

Mission Hills Community Services District

Financial Statements

Year Ended June 30, 2009

MISSION HILLS COMMUNITY SERVICES DISTRICT
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

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MISSION HILLS COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2009

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, 2009. It should be considered in conjunction with the information within the body of the audited financial statements.

Mission Statement

To efficiently provide safe and dependable drinking water and wastewater treatment services to Mission Hills, Mesa Oaks, The Bluffs, and Lane's End residents. We are committed to providing the best customer service possible.

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 included 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

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 \$10,724,104 on June 30, 2009. There was a change of \$(427,125) in the General Fund, \$279,620 in the Water Fund, \$164,367 in the Sewer Fund and \$475 in the Street Sweeping Fund.
- Combined revenue was \$1,352,562, which consisted of Water Basic Charges, Sewer Basis Charges, Rate Stabilization, Street Sweeping Charges, Various Service Charges, and Interest Income.
- Combined Expenses were \$1,335,225, which consisted primarily of Salaries, Benefits, Depreciation, Insurance, Office Expenses, Operating Expenses, Contractual 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 \$10,724,104 as of June 30th, 2009.

The largest portion of net assets reflect investment in capital assets (i.e. land, easements, wells and pumping, mains and distribution systems, buildings and improvements, vehicles, furniture, and equipment). The District uses these capital assets to provide services to the residences of the MHCS; 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.

Table A
Statement of Net Assets
June 30,2009

	2009	2008	% Change
Assets:			
Current assets	\$ 5,081,207	\$ 6,133,713	-17.2%
Capital assets	<u>\$ 5,794,281</u>	<u>\$ 4,710,237</u>	23.0%
Total assets	<u>\$ 10,875,488</u>	<u>\$ 10,843,950</u>	0.3%
Liabilities:			
Current liabilities	\$ 87,342	\$ 73,141	19.4%
Long-term liabilities	<u>\$ 64,042</u>	<u>\$ 64,042</u>	0.0%
Total liabilities	<u>\$ 151,384</u>	<u>\$ 137,183</u>	10.4%
Net assets:			
Invested in capital assets	\$ 2,118,449	\$ 2,118,449	0.0%
Unrestricted	<u>\$ 8,605,655</u>	<u>\$ 8,588,318</u>	0.2%
Total net assets	<u><u>\$ 10,724,104</u></u>	<u><u>\$ 10,706,767</u></u>	0.2%

The following are significant current fiscal year transactions that have an impact on the statement of assets:

- Unrestricted net assets have increased by \$17,337 due to the reserve component built into our rate structure and to interest earnings on the cash and investments. These investments are with the County of Santa Barbara, and the State of California, and are consistent with MHCS D investment policies. Current assets have decreased by \$1,052,506 due primarily to the well construction projects.
- Construction in Progress for the Water Department is \$1,132,983, due to the construction of the new wells, and is a significant portion of the increase to capital assets.
- Regular straight-line depreciation for the fiscal year ending June 30th, 2009, decreased capital assets by \$184,764.

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.

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
Statement of Revenues, Expenses and Changes in Net Assets
June 30,2009

	2009	2008	% Change
Assets:			
Operating revenues	\$ 1,211,992	\$ 1,300,696	-6.8%
Nonoperating revenues	<u>\$ 140,570</u>	<u>\$ 234,784</u>	-40.1%
Total revenues	<u>\$ 1,352,562</u>	<u>\$ 1,535,480</u>	-11.9%
Depreciation expense	\$ 184,764	\$ 222,131	-16.8%
Operating expense	<u>\$ 1,150,461</u>	<u>\$ 1,216,381</u>	-5.4%
Total expenses	<u>\$ 1,335,225</u>	<u>\$ 1,438,512</u>	-7.2%
Change in net assets	\$ 17,337	\$ 96,968	-82.1%
Beginning net assets	\$ 10,706,767	\$ 10,780,675	-0.7%
Prior year restatement	<u>\$ -</u>	<u>\$ (170,876)</u>	-100.0%
Ending net assets	<u><u>\$ 10,724,104</u></u>	<u><u>\$ 10,706,767</u></u>	0.2%

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

- Due to decreasing interest rates, interest income was \$126,111 less than projected and \$97,768 lower than the previous fiscal year.
- There was a decrease in General Department revenues due to a decrease in new connection fees for the current year.

- Water revenues fell below projections by \$31,979 and Wastewater revenues exceeded projections by \$4,146. This amount includes the Rate Stabilization Fund which was collected to prevent large rates increases in a one year period. This shortfall in the water department could be a product of aging meters and transient population. The district has embarked upon a meter replacement program in order to address this issue.
- Total expenses were \$103,287 less than last fiscal year, and \$11,362 less than projected.

Economic Outlook

Currently the District is constant in both its revenue base and customer base. MHCS D is land locked and unable to experience any large growth in customer base. The general economic trend has been in a negative direction, yet MHCS D has been able to hold rates for both water and waste water constant for the past six years. This has been accomplished through the judicious use of the rate stabilization fund and careful cost controls. The major economic event of this fiscal year was the failure of well #4 and the reduced capacity of well #5. This has resulted in a large construction project to replace and upgrade the failed infrastructure.

MHCS D is currently upgrading its infrastructure by building two new well sites and replacing the aging equipment. We are currently under construction to replace the failed wells with two new wells and state of the art equipment. It is anticipated this project will be completed in July 2009 at a cost of approximately \$1.4 million. The meters currently in operation at MHCS D 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.

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)

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, 2009, 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, 2009, 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 March 24, 2010, 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.

The management's discussion and analysis on pages 3-7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We did not audit and do not express an opinion on such information. However, we have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information.

Our audit was made for the purpose of forming an opinion on the financial statements taken 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 general purpose financial statements of Mission Hills Community Services District. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.



Glenn, Burdette, Phillips & Bryson
Certified Public Accountants
A Professional Corporation
San Luis Obispo, California

March 24, 2010

MISSION HILLS COMMUNITY SERVICES DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2009

ASSETS

Current Assets

Cash and cash equivalents	\$ 5,028,095
Services receivable, net of allowance	10,755
Interest receivable	19,329
Prepays and deposits	<u>23,028</u>
Total current assets	5,081,207

Property and Equipment,

<u>Net of Accumulated Depreciation</u>	<u>5,794,281</u>
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Total Assets	<u>10,875,488</u>
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LIABILITIES

Current Liabilities

Accounts payable and accrued liabilities	35,664
Accrued payroll	13,882
Compensated absences - due within one year	19,175
Customer deposits and advances	<u>18,621</u>
Total current liabilities	87,342

Long-Term Liabilities

Compensated absences - due in more than one year	<u>64,042</u>
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Total Liabilities	<u>151,384</u>
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NET ASSETS

Invested in capital assets	2,118,449
Unrestricted	<u>8,605,655</u>
Total Net Assets	<u>\$ 10,724,104</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, 2009

<u>Operating Revenues</u>	
Service charges	\$ 1,189,506
Late charges	22,486
Total operating revenues	<u>1,211,992</u>
<u>Operating Expenses</u>	
Chemicals	29,384
Contractual services	28,833
Depreciation	184,764
Directors' fees	8,995
Engineering services	22,160
Employee benefits	132,687
Government charges	24,240
Insurance	34,247
Memberships and dues	7,558
Miscellaneous expense	5,351
Office expense	25,318
Operating supplies	10,220
Professional services	33,936
Repairs and maintenance	85,301
Research and monitoring	9,268
Safety expense	2,578
Salaries and payroll taxes	517,948
Travel and meetings	14,635
Utilities	139,750
Vehicle expense	18,052
Total operating expenses	<u>1,335,225</u>
Operating loss	<u>(123,233)</u>
<u>Nonoperating Revenues</u>	
Unrealized gain on investments	9,319
Interest income	132,465
Loss on disposition of fixed assets	(1,214)
Total nonoperating revenues	<u>140,570</u>
Change in net assets	17,337
<u>Net Assets - Beginning of Year</u>	<u>10,706,767</u>
<u>Net Assets - End of Year</u>	<u><u>10,724,104</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, 2009

<u>Cash Flows From Operating Activities</u>		
Cash received from customers	\$ 1,224,063	
Cash payments to suppliers for goods and services	(488,894)	
Cash payments to employees for services	(651,421)	
Net cash provided by operating activities		\$ 83,748
<u>Cash Flows From Capital and Related Financing Activities</u>		
Purchases of property and equipment	(1,270,022)	
Net cash used in capital and financing activities		(1,270,022)
<u>Cash Flows From Investing Activities</u>		
Unrealized gain on investments	9,319	
Interest on cash and cash equivalents	156,139	
Net cash provided by investing activities		165,458
Net decrease in cash		(1,020,816)
<u>Cash and Cash Equivalents - Beginning of Year</u>		<u>6,048,911</u>
<u>Cash and Cash Equivalents - End of Year</u>		<u>\$ 5,028,095</u>
<u>Reconciliation of Operating Loss to Net Cash</u>		
<u>Provided by Operating Activities:</u>		
Operating loss		\$ (123,233)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	\$ 184,764	
Decrease in accounts receivable	5,265	
Decrease in prepaids and deposits	2,751	
Increase in accounts payable and accrued liabilities	8,181	
Decrease in accrued payroll	(3,306)	
Increase in compensated absences	2,520	
Increase in customer deposits	6,806	
Total adjustments		206,981
Net cash provided by operating activities		<u>\$ 83,748</u>

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

MISSION HILLS COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

Note 1 - Summary of Significant Accounting Policies

A. The Reporting Entity

The Mission Hills Community Services District (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.

B. 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 non-operating revenue. When both restricted and unrestricted revenues are available for an expense, the District's policy is to use restricted revenues first, and then unrestricted fees as they are needed.

C. 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.

D. 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, 2009

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Note 1 - Summary of Significant Accounting Policies (Continued)

E. 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.

F. 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.

G. 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. The allowance for uncollectible utility services receivable was \$43,528.

Interest receivable represents interest due to the District for the quarter ended June 30, 2009 from Santa Barbara County and the Local Agency Investment Fund.

H. Prepays and Deposits

Payments made to vendors for services that will benefit any period beyond June 30, 2009 are recorded as prepaid expenses or deposits. Prepaid expenses and deposits at June 30, 2009 totaled \$23,028.

I. 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 & fixtures	3-15 years
Machinery & equipment	2-25 years
Supply distribution system	15-75 years
Building & improvements	10- 40 years
Treatment collection system	15-100 years
Vehicles	4-7 years

All purchased fixed assets are valued at historical cost. Donated fixed assets were recorded at their estimated net book value when the District was formed. Other donated fixed assets are valued at their estimated fair value on the date received.

MISSION HILLS COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009
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Note 1 - Summary of Significant Accounting Policies (Continued)

J. Subsequent Events

Subsequent events have been evaluated through March 24, 2010, which is the date the financial statements were available to be issued.

Note 2 - Cash and Cash Equivalents

District cash at June 30, 2009, consisted of the following:

Deposits		
Cash in bank	\$	221,496

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, 2009 was \$3,835,876.

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 investments at June 30, 2009, consisted of the following:

Pooled Investment Funds:		
Cash in Santa Barbara County Treasury	\$	1,546,121
Cash in Local Agency Investment Fund (LAIF)		3,260,478
	\$	<u>4,806,599</u>

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 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.

MISSION HILLS COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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Note 2 - Cash and Cash Equivalents (Continued)

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 has no investment policy that would limit its investment choices. Santa Barbara County Treasury pooled investment fund and the LAIF are unrated.

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. The District's investment in the Santa Barbara County Treasury represents 32% and the LAIF represents 68% of the total amount invested in pooled investment funds.

MISSION HILLS COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009
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Note 3 - Property and Equipment

Capital assets activity for the year ended June 30, 2009, 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	8,341,257	108,739	(61,284)	8,388,712
Construction in progress		1,161,283		1,161,283
	<u>8,772,420</u>	<u>1,270,022</u>	<u>(61,284)</u>	<u>9,981,158</u>
Less: accumulated depreciation	<u>(4,062,183)</u>	<u>(184,764)</u>	<u>60,070</u>	<u>(4,186,877)</u>
	<u>\$ 4,710,237</u>	<u>\$ 1,085,258</u>	<u>\$ (1,214)</u>	<u>\$ 5,794,281</u>

Total depreciation expense for the year ended June 30, 2009, was \$184,764.

Note 4 - Long-Term Liabilities - Compensated Absences

Long-term liabilities activity for the year ended June 30, 2009, was as follows:

	<u>Balance June 30, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2009</u>	<u>Current Portion</u>
Compensated absences	<u>\$ 80,697</u>	<u>\$ 20,404</u>	<u>\$ (17,884)</u>	<u>\$ 83,217</u>	<u>\$ 19,175</u>

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 for by the District. Revenues earned by type during the year were as follows:

Water charges	\$ 714,746
Wastewater charges	458,541
Street sweeping charges	<u>16,219</u>
	<u>\$ 1,189,506</u>

MISSION HILLS COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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Note 6 - 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 6.2% social security taxes in lieu of paying into social security and those contributions will be matched 100% by the District. 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 \$32,545 for the year ended June 30, 2009. Contributions by plan members were \$41,136 for the year ended June 30, 2009.

Note 7 - Risk Management

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

The A.C.W.A.J.P.I.A. is administered by a board of directors, consisting of one member of each participating water agency. In addition, the water agency's board members and staff are eligible to participate on the various committees and subcommittees of the A.C.W.A.J.P.I.A. The board is responsible for establishing premium rates and making budgeting decisions.

Coverage under current policies provide for the District to pay for the first \$2,500 of property loss for buildings, personal property, fixed equipment, and mobile equipment and the agency to pay for the next \$497,500. There is a \$1,000 deductible for licensed vehicles. The auto and general liability program has no deductible. Property losses are limited to the value of the property as assessed by the A.C.W.A.J.P.I.A. The agency 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 J.P.I.A. creating the agency.

MISSION HILLS COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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Note 7 - Risk Management (Continued)

Condensed financial information of the A.C.W.A.J.P.I.A. is as follows:

	<u>September 30, 2009 *</u>
Total Assets	\$ 124,067,027
Total Liabilities	83,993,363
Net Assets	<u>\$ 40,073,664</u>
Total operating revenues	\$ 21,082,354
Total nonoperating revenues	6,294,982
Total operating expenses	(25,663,970)
Net increase in net assets	<u>\$ 1,713,366</u>

* Latest information available.

Note 8 - Potential Litigation

In the general course of business, litigation claims can arise from time to time. Management does not believe that these claims, if made, will have any material impact on the 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)

**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, CA

We have audited the basic financial statements of Mission Hills Community Services District as of and for the year ended June 30, 2009, and have issued our report thereon dated March 24, 2010. 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 (District) 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 would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America, such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described at finding 09.1 in the accompanying schedule of findings and recommendations to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Mission Hills Community Services District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider none of them to be a material weakness.

Compliance and Other Matters

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

We noted certain matters that we reported to management of Mission Hills Community Services District in a separate letter dated March 24, 2010.

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, Phillips & Bryson
Certified Public Accountants
A Professional Corporation
San Luis Obispo, California

March 24, 2010

MISSION HILLS COMMUNITY SERVICES DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
YEAR ENDED JUNE 30, 2009

Finding 09.01 – Timely Preparation of Bank Reconciliations (Significant Deficiency)

While performing test work in the cash area, it was noted that bank reconciliations were not being done in a timely manner and it appeared that the entire fiscal years' reconciliations were done during or after October 2009.

Recommendation: We recommend that bank reconciliations be done on a monthly basis and as soon as possible after information is received from the bank. We also recommend that bank reconciliations be reviewed and approved by management for unusual activity and to ensure they are being done in a timely manner.

SUPPLEMENTAL INFORMATION SECTION

MISSION HILLS COMMUNITY SERVICES DISTRICT
SCHEDULE OF DIRECTORS
JUNE 30, 2009

James Mac Kenzie	President
Stan Whitty	Vice President
Bruce Nix	Finance Officer
Cathy Schlottmann	Alternate Finance Officer
Susan Warnstrom	Director

MISSION HILLS COMMUNITY SERVICES DISTRICT
COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2009

	<u>General Fund</u>	<u>Water Fund</u>	<u>Wastewater Fund</u>	<u>Street Sweeping Fund</u>	<u>Total</u>
<u>ASSETS</u>					
<u>Current Assets</u>					
Cash and cash equivalents	\$ 810,727	\$ 2,139,306	\$ 2,074,504	\$ 3,558	\$ 5,028,095
Services receivable, net of allowance		6,883	3,764	108	10,755
Interest receivable	4,213	8,478	6,599	39	19,329
Prepays and deposits	19,384	2,250	1,394		23,028
Total current assets	<u>834,324</u>	<u>2,156,917</u>	<u>2,086,261</u>	<u>3,705</u>	<u>5,081,207</u>
<u>Property and Equipment,</u>					
<u>Net of Accumulated Depreciation</u>	<u>281,422</u>	<u>3,579,205</u>	<u>1,933,654</u>		<u>5,794,281</u>
Total Assets	<u>1,115,746</u>	<u>5,736,122</u>	<u>4,019,915</u>	<u>3,705</u>	<u>10,875,488</u>
<u>LIABILITIES</u>					
<u>Current Liabilities</u>					
Accounts payable and accrued liabilities	16,431	13,896	4,160	1,177	35,664
Accrued payroll	7,888	2,707	3,287		13,882
Compensated absences - due within one year	12,505	1,309	5,361		19,175
Customer deposits	14,350	4,271			18,621
Total current liabilities	<u>51,174</u>	<u>22,183</u>	<u>12,808</u>	<u>1,177</u>	<u>87,342</u>
<u>Long-Term Liabilities</u>					
Compensated absences - due in more than one year	<u>36,477</u>	<u>8,341</u>	<u>19,224</u>		<u>64,042</u>
Total Liabilities	<u>87,651</u>	<u>30,524</u>	<u>32,032</u>	<u>1,177</u>	<u>151,384</u>
<u>NET ASSETS</u>					
Invested in capital assets		1,139,364	979,085		2,118,449
Unrestricted	<u>151,274</u>	<u>4,177,230</u>	<u>4,256,384</u>	<u>20,767</u>	<u>8,605,655</u>
Total Net Assets	<u>\$ 151,274</u>	<u>\$ 5,316,594</u>	<u>\$ 5,235,469</u>	<u>\$ 20,767</u>	<u>\$ 10,724,104</u>

MISSION HILLS COMMUNITY SERVICES DISTRICT
COMBINING STATEMENT OF REVENUES,
EXPENSES, AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2009

	General Fund	Water Fund	Wastewater Fund	Street Sweeping Fund	Total
<u>Operating Revenues</u>					
Service charges	\$ 2,040	\$ 714,575	\$ 456,672	\$ 16,219	\$ 1,189,506
Late charges	22,486				22,486
Total operating revenues	<u>24,526</u>	<u>714,575</u>	<u>456,672</u>	<u>16,219</u>	<u>1,211,992</u>
<u>Operating Expenses</u>					
Chemicals		15,960	13,424		29,384
Contractual services	10,100	1,645	1,344	15,744	28,833
Depreciation	28,717	89,554	66,493		184,764
Directors' fees	8,995				8,995
Engineering services	14,295	7,865			22,160
Employee benefits	62,363	29,191	41,133		132,687
Government charges	296	16,989	6,955		24,240
Insurance	34,247				34,247
Memberships and dues	6,938	75	545		7,558
Miscellaneous expense	5,351				5,351
Office expense	23,204	1,593	521		25,318
Operating supplies	3,274	2,805	4,141		10,220
Professional services	33,936				33,936
Repairs and maintenance	4,597	51,530	29,174		85,301
Research and monitoring		4,394	4,874		9,268
Safety expense	184	1,198	1,196		2,578
Salaries and payroll taxes	317,391	102,147	98,410		517,948
Travel and meetings	12,307	529	1,799		14,635
Utilities	6,109	110,153	23,488		139,750
Vehicle expense	699	9,733	7,620		18,052
Total operating expenses	<u>573,003</u>	<u>445,361</u>	<u>301,117</u>	<u>15,744</u>	<u>1,335,225</u>
Operating income (loss)	<u>(548,477)</u>	<u>269,214</u>	<u>155,555</u>	<u>475</u>	<u>(123,233)</u>
<u>Nonoperating Revenues</u>					
Unrealized gain on investments	9,319				9,319
Interest income	113,247	10,406	8,812		132,465
Loss on disposal of fixed assets	(1,214)				(1,214)
Total nonoperating revenues	<u>121,352</u>	<u>10,406</u>	<u>8,812</u>	<u>-</u>	<u>140,570</u>
Change in net assets	(427,125)	279,620	164,367	475	17,337
<u>Net Assets - Beginning of Year</u>	<u>578,398</u>	<u>5,036,975</u>	<u>5,071,102</u>	<u>20,292</u>	<u>10,706,767</u>
<u>Net Assets - End of Year</u>	<u>\$ 151,273</u>	<u>\$ 5,316,595</u>	<u>\$ 5,235,469</u>	<u>\$ 20,767</u>	<u>\$ 10,724,104</u>

MISSION HILLS COMMUNITY SERVICES DISTRICT
COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2009

	General Fund	Water Fund	Wastewater Fund	Street Sweeping Fund	Total
<u>Cash Flows From Operating Activities</u>					
Cash received from customers	\$ 32,936	\$ 716,341	\$ 458,515	\$ 16,271	1,224,063
Cash payments to suppliers for goods and services	(148,403)	(227,183)	(98,741)	(14,567)	(488,894)
Cash payments to employees for services	(379,700)	(133,737)	(137,984)		(651,421)
Net cash provided by (used in) operating activities	<u>(495,167)</u>	<u>355,421</u>	<u>221,790</u>	<u>1,704</u>	<u>83,748</u>
<u>Cash Flows From Capital and Related Financing Activities</u>					
Purchases of property and equipment	(66,101)	(1,203,921)			(1,270,022)
Net cash used in capital and related financing activities	<u>(66,101)</u>	<u>(1,203,921)</u>			<u>(1,270,022)</u>
<u>Cash Flows From Investing Activities</u>					
Unrealized gain on investments	9,319				9,319
Interest on cash and cash equivalents	118,455	25,150	12,534		156,139
Net cash provided by investing activities	<u>127,774</u>	<u>25,150</u>	<u>12,534</u>	<u>-</u>	<u>165,458</u>
Net increase (decrease) in cash	(433,494)	(823,350)	234,324	1,704	(1,020,816)
<u>Cash and Cash Equivalents - Beginning of Year</u>	<u>2,069,791</u>	<u>2,148,911</u>	<u>1,826,651</u>	<u>3,558</u>	<u>6,048,911</u>
<u>Cash and Cash Equivalents - End of Year</u>	<u>\$ 1,636,297</u>	<u>\$ 1,325,561</u>	<u>\$ 2,060,975</u>	<u>\$ 5,262</u>	<u>\$ 5,028,095</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>					
<u>Provided By (Used In) Operating Activities:</u>					
Operating income (loss)	(548,477)	269,214	155,555	475	(123,233)
Adjustments to reconcile operating income (loss) to net cash					
Provided by (used in) operating activities:					
Depreciation	28,717	89,554	66,493		184,764
Decrease in accounts receivable		3,370	1,843	52	5,265
(Increase) decrease in prepaids and deposits	2,578	594	(421)		2,751
Increase (decrease) in accounts payable and accrued liabilities	13,551	(3,308)	(3,239)	1,177	8,181
Decrease in accrued payroll	(2,253)	(387)	(666)		(3,306)
Increase (decrease) in compensated absences	2,307	(2,012)	2,225		2,520
Increase (decrease) in customer deposits	8,410	(1,604)			6,806
Total adjustments	<u>53,310</u>	<u>86,207</u>	<u>66,235</u>	<u>1,229</u>	<u>206,981</u>
Net cash provided by (used in) operating activities	<u>\$ (495,167)</u>	<u>\$ 355,421</u>	<u>\$ 221,790</u>	<u>\$ 1,704</u>	<u>\$ 83,748</u>