

**Mission Hills Community Services District**

**Financial Statements**

**Year Ended June 30, 2011**

**Mission Hills Community Services District  
Financial Statements  
Year Ended June 30, 2011**

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**Mission Hills Community Services District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2011**

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, 2011. 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 (the 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 Asset
- Statement of Revenues, Expenses and Changes in Net Assets
- Statement of Cash Flows
- Notes to Financial Statements

The Statement of Net Assets includes all of the District's assets and liabilities, with the difference between the two reported as net assets. The Statement of Net Assets 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 Assets presents information which shows how the District's net assets 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 Assets measures the success of the District's operations during the year and determines whether the District has recovered its costs through user fees and others charges.

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

- Operating
- Capital and Related Financing
- Investing

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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 10 to 12.

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 13 to 19.

**Financial Highlights**

- Combined net assets were \$10,241,404 on June 30, 2011. There was a change of \$(582,161) in the General Fund, \$111,631 in the Water Fund, \$118,530 in the Sewer Fund and \$4,491 in the Street Sweeping Fund.
- Combined revenue was \$1,203,116, which consisted of Water Basic Charges, Sewer Basis Charges, Rate Stabilization, Street Sweeping Charges, and various Service Charges.
- Combined Expenses were \$1,574,901, 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 Assets**

Net assets may serve over time as a useful indicator of the District's financial position. Assets exceeded liabilities by \$10,241,404 as of June 30<sup>th</sup>, 2011.

The largest portion of net assets 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 District; consequently, these assets are not available for future spending.

The next largest portion of net assets 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.

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Management’s Discussion and Analysis  
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**Table A  
Condensed Statement of Net Assets  
June 30, 2011**

	2011	2010	% Change
<b>Assets:</b>			
Current assets	\$ 4,285,889	\$ 4,839,119	-11.4%
Capital assets	\$ 6,128,282	\$ 5,876,260	4.3%
<b>Total assets</b>	<b>\$ 10,414,181</b>	<b>\$ 10,715,379</b>	<b>-2.8%</b>
<b>Liabilities:</b>			
Current liabilities	\$ 120,993	\$ 75,225	60.8%
Long-term liabilities	\$ 51,784	\$ 51,241	1.1%
<b>Total liabilities</b>	<b>\$ 172,777</b>	<b>\$ 126,466</b>	<b>36.6%</b>
<b>Net assets:</b>			
Invested in capital assets	\$ 6,128,282	\$ 5,876,260	4.3%
Unrestricted	\$ 4,113,122	\$ 4,712,653	-12.7%
<b>Total net assets</b>	<b>\$ 10,241,404</b>	<b>\$ 10,588,913</b>	<b>-3.3%</b>

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

- Total assets have decreased by \$301,198 due primarily to the waste water plant construction project and the repairs of Well #6. These improvements were driven by regulator action and equipment failure.
- Total liabilities have increased primarily due to a \$19,844 increase in accounts payable, a \$14,402 increase in accrued payroll and an \$8,526 increase in compensated absences.
- Regular straight-line depreciation for the fiscal year ending June 30<sup>th</sup>, 2011, decreased capital assets by \$272,188.

**Revenues, Expenses, and Changes in Net Assets**

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

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Management’s Discussion and Analysis  
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Please see Table B below for a current year to previous year comparison of the districts revenues, expenses and changes in net assets.

**Table B  
Condensed Statement of Revenues, Expenses and Changes in Net Assets  
June 30, 2011**

	2011	2010	%
			Change
Assets:			
Operating revenues	\$ 1,203,116	\$ 1,216,990	-1.1%
Nonoperating revenues	\$ 24,276	\$ 19,974	21.5%
<b>Total revenues</b>	<b>\$ 1,227,392</b>	<b>\$ 1,236,964</b>	<b>-0.8%</b>
Depreciation expense	\$ 272,188	\$ 286,962	-5.1%
Operating expense	\$ 1,302,713	\$ 1,134,047	14.9%
<b>Total expenses</b>	<b>\$ 1,574,901</b>	<b>\$ 1,421,009</b>	<b>10.8%</b>
Change in net assets	\$ (347,509)	\$ (184,045)	88.8%
Beginning net assets	\$ 10,588,913	\$ 10,772,958	-1.7%
<b>Ending net assets</b>	<b>\$ 10,241,404</b>	<b>\$ 10,588,913</b>	<b>-3.3%</b>

The following are significant current fiscal year transactions that have had an impact on the Statement of Revenues, Expenses and Changes in Net Assets:

- Water revenues exceeded projections by \$8,843 and Wastewater revenues exceeded projections by \$23,743.
- Total expenses were \$153,892 greater than last fiscal year, and \$42,187 higher than projected.

**Economic Outlook**

Currently the District is constant in both its revenue base and customer base. The District is land locked and unable to experience any large growth in customer base. The general economic trend has been in a negative direction, yet the District has been able to hold rates for both water and waste water constant for the past seven years. This has been

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Management's Discussion and Analysis  
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accomplished through the judicious use of the rate stabilization funds, careful cost controls, and the use of reserve funds to offset the reduction in interest paid to the District. The major economic events of this fiscal year were the failure of well #6, and the regulator action (Notice of Violation) from the California Regional Water Quality Control Board concerning the Waste Water Treatment Plant. This resulted in a large construction project to replace and upgrade the failed infrastructure, as well as increase legal fees required in order to respond to the requirements of the Regional Water Quality Control Board. These increased funding requirements have caused the District to begin the Proposition 218 requirements in order to propose required rate increases in both the Water and Sewer funds.

The District has upgraded its infrastructure by building two new well sites and replacing the aging equipment. The well sites were completed in July 2009 at a cost of approximately \$1.4 million. The meters currently in operation at the District are in excess of 13 years old, while the industry standard for meter life is 10 years. A replacement program was started this fiscal year to replace 10% of the meters with Automatic Meter Reading type meters. This project is anticipated to improve revenue collection as well as reducing the labor cost required to do monthly meter reading. The District has purchased a loader/excavator as well as replacing the liner material in Pond number 2. The cost of this upgrade was \$625,000 dollars, the Pond was last emptied and replaced approximately 27 years ago (estimated life span of the pond liner is 20 years).

**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.

**Principals:**

David W. Phillips, CPA  
David A. Bryson, CPA  
Jeanne A. Potter, CPA  
Daniel J. O'Hare, CPA  
Kathi Niffenegger, CPA  
Fred W. Bogart, CPA  
Allen E. Eschenbach, CPA  
Michael T. Glaudel, CPA  
R. Lance Cowart, CPA  
David J. Merlo, CPA



**CERTIFIED PUBLIC ACCOUNTANTS**  
**TAX AND BUSINESS ADVISORS**

**Emeritus:**

Fred L. Glenn  
Stephen A. Burdette  
Bradford M. Hair, CPA

Keith V. Lapp (1932-2008)

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**Independent Auditors' Report**

**Board of Directors**

Mission Hills Community Services District  
Lompoc, California

We have audited the accompanying statement of net assets of Mission Hills Community Services District (the District) as of June 30, 2011, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended, which collectively comprise the District's basic financial statements. These financial statements are the responsibility of the District's management. 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, 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*. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mission Hills Community Services District as of June 30, 2011, and the changes in its financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2011, 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 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* and should be considered in assessing the results of our audit.



**Board of Directors**  
**Mission Hills Community Services District**  
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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-7 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.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise Mission Hills Community Services District's financial statements as a whole. The schedules included in the supplemental information section in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. The supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Glenn Burdette  
Certified Public Accountants  
San Luis Obispo, California

October 10, 2011

**Mission Hills Community Services District**  
**Statement of Net Assets**  
**June 30, 2011**

**Assets**

**Current assets:**

Cash and cash equivalents	\$ 4,232,002
Services receivable, net of allowance	23,473
Interest receivable	6,497
Prepays and deposits	<u>23,927</u>
Total current assets	4,285,899

**Property and equipment, net of accumulated depreciation**

6,128,282

Total assets

10,414,181

**Liabilities**

**Current liabilities:**

Accounts payable and accrued liabilities	44,297
Accrued payroll	17,713
Compensated absences - due within one year	35,546
Customer deposits and advances	<u>23,437</u>
Total current liabilities	120,993

**Commitments and contingencies**

**Long-term liabilities:**

Compensated absences - due in more than one year	<u>51,784</u>
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Total liabilities

172,777

**Net Assets**

Invested in capital assets	6,128,282
Unrestricted	<u>4,113,122</u>
Total net assets	<u><u>\$ 10,241,404</u></u>

*The accompanying notes are an integral part of this financial statement.*

**Mission Hills Community Services District**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**Year Ended June 30, 2011**

<b>Operating revenues:</b>	
Service charges	\$ 1,175,750
Late charges and other revenue	27,366
Total operating revenues	<u>1,203,116</u>
 <b>Operating expenses:</b>	
Chemicals	31,162
Contractual services	45,421
Depreciation	272,188
Directors' fees	8,740
Engineering services	42,971
Government charges	18,508
Insurance	14,879
Memberships and dues	6,946
Miscellaneous expense	651
Office expense	26,774
Operating supplies	10,265
Printing and publicatins	3,262
Professional services	120,657
Repairs and maintenance	67,951
Research and monitoring	17,668
Safety expense	4,849
Salaries, benefits and payroll taxes	698,903
Travel and meetings	20,443
Utilities	143,374
Vehicle expense	19,289
Total operating expenses	<u>1,574,901</u>
Operating loss	<u>(371,785)</u>
 <b>Nonoperating revenues and expenses:</b>	
Unrealized loss on investments	(4,798)
Interest income	29,349
Loss on disposition of property and equipment	(275)
Total nonoperating revenues and expenses	<u>24,276</u>
Change in net assets	(347,509)
<b>Net assets - beginning of year</b>	<u>10,588,913</u>
<b>Net assets - end of year</b>	<u><u>\$ 10,241,404</u></u>

*The accompanying notes are an integral part of this financial statement.*

**Mission Hills Community Services District**  
**Statement of Cash Flows**  
**Year Ended June 30, 2011**

<b>Cash flows from operating activities:</b>		
Cash received from customers	\$ 1,206,493	
Cash payments to suppliers for goods and services	(582,927)	
Cash payments to employees for services	<u>(675,975)</u>	
Net cash used in operating activities		\$ (52,409)
<b>Cash flows from capital and related financing activities:</b>		
Purchases of property and equipment	<u>(524,485)</u>	
Net cash used in capital and financing activities		(524,485)
<b>Cash flows from investing activities:</b>		
Unrealized loss on investments	(4,798)	
Interest on cash and cash equivalents	<u>30,449</u>	
Net cash provided by investing activities		<u>25,651</u>
Net decrease in cash		(551,243)
<b>Cash and cash equivalents - beginning of year</b>		<u>4,783,245</u>
<b>Cash and cash equivalents - end of year</b>		<u><u>\$ 4,232,002</u></u>
<b>Reconciliation of operating loss to net cash used in operating activities:</b>		
Operating loss		\$ (371,785)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	\$ 272,188	
Changes in operating assets and liabilities:		
Services receivable	(161)	
Prepays and deposits	1,038	
Accounts payable and accrued liabilities	19,845	
Accrued payroll	14,402	
Compensated absences	8,526	
Customer deposits	<u>3,538</u>	
Total adjustments		<u>319,376</u>
Net cash used in operating activities		<u><u>\$ (52,409)</u></u>

*The accompanying notes are an integral part of this financial statement.*

**Mission Hills Community Services District**  
**Notes to Financial Statements**  
**June 30, 2011**

**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 operates under a Board of Directors – Manager form of government.

The District is a political subdivision of the State of California. The District's financial statements are presented in accordance with *Governmental Accounting Standards*. These standards establish criteria for determining the District's activities and functions that should be included in the financial statements of a governmental unit.

For financial reporting purposes, the District would include in this report all funds of all agencies and boards that are controlled by, or dependent upon, the District's legislative body. The criteria of control is determined on the basis of financial interdependency, governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

**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 principal operating revenues of the District are sewer and water usage charges and other related income. Interest income is considered nonoperating 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.

**Basis of Accounting**

The accompanying financial statements have been prepared on the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recognized when incurred. The District follows private-sector standards of accounting and financial reporting issued prior to December 1, 1989 to the extent those standards don't conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

**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.

**Mission Hills Community Services District**

**Notes to Financial Statements**

**June 30, 2011**

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**Note 2: Summary of Significant Accounting Policies (Continued)**

**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 demand deposits in banks and in the Santa Barbara County and Local Agency Investment Fund pooled investment account to be cash and cash equivalents.

**Services and Interest Receivable**

The District's services receivable is 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 totally uncollectible. At June 30, 2011, the allowance for uncollectible services receivable was \$42,941.

Interest receivable represents interest due to the District for the quarter ended June 30, 2011 from Santa Barbara County and the Local Agency Investment Fund.

**Prepays and Deposits**

Payments made to vendors for services that will benefit any period beyond June 30, 2011 are recorded as prepaid expenses or deposits. Prepaid expenses and deposits at June 30, 2011 totaled \$23,927.

**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

**Mission Hills Community Services District**

**Notes to Financial Statements**

**June 30, 2011**

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**Note 2: Summary of Significant Accounting Policies (Continued)**

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.

**Subsequent Events**

Events subsequent to June 30, 2011, have been evaluated through October 10, 2011, which is the date the financial statements were available to be issued.

**Note 3: Cash and Cash Equivalents**

District cash at June 30, 2011, consisted of the following:

Deposits	
Cash in bank	\$ 221,620

**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 Federal Deposit Insurance Corporation. 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.

District pooled investments at June 30, 2011, consisted of the following:

Pooled Investment Funds:	
Cash in Santa Barbara County Treasury	\$ 1,329,001
Cash in Local Agency Investment Fund (LAIF)	<u>2,681,381</u>
	<u>\$ 4,010,382</u>

The Board has established certain restrictions on cash for purposes including replacement, emergency and development reserves. Total cash restricted due to board designation at June 30, 2011 was \$2,993,662.

**Mission Hills Community Services District**

**Notes to Financial Statements**

**June 30, 2011**

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**Note 3: Cash and Cash Equivalents (Continued)**

**Cash in County Treasury**

The District maintains a portion of its cash in the Santa Barbara County Treasury, an external investment pool. The County pools these funds with those of other governmental entities in the county and invests the cash. These pooled funds are carried at fair value. Interest is earned based on average daily balance and is deposited quarterly into the participating funds. Any investment gains and losses are proportionately shared by all funds in the pool. The County is restricted by the California Government Code to invest in obligations issued by the United States Treasury; obligations, participations, or other instruments of or issued by a federal agency or a United States government sponsored enterprise; obligations of State and local agencies of this State; bankers acceptances; commercial paper; negotiable certificates of deposit; repurchase agreements; medium-term corporate notes; as well as other investments established by the California Government Code. The County'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.

**Local Agency Investment Fund (LAIF)**

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

**Interest Rate Risk**

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit Risk**

The District investment policy allows the District to have monies invested in the Santa Barbara County pooled investment fund and the LAIF. Both the Santa Barbara County Treasury pooled investment fund and the LAIF are unrated.



**Mission Hills Community Services District**

**Notes to Financial Statements**

**June 30, 2011**

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**Note 3: Cash and Cash Equivalents (Continued)**

**Concentration of Credit Risk**

The risk that an issuer of an investment may not fulfill its obligation to the holder of the investment is called credit risk. The investment policy of the District allows the District to maintain an operating account at a commercial bank, maintaining approximately one month's average expenditures in the account. District funds not specified for deposit or investment elsewhere are held in various accounts with the Santa Barbara County Treasurer's office. The policy also directs the District to establish and maintain an account with LAIF and provides guidelines for allocation of funds. At June 30, 2011, the District's investment in the Santa Barbara County Treasury represented 33% and the LAIF represented 67% of the total amount invested in pooled investment funds.

**Note 4: Property and Equipment**

Property and equipment activity for the year ended June 30, 2011, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Land	\$ 431,163	\$	\$	\$ 431,163
Plant and equipment	9,054,778	524,485	(114,311)	9,464,952
	9,485,941	524,485	(114,311)	9,896,115
Less accumulated depreciation	(3,609,681)	(272,188)	114,036	(3,767,833)
Property and equipment, net	<u>\$ 5,876,260</u>	<u>\$ 252,297</u>	<u>\$ (275)</u>	<u>\$ 6,128,282</u>

**Note 5: Long-Term Liabilities - Compensated Absences**

Long-term liabilities activity for the year ended June 30, 2011, was as follows:

	<u>Balance June 30, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2011</u>	<u>Current Portion</u>
Compensated absences	<u>\$ 78,804</u>	<u>\$ 42,377</u>	<u>\$ (33,851)</u>	<u>\$ 87,330</u>	<u>\$ 35,546</u>

**Mission Hills Community Services District**

**Notes to Financial Statements**

**June 30, 2011**

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**Note 6: Service Revenues**

The operations of the District are primarily funded through the collection of service fees for connection fees, water, wastewater, and street sweeping services provided for by the District. Revenues earned by type during the year ended June 30, 2011, were as follows:

Water charges	\$	684,308
Wastewater charges		476,269
Street sweeping charges		<u>15,173</u>
Total	\$	<u>1,175,750</u>

**Note 7: 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 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. The total pension expense was \$33,945 for the year ended June 30, 2011. Contributions by plan members were \$41,168 for the year ended June 30, 2011.

**Note 8: Risk Management**

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

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

**Mission Hills Community Services District**

**Notes to Financial Statements**

**June 30, 2011**

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**Note 8: 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.

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

	<u>September 30, 2010 *</u>
Total assets	\$ 127,965,405
Total liabilities	83,963,531
Net assets	<u>\$ 44,001,874</u>
Total operating revenues	\$ 27,052,089
Total nonoperating revenues	2,885,378
Total operating expenses	(26,009,257)
Net increase in net assets	<u>\$ 3,928,210</u>

\* Latest information available.

**Note 9: Commitments and Contingencies**

On December 2, 2010, the District received a Notice of Violations 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 Notice of Violations requires 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 Notice of Violations. The Notice of Violations 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 made consistent with its Corrective Action Plan, which has been completed. The District is still awaiting a formal written response from the RWQCB. As such there is no estimate of the potential financial impact to the District and nothing has been recorded for this potential contingency in these financial statements. The District estimates that the potential liability will not be significant, but it could be material to these financial statements.

**Principals:**

David W. Phillips, CPA  
David A. Bryson, CPA  
Jeanne A. Potter, CPA  
Daniel J. O'Hare, CPA  
Kathi Niffenegger, CPA  
Fred W. Bogart, CPA  
Allen E. Eschenbach, CPA  
Michael T. Glaudel, CPA  
R. Lance Cowart, CPA  
David J. Merlo, CPA



**CERTIFIED PUBLIC ACCOUNTANTS**  
**TAX AND BUSINESS ADVISORS**

**Emeritus:**

Fred L. Glenn  
Stephen A. Burdette  
Bradford M. Hair, CPA

Keith V. Lapp (1932-2008)

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**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***

**Board of Directors**

Mission Hills Community Services District  
Lompoc, California

We have audited the financial statements of Mission Hills Community Services District as of and for the year ended June 30, 2011, and have issued our report thereon dated October 10, 2011. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Mission Hills Community Services District's (the District's) internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 misstatements 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. We consider the deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and recommendations as items 11.01, 11.02 and 11.03, to be material weaknesses.

**Board of Directors**  
**Mission Hills Community Services District**  
**Page 2**

**Compliance and Other Matters**

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

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, the County of Santa Barbara and the California State Controller's Office and is not intended to be and should not be used by anyone other than these specified parties.



Glenn Burdette  
Certified Public Accountants  
San Luis Obispo, California

October 10, 2011

**Mission Hills Community Services District**  
**Schedule of Findings and Recommendations**  
**Year Ended June 30, 2011**

**Finding 11.01 – Investment Policy (Material Weakness)**

The District has an investment policy, Board of Directors Resolution #111, established in November 1992, which directs the District on the investment of District funds. While the District does maintain all of the accounts outlined in the policy, they are not maintaining appropriate balances in the accounts. The District maintained a balance in their operational depository account at June 30, 2010 and June 30, 2011, that was higher than one month's average expenditures as defined in the policy. In addition, there was no control in place to review that the appropriate funds were maintained in the Santa Barbara County and Local Agency Investment Fund as outlined in the policy. When this issue was brought to the attention of management in fiscal year 2009, the operational account balance was reduced to be more in-line with the policy, but no other changes were made or reviews performed for the past two years. This finding is included as a material weakness as the recommendation was made in the prior year and was not addressed by the District.

*Recommendation:* We recommend that cash and investment accounts be reviewed on a monthly basis to ensure the District is complying with their stated investment policy and that appropriate transfers be made to comply with the policy. We also recommend that the board review the investment policy annual and periodically make necessary changes to the policy to ensure that it is still providing the intended results of safeguarding the cash and investments of the District.

**Finding 11.02 – Restricted Reserves (Material Weakness)**

The Board passed Board of Directors Resolution #102 in November 1991, titled "Depreciation, Restricted Reserves, Allocation of Interest Income" that details, among other things, the reserves that should be set up by the District on a regular basis to ensure there will be proper cash assets available to replace systems as required. These reserves include: replacement reserves, established at least quarterly; development reserves, established when connection fees are received from developers; and emergency reserves, established annually. The policy also describes how interest on these funds should be allocated.

At June 30, 2010 and June 30, 2011, there were some investment funds set aside in Board restricted accounts, however, management has not been reviewing these reserves in accordance with the policy. Management was made aware of this issue in fiscal year 2009 and a decision was made to prioritize the property and equipment physical observation in fiscal year 2010 before assessing the needs of the restricted reserves, believing that they needed to have a proper accounting of their assets before establishing the reserves.

In the current fiscal year, the issue was again not addressed as the District felt they needed to address the Investment Policy recommendation at Finding 11.01 before establishing the restricted reserve accounts. As this finding has not been addressed by the District, it is included as a material weakness.

**Mission Hills Community Services District**  
**Schedule of Findings and Recommendations**  
**June 30, 2011**  
**Page 2**

*Recommendation:* We recommend that the Board review the existing reserve requirements and determine the appropriate level of required reserves, setting these aside in restricted accounts. We also recommend that they establish a policy for reviewing and setting these reserves and follow it going forward. The policy should include a methodology for establishing the reserves, the required frequency of review, and an annual evaluation, documented in the Board of Director minutes, of existing reserves.

**Finding 11.03 – Inadequate Segregation of Duties (Material Weakness)**

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. 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 District Manager and District Bookkeeper.

*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, 2011**

Cathy Schlottmann	President
Susan Warnstrom	Vice President
James Mac Kenzie	Finance Officer
G. Bruce Nix	Alternate Finance Officer
Bernard Jones	Director

**Mission Hills Community Services District**  
**Combining Statement of Net Assets (Deficit)**  
**June 30, 2011**

	<u>General Fund</u>	<u>Water Fund</u>	<u>Wastewater Fund</u>	<u>Street Sweeping Fund</u>	<u>Total</u>
<b>Assets</b>					
<b>Current assets:</b>					
Cash and cash equivalents	\$ 752,554	\$ 1,749,190	\$ 1,726,700	\$ 3,558	\$ 4,232,002
Services receivable, net of allowance		13,896	9,264	313	23,473
Interest receivable	1,069	2,584	2,844		6,497
Prepays and deposits	19,102	3,537	1,288		23,927
Total current assets	<u>772,725</u>	<u>1,769,207</u>	<u>1,740,096</u>	<u>3,871</u>	<u>4,285,899</u>
<b>Property and equipment, net of accumulated depreciation</b>	<u>239,461</u>	<u>3,509,131</u>	<u>2,379,690</u>		<u>6,128,282</u>
Total assets	<u>1,012,186</u>	<u>5,278,338</u>	<u>4,119,786</u>	<u>3,871</u>	<u>10,414,181</u>
<b>Liabilities</b>					
<b>Current liabilities:</b>					
Accounts payable and accrued liabilities	29,295	11,352	3,650		44,297
Accrued payroll	10,523	4,542	2,648		17,713
Compensated absences - due within one year	25,949	7,109	2,488		35,546
Customer deposits		23,437			23,437
Total current liabilities	<u>65,767</u>	<u>46,440</u>	<u>8,786</u>		<u>120,993</u>
<b>Long-term liabilities:</b>					
Compensated absences - due in more than one year	<u>37,802</u>	<u>10,357</u>	<u>3,625</u>		<u>51,784</u>
Total liabilities	<u>103,569</u>	<u>56,797</u>	<u>12,411</u>		<u>172,777</u>
<b>Net Assets</b>					
Invested in capital assets	239,461	3,509,131	2,379,690		6,128,282
Unrestricted	<u>(1,253,494)</u>	<u>2,100,977</u>	<u>3,237,939</u>	<u>27,700</u>	<u>4,113,122</u>
Total net assets (deficit)	<u>\$ (1,014,033)</u>	<u>\$ 5,610,108</u>	<u>\$ 5,617,629</u>	<u>\$ 27,700</u>	<u>\$ 10,241,404</u>

**Mission Hills Community Services District**  
**Combining Statement of Revenues,**  
**Expenses and Changes in Net Assets**  
**Year Ended June 30, 2011**

	General Fund	Water Fund	Wastewater Fund	Street Sweeping Fund	Total
<b>Operating revenues:</b>					
Service charges	\$	\$ 684,308	\$ 476,269	\$ 15,173	\$ 1,175,750
Late charges and other revenue	27,366				27,366
Total operating revenues	<u>27,366</u>	<u>684,308</u>	<u>476,269</u>	<u>15,173</u>	<u>1,203,116</u>
<b>Operating expenses:</b>					
Chemicals		10,241	20,921		31,162
Contractual services	28,980	5,037	722	10,682	45,421
Depreciation	27,969	184,460	59,759		272,188
Directors' fees	8,740				8,740
Engineering services	4,320	3,496	35,155		42,971
Government charges	772	13,488	4,248		18,508
Insurance	14,879				14,879
Memberships and dues	306	6,108	532		6,946
Miscellaneous expense	651				651
Office expense	25,288	1,027	459		26,774
Operating supplies	164	6,332	3,769		10,265
Printing and Publication	3,262				3,262
Professional services	82,237		38,420		120,657
Repairs and maintenance	1,427	56,175	10,349		67,951
Research and monitoring		7,621	10,047		17,668
Safety expense	785	2,044	2,020		4,849
Salaries, benefits and payroll taxes	403,021	169,155	126,727		698,903
Travel and meetings	17,742	453	2,248		20,443
Utilities	10,463	96,470	36,441		143,374
Vehicle expense	2,797	10,570	5,922		19,289
Total operating expenses	<u>633,803</u>	<u>572,677</u>	<u>357,739</u>	<u>10,682</u>	<u>1,574,901</u>
Operating income (loss)	<u>(606,437)</u>	111,631	118,530	4,491	<u>(371,785)</u>
<b>Nonoperating revenues:</b>					
Unrealized loss on investments	(4,798)				(4,798)
Interest income	29,349				29,349
Loss on disposition of property and equipment	<u>(275)</u>				<u>(275)</u>
Total nonoperating revenues	<u>24,276</u>				<u>24,276</u>
Change in net assets	<u>(582,161)</u>	<u>111,631</u>	<u>118,530</u>	<u>4,491</u>	<u>(347,509)</u>
Net assets - beginning of year	(431,872)	5,498,477	5,499,099	23,209	10,588,913
Net assets (deficit) - end of year	<u>\$ (1,014,033)</u>	<u>\$ 5,610,108</u>	<u>\$ 5,617,629</u>	<u>\$ 27,700</u>	<u>\$ 10,241,404</u>

**Mission Hills Community Services District**  
**Combining Statement of Cash Flows**  
**Year Ended June 30, 2011**

	<u>General Fund</u>	<u>Water Fund</u>	<u>Wastewater Fund</u>	<u>Street Sweeping Fund</u>	<u>Total</u>
<b>Cash flows from operating activities:</b>					
Cash received from customers	\$ 12,650	\$ 697,405	\$ 481,264	\$ 15,174	\$ 1,206,493
Cash payments to suppliers for goods and services	(180,539)	(219,187)	(171,457)	(11,744)	(582,927)
Cash payments to employees for services	(384,047)	(169,776)	(122,152)		(675,975)
Net cash provided by (used in) operating activities	<u>(551,936)</u>	<u>308,442</u>	<u>187,655</u>	<u>3,430</u>	<u>(52,409)</u>
<b>Cash flows from capital and related financing activities:</b>					
Purchases of property and equipment	(20,151)	(31,370)	(472,964)		(524,485)
Net cash used in capital and related financing activities	<u>(20,151)</u>	<u>(31,370)</u>	<u>(472,964)</u>		<u>(524,485)</u>
<b>Cash flows from investing activities:</b>					
Unrealized loss on investments	(4,798)				(4,798)
Interest on cash and cash equivalents	29,604	566	279		30,449
Net cash provided by investing activities	<u>24,806</u>	<u>566</u>	<u>279</u>		<u>25,651</u>
Net increase (decrease) in cash	(547,281)	277,638	(285,030)	3,430	(551,243)
<b>Cash and cash equivalents - beginning of year</b>	<u>744,606</u>	<u>2,235,507</u>	<u>1,799,574</u>	<u>3,558</u>	<u>4,783,245</u>
<b>Cash and cash equivalents - end of year</b>	<u>\$ 197,325</u>	<u>\$ 2,513,145</u>	<u>\$ 1,514,544</u>	<u>\$ 6,988</u>	<u>\$ 4,232,002</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>					
Operating income (loss)	\$ (606,437)	\$ 111,631	\$ 118,530	\$ 4,491	\$ (371,785)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	27,969	184,460	59,759		272,188
Changes in operating assets and liabilities:					
Accounts receivable		(5,157)	4,995	1	(161)
Prepays and deposits	766	(110)	382		1,038
Accounts payable and accrued liabilities	21,508	(15)	(586)	(1,062)	19,845
Accrued payroll	8,361	3,713	2,328		14,402
Compensated absences	10,613	(4,334)	2,247		8,526
Customer deposits	(14,716)	18,254			3,538
Total adjustments	<u>54,501</u>	<u>196,811</u>	<u>69,125</u>	<u>(1,061)</u>	<u>319,376</u>
Net cash provided by (used in) operating activities	<u>\$ (551,936)</u>	<u>\$ 308,442</u>	<u>\$ 187,655</u>	<u>\$ 3,430</u>	<u>\$ (52,409)</u>