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REQUIRED COMMUNICATIONS LETTER

To the Board of Directors
Mountain House Community Services District
Mountain House, California

We have audited the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Mountain House Community Services District (the District) for the year ended June 30, 2023, and have issued our report thereon dated October 31, 2023. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you in our engagement letter dated May 18, 2022 and to a member of the Board of Directors during the audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note A to the financial statements. The District adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, and GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, during the year ended June 30, 2023. It was determined that the District did not have any significant subscriptions that warranted recording as a subscription asset and subscription liability so no changes were made to financial reporting for subscriptions during the year, but a summary of the effect was added to the attached summary of unadjusted differences. The District added a paragraph to Note G to disclose its Internal Revenue Code Section 457 Plan. The application of existing policies was not changed during the year. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were the fair value adjustment on the County investment pool, the depreciable lives used for capital assets, the allowance for doubtful receivable accounts, the valuation of infrastructure contributed to the District by developers and related interest included as part of notes payable, the net pension liability and the allocation of indirect costs. The net pension liability is determined by an actuarial valuation. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

To the Board of Directors
Mountain House Community Services District

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- Note A, page 27 and Note E discusses the pledged notes payable to developers for repayment of costs of constructing general infrastructure of the District as well as the utility infrastructure, under the terms of the Master Acquisition and Reimbursement Agreement, and related Project Reimbursement Agreements. The notes payable includes a finance charge based on the increase in a construction cost index. Repayment of the loan for general infrastructure are from impact fees collected and repayments of the utility infrastructure are from the capital improvement fees collected as part of the utility billings.
- Note C discusses the loans made by the General Fund to the Water, Wastewater and Stormwater Funds as a result of shortfalls experienced by these funds in the early years of their organization. The loans total \$13,128,911 at June 30, 2023. No repayments have been made on these loans. An additional advance of \$10,752,342 was made to the Water Enterprise Fund by the Wastewater Enterprise Fund for which there is no current agreement defining repayment terms. See the management letter where we recommended an agreement be executed for this advance.
- Notes D and E to the financial statements discuss changes in estimates made to the developer notes payable and related capital assets recorded as infrastructure in the governmental activities and enterprise funds during the year ended June 30, 2023.
- Information on the District's pension plan, including the District's share of the net pension liability, is shown in Note G. The District's share of the unfunded pension liability at December 31, 2022, the most recent measurement date, was \$6,586,653, which is reflected as a liability in the District's financial statements.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. During the course of our audit, 20 adjustments and closing entries were recorded as follows:

- Entry to record amortization on the deferred amount on refunding reported in deferred outflows.
- Accrue interest payable on 2019 and 2020 Series A and B Bonds.
- Entry to capitalize a water fund asset expensed.
- Entry to record capital outlay and proceeds from debt for developer donated assets.
- Record closing entries in progress when the general ledger was provided.
- Update the fair value adjustment on the County investment pool.
- Reclassify fund balance/net position for restricted and net investment in capital asset amounts in government-wide statements.
- Entry to true-up compensated absences.
- Entry to match revenue to developer fund billable expenses.
- Entry to true-up restrictions of fund balance and net position.

To the Board of Directors
Mountain House Community Services District

- Entry to reclassify negative developer deposits as receivables.
- An entry to post depreciation on a change in estimate that reduced the amount of developer notes payable and related capital assets.
- Other reclassifications for government-wide reporting purposes.

In addition, the attached summary reports and unposted audit difference in the financial statements. Management has determined the effects of the unposted audit difference is immaterial to the financial statements as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter October 31, 2023.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management's discussion and analysis, the schedules of proportional share of the net pension liability and contributions to the pension plan and budgetary comparison schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the individual fund statements, consisting of the budget report for the major capital projects fund, which accompanies the financial statements but is not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit

To the Board of Directors
Mountain House Community Services District

of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or the financial statements themselves.

We were not engaged to report on the introductory and statistical section, which accompany the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Restriction on Use

This information is intended solely for the use of the Board of Directors and management of the District and is not intended to be and should not be used by anyone other than these specified parties.

Richardson & Company, LLP

October 31, 2023

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
SUMMARY OF UNADJUSTED AUDIT DIFFERENCES
YEAR ENDED JUNE 30, 2023

GOVERNMENTAL ACTIVITIES

Description (Nature) of Audit Difference	Financial Statement Effect - Amount of Overstatement (Understatement) of:			
	Total Assets	Total Liabilities	Net Position	Total Change in Net Postion
To accrue subscription based technology arrangement asset and liability in accordance with GASB Statement No. 96	\$ (137,898)	\$ (141,021)	\$ (3,123)	\$ (3,123)
Net Unadjusted Audit Differences - Total Governmental Activities	\$ 225,613,937	\$ 121,191,776	\$ 106,165,006	\$ 3,134,704
Net Audit Differences as % of F/S Captions	(0.06%)	(0.12%)	(0.00%)	(0.10%)