

**MISSION HILLS COMMUNITY  
SERVICES DISTRICT**

**BASIC FINANCIAL STATEMENTS**  
June 30, 2023

**MISSION HILLS COMMUNITY SERVICES DISTRICT**  
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**June 30, 2023**

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**FINANCIAL SECTION**



Moss, Levy & Hartzheim LLP

Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Mission Hills Community Services District  
Lompoc, California

### Report on the Financial Statements

#### *Opinions*

We have audited the accompanying financial statements of the business-type activities and the major fund of the Mission Hills Community Services District, as of and for the fiscal year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Mission Hills Community Services District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the major fund of the Mission Hills Community Services District, as of June 30, 2023, and the respective changes in financial position and cash flows, for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinions*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Mission Hills Community Services District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### *Responsibilities of Management for the Financial Statements*

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

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

#### *Auditors' Responsibilities for the Audit of the Financial Statements*

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Mission Hills Community Services District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Mission Hills Community Services District's ability to continue as a going concern for a reasonable period of time.

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

**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 a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated July 12, 2024, on our consideration of the Mission Hills Community Services District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Moss, Remy & Helgesheim LLP*

Santa Maria, California  
July 12, 2024

Mission Hills Community Services District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2023

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, 2023. 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 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.

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 7 to 9.

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 10 to 16.

### **Financial Highlights**

- Total assets were \$10,613,120 on June 30, 2023.
- Operating revenue was \$2,284,362, which consisted of Water Charges, Wastewater Charges, Street Sweeping Charges and Service Charges.
- Total Expenses were \$2,245,395, 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 \$10,390,356 as of June 30, 2023.

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 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.

Please see Table A below for the 2022 to 2023 comparison of the District's assets and liabilities.

**Table A**  
**Statement of Net Position**  
**June 30, 2023**

	<u>2023</u>	<u>2022</u>	<u>% Change</u>
<b><u>Assets:</u></b>			
Current assets	\$3,934,974	\$4,209,562	-6.5%
Restricted cash	61,663	261,415	-76.4%
Capital assets	<u>6,616,483</u>	<u>6,033,573</u>	9.7%
 Total assets	 <u>10,613,120</u>	 <u>10,504,550</u>	 1.0%
<b><u>Liabilities:</u></b>			
Current liabilities	<u>222,764</u>	<u>237,630</u>	-6.3 %
<b><u>Net Position:</u></b>			
Net investment in capital assets	6,616,483	6,033,573	9.7%
Restricted	61,663	261,415	-76.4%
Unrestricted	<u>3,712,210</u>	<u>3,971,932</u>	-6.5%
 Total net position	 <u><b>\$10,390,356</b></u>	 <u><b>\$10,266,920</b></u>	 1.2%

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

- Current assets have increased due to adjustment of District investments investment assets.
- Current liabilities are slightly higher than the previous year.
- Regular straight-line depreciation for the fiscal year ending June 30, 2023 decreased capital assets by \$388,901.



## 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 the current year to previous year comparison of the District's revenues, expenses and changes in net position.

**Table B**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**Year Ended June 30, 2023**

	<u>2023</u>	<u>2022</u>	<u>% Change</u>
Operating revenues	\$ 2,284,362	\$2,328,473	-2%
Nonoperating revenues	84,468	55,393	52%
Total revenues	<u>2,368,830</u>	<u>2,383,866</u>	<u>-1%</u>
Depreciation expense	388,901	383,298	1%
Other operating expenses	1,856,494	2,048,281	-9%
Total operating expenses	<u>2,245,395</u>	<u>2,431,579</u>	<u>-8%</u>
Net Operating Income	38,967	-47,713	
Change in net position	123,435	(414,202)	
Total Ending net position	<u>\$ 10,390,356</u>	<u>\$10,266,920</u>	<u>1%</u>

## District Outlook

In 2018, Mission Hills CSD updated our water and wastewater capacity charges (connection fees) to reflect the cost of infrastructure needed to serve future customers. The Study was approved by the Board in February of 2019 and the updated fees went into effect in March 2019. In August, 2022, the Board approved a five year updated water and sewer rate schedule. The updated rate schedule went into effect on October 1, 2022. The Board will review the approved annual rate increase as part of the annual budget approval process. The updated 5-year rate schedule is designed to fund the Board approved capital projects and maintain the Board established Reserve Policy Goals.

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 - PROPRIETARY FUND**  
**June 30, 2023**

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**ASSETS**

Current assets:

Cash and cash equivalents	\$ 2,773,984
Investments	1,016,682
Accounts receivable	135,125
Prepaid expenses and deposits	9,183
<b>Total current assets</b>	<b><u>3,934,974</u></b>

Other assets:

Restricted cash	61,663
<b>Total other assets</b>	<b><u>61,663</u></b>

Capital assets:

Land	523,725
Construction in progress	288,970
Plant and facilities	13,499,435
<b>Total capital assets</b>	<b><u>14,312,130</u></b>
Less: Accumulated depreciation	<u>(7,695,647)</u>

<b>Total capital assets - net of accumulated depreciation</b>	<b><u>6,616,483</u></b>
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<b>Total assets</b>	<b><u>10,613,120</u></b>
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**LIABILITIES**

Current liabilities:

Accounts payable and accrued liabilities	163,532
Customer and developer deposits and advances	41,490
Compensated absences	17,742
<b>Total current liabilities</b>	<b><u>222,764</u></b>

<b>Total liabilities</b>	<b><u>222,764</u></b>
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**NET POSITION**

Net investment in capital assets	6,616,483
Restricted	61,663
Unrestricted	3,712,210
<b>Total net position</b>	<b><u>\$ 10,390,356</u></b>

See accompanying notes to basic financial statements.

**MISSION HILLS COMMUNITY SERVICES DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -**  
**PROPRIETARY FUND**  
For the Fiscal Year Ended June 30, 2023

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**Operating Revenues:**

Service charges	\$ 2,253,225
Late charges and other operating revenues	<u>31,137</u>
Total operating revenues	<u>2,284,362</u>

**Operating Expenses:**

Bad debt	68
Chemicals	53,443
Contractual services	126,750
Depreciation	388,901
Director's fees	10,500
Engineering services	51,742
Equipment rentals	2,822
Government charges	37,846
Insurance	31,700
Memberships and dues	31,491
Miscellaneous expense	(3,207)
Office expense	23,176
Operating supplies	33,183
Printing and publications	7,249
Professional services	92,136
Repairs and maintenance	111,768
Research and monitoring	15,783
Safety expense	4,106
Salaries, benefits, and payroll taxes	985,601
Travel and meetings	25,225
Utilities	174,350
Vehicle expense	<u>40,762</u>
Total operating expenses	<u>2,245,395</u>
Net operating income (loss)	<u>38,967</u>

**Non-Operating Revenues (Expenses):**

Investment income	75,849
Net gain on disposal of capital assets	<u>8,619</u>
Total non-operating revenues (expenses)	<u>84,468</u>
Change in net position	123,435
Total net position - beginning	<u>10,266,920</u>
Total net position - ending	<u>\$ 10,390,356</u>

See accompanying notes to basic financial statements.

**MISSION HILLS COMMUNITY SERVICES DISTRICT**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND**  
For the Fiscal Year Ended June 30, 2023

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**Cash Flows From Operating Activities:**

Receipts from customers and users	\$ 2,311,817
Payments to suppliers	(883,276)
Payments to employees	<u>(994,692)</u>
Net cash provided by operating activities	<u>433,849</u>

**Cash Flows from Capital and Related**

**Financing Activities:**

Sale of capital assets	8,619
Purchase of capital assets	<u>(971,811)</u>
Net cash used by capital and related financing activities	<u>(963,192)</u>

**Cash Flows from Investing Activities:**

Investment income	75,849
Net sale (purchase) of investments	<u>76,786</u>
Net cash provided by investing activities	<u>152,635</u>
Net decrease in cash and cash equivalents	(376,708)

Cash and cash equivalents, beginning of fiscal year	<u>3,212,355</u>
Cash and cash equivalents, end of fiscal year	<u>\$ 2,835,647</u>

**Reconciliation to Statement of Net Position:**

Cash and cash equivalents	\$ 2,773,984
Restricted cash	61,663
	<u>\$ 2,835,647</u>

**Reconciliation of Operating Income to Net**

**Cash Provided by Operating Activities:**

Operating income	\$ 38,967
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	388,901
Bad debt	68

**Change in Operating Assets and Liabilities:**

(Increase) decrease in accounts receivable	27,387
(Increase) decrease in prepaid expenses and deposits	(6,608)
Increase (decrease) in accounts payable and accrued liabilities	(9,167)
Increase (decrease) in customer and developer deposits and advances	(7,108)
Increase (decrease) in compensated absences	<u>1,409</u>

Net cash provided by operating activities	<u>\$ 433,849</u>
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See accompanying notes to basic financial statements.

**MISSION HILLS COMMUNITY SERVICES DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
June 30, 2023

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**NOTE 1 - REPORTING ENTITY**

The Mission Hills Community Services District (the District) began operations in November of 1979, under the authorization of Section 61000, et. Sew., 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.

There are no component units included in this report which meet the criteria of GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statements No. 39, No. 61, No. 80, and No. 90.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- A. Accounting Policies – The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).
- B. Accounting Method – The District is organized as an Enterprise Fund and follows the accrual method of accounting, whereby revenues are recorded as earned, and expenses are recorded when incurred.
- C. Fund Financial Statements – The fund financial statements provide information about the District’s proprietary fund.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

GASB Statement No. 34, defines major funds and requires that the District’s major business-type fund be identified and presented separately in the fund financial statements. Major funds are defined as funds that have either assets, liabilities, revenues or expenses equal to ten percent of their fund-type total and five percent of the grand total. The District maintains one major proprietary fund.

Proprietary Fund Type

**Enterprise Fund**

Enterprise funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The District reported its enterprise fund as a major fund in the accompanying basic financial statements. The enterprise fund’s principal operating revenues 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 expense, the District’s policy is to use restricted revenues first, and then unrestricted revenues as they are necessary.

- D. Cash and Cash Equivalents – For the purpose of the statement of cash flows, cash and cash equivalents include restricted and unrestricted cash and restricted and unrestricted certificates of deposit with original maturities of three months or less.
- E. 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. Investment income consists of interest and dividends net of investment management and custodian fees.
- F. Accounts Receivable – The District’s accounts receivables are 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 receivables is based on prior experience and management’s analysis of possible bad debts. At June 30, 2023, the allowance for uncollectible receivables is \$0.

**MISSION HILLS COMMUNITY SERVICES DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
 June 30, 2023

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

G. Prepaid Expenses and Deposits – Payments made to vendors for services that will benefit any period beyond June 30, 2023 are recorded as prepaid expenses or deposits.

H. Property, Plant, and Equipment – Capital assets over \$5,000 in value purchased by the District are recorded at cost. Contributed or donated capital assets are recorded at fair value when acquired. Capital assets purchased by the District are depreciated over their estimated useful lives under the straight-line method of depreciation.

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

I. Accrued Compensation - Accumulated unpaid employee vacation is recognized as a liability of the District. The amounts are included in current liabilities under compensated absences.

J. Customer and Developer Deposits - The District requires customers to pay an advance deposit for utility services or provide a letter of credit from another utility. It is the District's current policy to hold all deposits for a period of two years. Deposits are then refunded in full and no accrued interest is paid.

K. Net Position

GASB Statement No. 63 requires that the difference between assets added to the deferred outflows of resources and liabilities added to the deferred inflows of resources be reported as net position. Net position is classified as either net investment in capital assets, restricted, or unrestricted.

Net position that is net investment in capital assets consist of capital assets, net of accumulated depreciation, and reduced by the outstanding principal of related debt. Restricted net position is the portion of net position that has external constraints placed on it by creditors, grantors, contributors, laws, or regulations of other governments, or through constitutional provisions or enabling legislation. As of June 30, 2023, \$61,663 of the District's net position represents developer fees paid to the District restricted for use on water and sewer capital improvement projects. Unrestricted net position consists of net position that does not meet the definition of net investment in capital assets or restricted net position.

L. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, as prescribed by the GASB and the AICPA, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

M. Future Accounting Pronouncements

GASB Statements listed below will be implemented in future financial statements:

Statement No. 99 "Omnibus 2022"

The provisions of this statement are effective in April 2022 except for the provisions related to leases, PPPs, SBITAs, financial guarantees and derivative instruments. The provisions related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022. The provisions related to financial guarantees and derivative instruments are effective for fiscal years beginning after June 15, 2023.

**MISSION HILLS COMMUNITY SERVICES DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
 June 30, 2023

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**M. Future Accounting Pronouncements (Continued)**

Statement No. 100	"Accounting Changes and Error Corrections - an amendment of GASB Statement No. 62"	The provisions of this statement are effective for fiscal years beginning after June 15, 2023.
Statement No. 101	"Compensated Absences"	The provisions of this statement are effective for fiscal years beginning after December 15, 2023.

**NOTE 3 - CASH AND INVESTMENTS**

Investments are carried at fair value in accordance with GASB Statement No. 31. On June 30, 2023, the District had the following cash and investments on hand:

Cash in bank	\$ 1,005,307
Restricted cash in bank	61,663
Cash and investments in Local Agency Investment Fund (LAIF)	1,768,677
Investments	<u>1,016,682</u>
Cash and investments	<u>\$ 3,852,329</u>

Cash and investments listed above are presented on the accompanying statement of net position, as follows:

Cash and cash equivalents	\$ 2,773,984
Restricted cash	61,663
Investments	<u>1,016,682</u>
Total	<u>\$ 3,852,329</u>

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. These principles recognize a three-tiered fair value hierarchy. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District has investments in corporate bonds and U.S. Treasury Notes measured under level 1. The District had cash equivalents invested in the Local Agency Investment Fund. This external pool is measured under amortized cost and not under levels 1, 2, or 3.

<u>Investments by Fair Value</u>	<u>Total</u>	<u>Fair Value Measurement Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Quoted Prices in Unobservable Inputs (Level 3)</u>
California CLASS	\$ 500,720	\$ 500,720	\$ -	\$ -
Corporate bonds (medium term notes)	283,334	283,334		
U.S. Treasury Notes	232,628	232,628		
Total investments measured at fair value	<u>1,016,682</u>	<u>\$ 1,016,682</u>	<u>\$ -</u>	<u>\$ -</u>

Investments measured at amortized cost:

LAIF	<u>1,768,677</u>
Total investments	<u>\$ 2,785,359</u>

**Investments Authorized by the California Government Code**

The table on the following page identifies the investment types that are authorized for the District by the California Government Code. The table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentration of credit risk.

**MISSION HILLS COMMUNITY SERVICES DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
June 30, 2023

**NOTE 3 - CASH AND INVESTMENTS (Continued)**

Investments Authorized by the California Government Code (Continued)

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base value	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Fund	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	\$75,000,000
JPA Pools (other investment pools)	N/A	None	None

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity:

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Remaining Maturity (in Months)</u>			
		<u>12 Months Or Less</u>	<u>13-24 Months</u>	<u>25-60 Months</u>	<u>More than 60 Months</u>
California CLASS	\$ 500,720	\$ 500,720	\$ -	\$ -	\$ -
Corporate bonds (medium term notes)	283,334	196,657		86,677	
U.S. Treasury Notes	232,628	63,223	75,065	94,340	
LAIF	<u>1,768,677</u>	<u>1,768,677</u>			
Total	<u>\$ 2,785,359</u>	<u>\$ 2,529,277</u>	<u>\$ 75,065</u>	<u>\$ 181,017</u>	<u>\$ -</u>

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of rating by a nationally recognized statistical rating organization. Presented below, is the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of fiscal year end for each investment type.

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Fiscal Year End</u>		
				<u>AAA</u>	<u>Aa</u>	<u>Not Rated</u>
California CLASS	\$ 500,720	N/A	\$ -	\$ 500,720	\$ -	\$ -
Corporate bonds (medium term notes)	283,334	N/A		283,334		
U.S. Treasury Notes	232,628	N/A	232,628			
LAIF	<u>1,768,677</u>	N/A				<u>1,768,677</u>
Total	<u>\$2,785,359</u>		<u>\$ 232,628</u>	<u>\$ 784,054</u>	<u>\$ -</u>	<u>\$1,768,677</u>



**NOTE 3 - CASH AND INVESTMENTS (Continued)**

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer (other than U.S. Treasury securities and external investment pools) that represent 5% or more of total District's investments.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least 100% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the District's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF and the Santa Barbara County Investment Pool).

As of June 30, 2023, none of the District's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

Investment in State Investment Pool

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

**MISSION HILLS COMMUNITY SERVICES DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2023**

**NOTE 4 - SCHEDULE OF CAPITAL ASSETS**

A schedule of changes in capital assets and depreciation for the fiscal year ended June 30, 2023, is shown below:

	Balance July 1, 2022	Additions	Transfers	Deletions	Balance June 30, 2023
Capital assets, not being depreciated:					
Land	\$ 523,725	\$ -	\$ -	\$ -	\$ 523,725
Construction in progress	28,412	971,811	(711,253)		288,970
<b>Total capital assets, not being depreciated</b>	<b>\$ 552,137</b>	<b>\$ 971,811</b>	<b>\$ (711,253)</b>	<b>\$ -</b>	<b>\$ 812,695</b>
Capital assets, being depreciated:					
Plant and facilities	\$ 12,805,083	\$ -	\$ 711,253	\$ (16,901)	\$ 13,499,435
<b>Total capital assets, being depreciated</b>	<b>12,805,083</b>		<b>711,253</b>	<b>(16,901)</b>	<b>13,499,435</b>
Less accumulated depreciation	(7,323,647)	(388,901)		16,901	(7,695,647)
<b>Total capital assets, being depreciated, net</b>	<b>\$ 5,481,436</b>	<b>\$ (388,901)</b>	<b>\$ 711,253</b>	<b>\$ -</b>	<b>\$ 5,803,788</b>
<b>Capital assets, net</b>	<b>\$ 6,033,573</b>	<b>\$ 582,910</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 6,616,483</b>

**NOTE 5 – 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 by the District. Revenues earned by type during the fiscal year ended June 30, 2023 were as follows:

Water charges	\$ 1,175,393
Wastewater charges	1,060,116
Street sweeping charges	17,716
<b>Total</b>	<b>\$ 2,253,225</b>

**NOTE 6 – DEFERRED COMPENSATION PLAN**

The District is currently participating in an FTJ FundChoice governmental eligible 457 Plan administered by Bayhill Advisors, Inc. effective starting 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 an employer portion to the plan 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 fiscal year ended June 30, 2023.

**NOTE 7 – 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.

**MISSION HILLS COMMUNITY SERVICES DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
June 30, 2023

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**NOTE 7 – RISK MANAGEMENT (Continued)**

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. Financial information on the ACWA/JPIA is publicly available on its website.

**NOTE 8 - CONTINGENCIES**

According to the District's staff and attorney, no contingent liabilities are outstanding and no lawsuits are pending of any significant financial consequence.