during the repairs. The District has experienced unusually high repair and maintenance costs due to the aging of the infrastructure and unanticipated equipment failures. The utilities account has abnormal expenditure due to the long period of time the Natural Gas powered Well 6 was under repair.

**Mission Hills Community Services District  
Management's Discussion and Analysis  
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Continued regulator action (Notice of Violation) from the California Regional Water Quality Control Board concerning the Waste Water Treatment Plant has resulted in ongoing costs to replace and upgrade the failing infrastructure, as well as increased legal fees required in order to respond to the requirements of the Regional Water Quality Control Board. The District submitted a letter on June 19, 2017 to the Regional Water Control Board concerning the actions taken to address to conditions listed on December 10, 2010 NOV. On August 30, 2017, the RWQCB sent a letter to the District informing the District that it has met the conditions of the Notice of Violation and no punitive actions are forthcoming.

MHCS D has continued to upgrade its infrastructure by replacing the water meters. The old meters currently in operation at MHCS D are in excess of 17 years old, while the industry standard for meter life is 10 years. A replacement program was completed this fiscal year to replace the remaining the meters with Automatic Meter Reading type meters. The District has completed 100% of the replacement program to date. This project is anticipated to improve revenue collection as well as reducing the labor cost required to do monthly meter reading.

The Wastewater Treatment Plant Pond #1's liner failed during a severe winter rainstorm. The Board of Directors designated this repair as an emergency action, and replacement of the failed liner began immediately. Project contactors were selected and work began on June 26, 2017. It is anticipated that work will continue into 2018 with approximate costs of one million dollars.

**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, 2017**

**Assets**

**Current assets:**

|                                       |                  |
|---------------------------------------|------------------|
| Cash and cash equivalents             | \$ 638,484       |
| Accounts receivable, net of allowance | 37,963           |
| Investments                           | 686,795          |
| Prepays and deposits                  | <u>49,070</u>    |
| <b>Total current assets</b>           | <b>1,412,312</b> |

**Property and equipment, net of accumulated depreciation** 5,686,473

**Other Assets:**

|             |                  |
|-------------|------------------|
| Investments | <u>2,167,340</u> |
|-------------|------------------|

**Total assets** 9,266,125

**Liabilities**

**Current liabilities:**

|  |                |
|--|----------------|
| Accounts payable and accrued liabilities     | 47,861         |
| Accrued payroll                              | 11,122         |
| Compensated absences, current portion        | 38,822         |
| Customer and developer deposits and advances | <u>31,252</u>  |
| <b>Total current liabilities</b>             | <b>129,057</b> |

**Long-term liabilities:**

|  |                |
|--|----------------|
| Compensated absences, net of current portion | <u>104,273</u> |
|--|----------------|

**Total liabilities** 233,330

**Net Position**

|                                  |                  |
|----------------------------------|------------------|
| Net investment in capital assets | 5,686,473        |
| Unrestricted                     | <u>3,346,322</u> |

**Total net position** \$ 9,032,795

*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, 2017**

|  |                     |
|--|---------------------|
| <b>Operating revenues:</b>                     |                     |
| Service charges                                | \$ 1,687,450        |
| Late charges and other revenue                 | <u>35,892</u>       |
| Total operating revenues                       | <u>1,723,342</u>    |
| <br><b>Operating expenses:</b>                 |                     |
| Chemicals                                      | 62,286              |
| Contractual services                           | 36,624              |
| Depreciation                                   | 298,533             |
| Directors' fees                                | 12,500              |
| Engineering services                           | 19,680              |
| Equipment rentals                              | 1,121               |
| Government charges                             | 30,300              |
| Insurance                                      | 51,701              |
| Memberships and dues                           | 10,026              |
| Miscellaneous expense                          | 1,694               |
| Office expense                                 | 18,937              |
| Operating supplies                             | 7,564               |
| Printing and publications                      | 3,861               |
| Professional services                          | 59,405              |
| Repairs and maintenance                        | 237,299             |
| Research and monitoring                        | 17,517              |
| Safety expense                                 | 5,368               |
| Salaries, benefits and payroll taxes           | 798,418             |
| Travel and meetings                            | 18,525              |
| Utilities                                      | 161,336             |
| Vehicle expense                                | <u>27,767</u>       |
| Total operating expenses                       | <u>1,880,462</u>    |
| Operating loss                                 | <u>(157,120)</u>    |
| <br><b>Nonoperating revenues and expenses:</b> |                     |
| Investment loss, net                           | (119,596)           |
| Interest income                                | <u>135,655</u>      |
| Total nonoperating revenues and expenses       | <u>16,059</u>       |
| Decrease in net position                       | (141,061)           |
| Net position - beginning of year               | <u>9,173,856</u>    |
| Net position - end of year                     | <u>\$ 9,032,795</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, 2017**

|   |                  |                          |
|---|------------------|--------------------------|
| <b>Cash flows from operating activities:</b>  |                  |                          |
| Cash received from customers  | \$ 1,729,441     |                          |
| Cash payments to suppliers for goods and services                                     | (795,089)        |                          |
| Cash payments to employees for services   | <u>(774,205)</u> |                          |
| Net cash provided by operating activities   |                  | \$ 160,147               |
| <b>Cash flows from capital and related financing activities:</b>                      |                  |                          |
| Purchases of property and equipment   | <u>(171,330)</u> |                          |
| Net cash used in capital and financing activities                                     |                  | (171,330)                |
| <b>Cash flows from investing activities:</b>  |                  |                          |
| Proceeds from sale of investments   | 1,582            |                          |
| Investment income   | <u>135,655</u>   |                          |
| Net cash provided by investing activities   |                  | <u>137,237</u>           |
| Net increase in cash  |                  | 126,054                  |
| Cash and cash equivalents - beginning of year   |                  | <u>512,430</u>           |
| Cash and cash equivalents - end of year   |                  | <u><u>\$ 638,484</u></u> |
| <b>Reconciliation of operating loss to net cash provided by operating activities:</b> |                  |                          |
| Operating loss  |                  | (157,120)                |
| Adjustments to reconcile operating loss to net cash provided by operating activities: |                  |                          |
| Depreciation  | 298,533          |                          |
| Changes in operating assets and liabilities:  |                  |                          |
| Accounts receivable, net of allowance   | (7,501)          |                          |
| Prepays and deposits  | (12,610)         |                          |
| Accounts payable and accrued liabilities  | 1,032            |                          |
| Accrued payroll   | 2,167            |                          |
| Compensated absences  | 22,046           |                          |
| Customer and developer deposits and advances  | <u>13,600</u>    |                          |
| Total adjustments   |                  | <u>317,267</u>           |
| Net cash provided by operating activities   |                  | <u><u>\$ 160,147</u></u> |
| <b>Supplemental disclosures of cash flow information:</b>                             |                  |                          |
| Noncash transactions:   |                  |                          |
| Decrease in fair value of investments   |                  | \$ 119,596               |

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

**Mission Hills Community Services District**  
**Notes to Financial Statements**  
**June 30, 2017**

**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**  
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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 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 realized and unrealized gains and losses on investments, 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, 2017, 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, 2017 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, 2017**  
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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. The District does not have any assets in this category.
- 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 Governmental Accounting Standards Board (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, 2017, 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, 2017**

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**Subsequent Events**

Events subsequent to June 30, 2017, have been evaluated through October 13, 2017, which is the date the financial statements were available to be issued. Management did not identify any subsequent events that required disclosure.

**Note 3: Cash and Cash Equivalents**

Cash and cash equivalents at June 30, 2017, consisted of the following:

|   |    |                |
|---|----|----------------|
| Cash in bank                                | \$ | 637,457        |
| Cash in Local Agency Investment Fund (LAIF) |    | 1,027          |
|   | \$ | <u>638,484</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 Association. 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. At June 30, 2017, the District had uninsured cash deposits totaling \$207,757.

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 minimal 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.

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**Notes to Financial Statements**  
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**Note 4: Investments**

At June 30, 2017, investments comprised the following:

|                 | <u>Current</u>    | <u>Noncurrent</u>   | <u>Total</u>        |
|-----------------|-------------------|---------------------|---------------------|
| Corporate bonds | \$ 288,102        | \$ 442,283          | \$ 730,385          |
| Treasury bonds  | 398,693           | 1,725,057           | 2,123,750           |
| <b>Total</b>    | <u>\$ 686,795</u> | <u>\$ 2,167,340</u> | <u>\$ 2,854,135</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, 2017**  
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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, 2017 were as follows:

|                 | <u>Fair Value</u>   | <u>Weighted<br/>Average Duration<br/>(in years)</u> | <u>Average<br/>Rating</u> |
|-----------------|---------------------|---|---------------------------|
| Corporate bonds | \$ 730,385          | 1.8   | AA                        |
| Treasury bonds  | <u>2,123,750</u>    | 2.2   | AAA                       |
| Total           | <u>\$ 2,854,135</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, 2017, 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, exchanges 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**  
**June 30, 2017**  
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**Note 5: Property and Equipment**

At June 30, 2017, property and equipment consisted of the following:

|                               | <u>Balance<br/>June 30, 2016</u> | <u>Increases</u>    | <u>Decreases/<br/>Transfers</u> | <u>Balance<br/>June 30, 2017</u> |
|-------------------------------|----------------------------------|---------------------|---------------------------------|----------------------------------|
| Land                          | \$ 431,163                       | \$                  | \$                              | \$ 431,163                       |
| Plant and equipment           | 10,430,526                       | 133,488             | 6,423                           | 10,570,437                       |
| Construction in progress      | 6,423                            | 37,842              | (6,423)                         | 37,842                           |
|                               | <u>10,868,112</u>                | <u>171,330</u>      | <u>-</u>                        | <u>11,039,442</u>                |
| Less accumulated depreciation | (5,054,436)                      | (298,533)           |                                 | (5,352,969)                      |
| Property and equipment, net   | <u>\$ 5,813,676</u>              | <u>\$ (127,203)</u> | <u>\$ -</u>                     | <u>\$ 5,686,473</u>              |

**Note 6: Long-Term Liabilities - Compensated Absences**

At June 30, 2017, long-term liabilities consisted of the following:

|                      | <u>Balance<br/>June 30, 2016</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance<br/>June 30, 2017</u> | <u>Current<br/>Portion</u> |
|----------------------|----------------------------------|------------------|-------------------|----------------------------------|----------------------------|
| Compensated absences | \$ 121,049                       | \$ 58,796        | \$ (36,750)       | \$ 143,095                       | \$ 38,822                  |

**Note 7: 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, 2017, were as follows:

|                         |                     |
|-------------------------|---------------------|
| Water charges           | \$ 981,672          |
| Wastewater charges      | 687,686             |
| Street sweeping charges | <u>18,092</u>       |
| Total                   | <u>\$ 1,687,450</u> |

**Note 8: Employee Benefit Plan**

The District is currently participating in a FTJ FundChoice governmental eligible 457 plan administered by Bayhill Advisors, Inc. effective January 1, 2007. The Mission Hills CSD 457 Plan is a defined contribution plan and covers all employees of the District. Employees 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

**Mission Hills Community Services District**  
**Notes to Financial Statements**  
**June 30, 2017**  
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**Note 8: Employee Benefit Plan (Continued)**

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 \$39,826 for the year ended June 30, 2017. Contributions by plan members were \$65,308 for the year ended June 30, 2017.

**Note 9: 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:

|  |                        |
|--|------------------------|
| Total assets and deferred outflows     | \$ 190,632,540         |
| Total liabilities and deferred inflows | <u>121,928,923</u>     |
| Net assets                             | <u>\$ 68,703,617</u>   |
| Total operating revenues               | \$ 146,991,398         |
| Total nonoperating revenues            | 2,380,372              |
| Total operating expenses               | <u>(161,601,971)</u>   |
| Net decrease in net position           | <u>\$ (12,230,201)</u> |

\* Latest information available.

**Mission Hills Community Services District**  
**Notes to Financial Statements**  
**June 30, 2017**  
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**Note 10: Operating Lease**

The District leases equipment with a two year term expiring in April 2019. Monthly lease payments are \$561. The total operating lease expense was \$1,122 for the year ended June 30, 2017.

At June 30, 2017, future minimum lease payments were as follows:

| <u>For the Year Ending June 30,</u> |                  |
|-------------------------------------|------------------|
| 2018                                | \$ 6,729         |
| 2019                                | <u>5,608</u>     |
| Total                               | <u>\$ 12,337</u> |

**Note 11: Commitments and Contingencies**

*Notice of Violations*

On December 2, 2010, the District received a Notice of Violations (NOV) from the Regional Water Quality Control Board (RWQCB) for alleged non-compliances associated with its Waste Discharge Requirement Order 97-035 for the Wastewater Treatment Plant. The NOV required the District to take immediate actions necessary to ensure compliance with Order No. 97-035 and to submit a report addressing the violations described in the NOV. The NOV states that the District may be subject to civil liability of up to \$1,000 per day for each day in which the violation occurs.

The District submitted a Corrective Action Plan and Implementation Schedule to the RWQCB on February 28, 2011. The District has substantially followed up with the RWQCB updating them on the status of the District's efforts under the Corrective Action Plan, which has been completed. A technical report was submitted on June 19, 2017 to support closure of the NOV by meeting all the conditions listed. Subsequent to fiscal year end the District received correspondence from the RWQCB confirming that Mission Hills Community Services District has met the conditions of the December 2, 2010, NOV and no punitive action would be taken. As a condition of closure, the District must continue the implementation of its management action plan, submit an updated Report of Waste Discharge prior to March of 2018 and submit its requirements for changes to the Waste Discharge Order.

From time to time in the normal course of operations, the District has and may receive additional NOV. Management does not believe any additional NOV will result in a material impact to the financial statements.

**Mission Hills Community Services District**

**Notes to Financial Statements**

**June 30, 2017**

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**Note 11: Commitments and Contingencies (Continued)**

*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.

*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.





**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, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the State Controller's *Minimum Audit Requirements for California Special Districts*, the business-type activities of Mission Hills Community Services District, as of and for the year ended June 30, 2017, 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 October 13, 2017.

**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 were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questions costs as 17.001 that we consider to be a material weakness.

**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

**GLENN BURDETTE ATTEST CORPORATION**

Glenn Burdette Attest Corporation  
San Luis Obispo, California

October 13, 2017

**Mission Hills Community Services District**  
**Schedule of Findings and Recommendations**  
**Year Ended June 30, 2017**

**Finding 17.001: Inadequate Segregation of Duties (Material Weakness)**

*Criteria:*

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.

*Condition:*

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.

*Effect:*

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.

**Supplemental Information**

**Mission Hills Community Services District  
Schedule of Directors  
June 30, 2017**

|                  |                           |
|------------------|---------------------------|
| Walter Fasold    | President                 |
| Bruce Nix        | Vice President            |
| James Mac Kenzie | Finance Officer           |
| Steve Dietrich   | Alternate Finance Officer |
| Myron Heavin     | Director                  |

*See independent auditors' report.*

