

**LOS OLIVOS COMMUNITY  
SERVICES DISTRICT**

FINANCIAL STATEMENTS  
June 30, 2019

**LOS OLIVOS COMMUNITY SERVICES DISTRICT**  
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June 30, 2019

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**FINANCIAL SECTION**



## INDEPENDENT AUDITORS' REPORT

The Board of Directors  
Los Olivos Community Services District  
Los Olivos, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Los Olivos Community Services District (the District) as of and for the period May 24, 2018 through June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Los Olivos Community Services District, as of June 30, 2019, and the respective changes in financial position thereof and, where applicable, cash flows thereof for the period May 24, 2018 through June 30, 2019 in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2023, on our consideration of the Los Olivos Community Services District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Mosa, Keny & Halzheim LLP*

Santa Maria, CA  
March 2, 2023

**LOS OLIVOS COMMUNITY SERVICES DISTRICT**  
**STATEMENT OF NET POSITION - PROPRIETARY FUND**  
June 30, 2019

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**ASSETS**

Cash in county treasury	\$	117,220
Interest receivable		<u>568</u>
Total assets		<u>117,788</u>

**LIABILITIES**

Accounts payable		<u>14,530</u>
Total liabilities		<u>14,530</u>

**NET POSITION**

Unrestricted		<u>103,258</u>
Total net position	\$	<u>103,258</u>

The notes to basic financial statements are an integral part of these basic financial statements.

**LOS OLIVOS COMMUNITY SERVICES DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -**  
**PROPRIETARY FUND**  
For the Period May 24, 2018 through June 30, 2019

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<b>Operating Expenses:</b>	
Office expense	\$ 70
Professional services	24,475
Insurance	1,784
Contractual services	59,661
Other services and supplies	<u>1,837</u>
 Total operating expenses	 <u>87,827</u>
 Operating Loss	 <u>(87,827)</u>
<b>Non-Operating Revenues (Expenses):</b>	
Interest income	1,675
Assessments	<u>189,410</u>
 Total Non-Operating Revenues (Expenses)	 <u>191,085</u>
 Change in net position	 103,258
<b>Net Position</b>	
Net Position, beginning of fiscal year	<u>                    </u>
 Net Position, end of fiscal year	 <u><u>\$ 103,258</u></u>

The notes to basic financial statements are an integral part of these basic financial statements.

**LOS OLIVOS COMMUNITY SERVICES DISTRICT**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND**  
For the Period May 24, 2018 through June 30, 2019

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**CASH FLOWS FROM OPERATING ACTIVITIES**

Payments to vendors	\$ <u>(73,297)</u>
Net cash used by operating activities	<u>(73,297)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Property assessments	<u>189,410</u>
Net cash provided by noncapital financing activities	<u>189,410</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest received	<u>1,107</u>
Net cash provided by investing activities	<u>1,107</u>

Net increase in cash and cash equivalents 117,220

Cash and cash equivalents - May 24, 2018                     

Cash and cash equivalents - June 30, 2019 \$ 117,220

Reconciliation to Statement of Net Position:  
Cash in county treasury \$ 117,220

**Reconciliation of operating loss to net cash used by operating activities:**

Operating loss	\$ (87,827)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Change in assets and liabilities:	
Accounts payable	<u>14,530</u>
Net cash used by operating activities	<u>\$ (73,297)</u>

The notes to basic financial statements are an integral part of these basic financial statements.



## NOTE 1 - ORGANIZATION

The Los Olivos Community Services District is an independent governmental unit within the unincorporated area of the County of Santa Barbara and derives its decision-making capabilities from State legislation. The District is governed by a Board of Directors elected to serve four-year terms. The primary purpose of the District is the building and operation of facilities needed to collect, treat, and dispose of sewage, wastewater, recycled water, and storm water.

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

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Accounting Policies - The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the District has opted to apply all applicable GASB pronouncements and all FASB Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements.

- B. Accounting Method - The District is organized as an Enterprise Fund and follows the accrual method of accounting, whereby revenues are recorded when earned and expenses are recorded when incurred.

- C. Fund Financial Statements - The fund financial statements provide information about the District's proprietary fund.

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

GASB Statement No. 34 defines major funds and requires that the District's major business-type fund be identified and presented separately in the fund financial statements.

Major funds are defined as funds that have assets, liabilities, revenues, or expenses equal to ten percent of their fund-type total and five percent of the grand total. The District maintains one proprietary fund.

### Proprietary Fund Type

#### Enterprise Fund:

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

The District reported its enterprise fund as a major fund in the accompanying basic financial statements.

Sewer Fund – The Sewer Fund is to account for the provision of sewer services to the residents of the District.

- D. Cash and Cash Equivalents – For purposes of the statement of cash flows, cash and cash equivalents include restricted and unrestricted cash and investments with original maturities of three months or less.

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

- E. Property, Plant and Equipment – Capital assets purchased by the District are recorded at cost. Contributed or donated capital assets are recorded at fair value when acquired.
- F. Depreciation – Capital assets purchased by the District are depreciated over their estimated useful lives (ranging from 5-50 years) under the straight-line method of depreciation according to the following schedule:

<u>Item</u>	<u>Years</u>
Office Furniture and Equipment	5
Plant Equipment	10-20
Manholes, Laterals, and Sewer lines	30
Treatment Plant Structures	30-50

- G. Receivables - The District did not experience any significant bad debt losses; accordingly, no provision has been made for doubtful accounts and accounts receivable are shown at full value.
- H. Construction in Progress - The District occasionally constructs capital assets for its own use in the plant operations. The costs associated with these projects are accumulated in a construction in progress account while the project is being developed. Once the project is completed, the entire cost of the constructed assets are transferred to the capital assets account and depreciated over the estimated useful life of the capital assets.
- I. Use of Estimates -The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, as prescribed by the GASB and the AICPA, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.
- J. Net Position - GASB Statement No. 63 requires that the difference between assets added to the deferred outflows of resources and liabilities added to the deferred inflows of resources be reported as net position. Net position is classified as either net investment in capital assets, restricted, or unrestricted.

Net position that is net investment in capital assets, consists of capital assets, net of accumulated depreciation, and reduced by the outstanding principal of related debt. Restricted net position are those net position that have external constraints placed on them by creditors, grantors, contributors, laws, or regulations of other governments, or through constitutional provisions or enabling legislation. Unrestricted net position consist of net position that do not meet the definition of invested in capital assets, net of related debt, or restricted net position.

K. Future Accounting Pronouncements

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

Statement No. 84	"Fiduciary Activities"	The provisions of this statement are effective for fiscal years beginning after December 15, 2019.
Statement No. 87	"Leases"	The provisions of this statement are effective for fiscal years beginning after June 15, 2021.

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

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

Statement No. 89	"Accounting for Interest Cost Incurred before the End of a Construction Period"	The provisions of this statement are effective for fiscal years beginning after December 15, 2020.
Statement No. 90	"Majority Equity Interests-an Amendment of GASB Statements No. 14 and No. 61"	The provisions of this statement are effective for fiscal years beginning after December 15, 2019.
Statement No. 91	"Conduit Debt Obligations"	The provisions of this statement are effective for fiscal years beginning after December 15, 2021.

**NOTE 3 - CASH AND INVESTMENTS**

On June 30, 2019, the District had the following cash and investments on hand:

Cash in county treasury	\$ <u>117,220</u>
Total cash and investments	\$ <u>117,220</u>

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

Cash in county treasury	\$ <u>117,220</u>
	\$ <u>117,220</u>

The District categorizes its fair value measurements within the fair value hierarchy established by U.S. Generally Accepted Accounting Principles. The Hierarchy is based on the valuation inputs used to measure the fair value of the asset. These principles recognize a three-tiered fair value hierarchy. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District had investments in the Santa Barbara County investment pool, that investment is measured under Level 2.

Investments Authorized by the District's Investment Policy

The District's investment policy only authorizes investment in the local government investment pool administered by the County of Santa Barbara. The District's investment policy does not contain any specific provisions intended to limit the District's exposure to interest rate risk, credit risk, and concentration of credit risk.

Disclosures Relating to Interest Rate Risk

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

**LOS OLIVOS COMMUNITY SERVICES DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
 June 30, 2019

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

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

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Remaining Maturity (in Months)</u>			
		<u>12 Months Or Less</u>	<u>13-24 Months</u>	<u>25-60 Months</u>	<u>More than 60 Months</u>
Santa Barbara County Investment Pool	\$ 117,220	\$ 117,220	\$ -	\$ -	\$ -
Total	\$ 117,220	\$ 117,220	\$ -	\$ -	\$ -

Disclosures Relating to Credit Risk

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

<u>Investment Type</u>	<u>Minimum Carrying Amount</u>	<u>Exempt Legal Rating</u>	<u>From Disclosure</u>	<u>Rating as of Fiscal Year End</u>		
				<u>AAA</u>	<u>Aa</u>	<u>Not Rated</u>
Santa Barbara County Investment Pool	\$ 117,220	N/A	\$ -	\$ -	\$ -	\$ 117,220
Total	\$ 117,220		\$ -	\$ -	\$ -	\$ 117,220

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the District's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

None of the District's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts.

Investment in Santa Barbara County Investment Pool

The District is a participant in the Santa Barbara County Investment Pool that is regulated by the California Government Code. The fair value of the District's investment in this pool is based upon the District's pro-rata share of the fair value provided by the Santa Barbara County Investment Pool for the entire Santa Barbara County Investment Pool portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the Santa Barbara County Investment Pool, which are recorded on an amortized cost basis.

**NOTE 4 – COMMITMENTS AND CONTINGENCIES**

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