

**MOUNTAIN HOUSE
COMMUNITY SERVICES DISTRICT**

AUDIT REPORT

**FOR THE YEAR ENDED
JUNE 30, 2010**

**MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
TABLE OF CONTENTS**

	<u>Page</u>
Independent Auditor’s Report	1-2
Management’s Discussion and Analysis	3-13
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets.....	14
Statement of Activities	15-16
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet – Governmental Funds	17
Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets – Governmental Activities	18
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	19
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Government-Wide Statement of Activities – Governmental Activities	20
Proprietary Funds:	
Statement of Fund Net Assets.....	21
Statement of Revenues, Expenses and Changes in Fund Net Assets.....	22
Statement of Cash Flows.....	23-24
Notes to the Basic Financial Statements.....	25-45
Required Supplementary Information:	
Budgetary Comparison Schedule – General Fund.....	46
Budgetary Comparison Schedule – Special Assessments Fund	47
Budgetary Comparison Schedule – Impact Fees Fund	48
Note to Required Supplementary Information.....	49
Other Report	
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	50-51



INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying 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 (District) as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Mountain House Community Services District as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, 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 April 29, 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, 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.

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

The Management's Discussion and Analysis (MD & A) and the required supplementary information listed in the table of contents, is not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Gallina LLP

Roseville, California
April 29, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Management's Discussion and Analysis June 30, 2010

The Mountain House Community Services District (District) is an independent local government entity and a subdivision of the State of California guided by a five-member elected Board of Directors committed to involving and listening to residents. As management of the District, we offer readers the District's financial statements and this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2010.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$97.7 million.
- The government's total net assets increased by \$5.3 million. This is attributable to prior period adjustments to correct pledged notes payable offset by depreciation expense on infrastructure and interest on long term debt. The circumstances for the prior period adjustments are described in Note 13 in the Notes to the Basic Financial Statements.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$11.3 million. Approximately 71% of this total amount, \$8.0 million, is *available for spending* at the government's discretion.
- At the end of the current fiscal year, unreserved, undesignated fund balance for the general fund was \$4.1 million, which is a 36% decrease over the prior year. This is due to reserving \$3.3 million in loans and advances to the utility funds.
- The District's total debt increased by \$45.5 million (19%) during the current fiscal year. The key factors in this increase were the dedication of the 15mgd Water Treatment Plant, the Westside Booster Pump, and the financing charges applied to the outstanding balance of the pledged notes payable.

Using This Financial Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies. The Statement of Net Assets includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. This statement measures the success of the District's operations over the past year and can be used to determine the District's profitability and credit worthiness.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction of the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Management's Discussion and Analysis June 30, 2010

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the District include general government, public safety, highways and streets, economic development, and culture and recreation. The business-type activities of the District include the Water, Wastewater and Storm systems.

The government-wide financial statements can be found on pages 14 – 16 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Management's Discussion and Analysis June 30, 2010

financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains nine individual governmental funds aggregated and grouped into three funds for reporting purposes. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the special assessment fund, and the impact fees fund, all of which are considered to be major funds. The governmental fund financial statements can be found on pages 17-20 of this report.

The District adopts an annual appropriated budget for its general fund and special revenue funds. Budgetary comparison statements have been provided for these funds located on pages 46-48 to demonstrate compliance with this budget.

Proprietary funds. The District maintains four types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The District uses enterprise funds to account for its Water, Wastewater and Stormwater and Developer activities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The basic proprietary fund financial statements can be found on pages 21 – 24 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25 – 45 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* consisting of the budgetary schedules described above under Notes to the Required Supplementary Information. Required supplementary information can be found on pages 46 – 49 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$97.7 million at the close of the most recent fiscal year.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Management's Discussion and Analysis June 30, 2010

Mountain House Community Services District's Net Assets (in millions)

	Governmental Activities		Business-Type Activities		Total		Total	
	2010	2009	2010	2009	2010	2009	Dollar Change	Percent Change
	Assets:							
Current and other assets	\$ 11.7	\$ 10.7	\$ 0.7	\$ 6.7	\$ 12.4	\$ 17.4	\$ (4.9)	-28%
Capital assets	182.6	189.1	191.4	129.6	374.0	318.7	55.2	17%
Total assets	<u>194.3</u>	<u>199.8</u>	<u>192.1</u>	<u>136.3</u>	<u>386.4</u>	<u>336.1</u>	<u>50.3</u>	15%
Liabilities:								
Long-term liabilities outstanding	106.1	101.2	181.2	140.6	287.3	241.9	45.5	19%
Other liabilities	0.3	0.6	1.0	1.3	1.4	1.9	(0.5)	-27%
Total liabilities	<u>106.4</u>	<u>101.8</u>	<u>182.3</u>	<u>141.9</u>	<u>288.7</u>	<u>243.7</u>	<u>45.0</u>	18%
Net assets:								
Invested in capital assets, net of related debt	96.3	102.7	32.9	13.7	129.2	116.4	15.2	13%
Restricted	1.6	0.9	2.9	7.2	4.5	8.0	(3.5)	-44%
Unrestricted	(10.0)	(5.5)	(26.0)	(26.5)	(36.0)	(32.0)	(6.4)	20%
Total net assets	<u>\$ 87.9</u>	<u>\$ 98.0</u>	<u>\$ 9.8</u>	<u>\$ (5.6)</u>	<u>\$ 97.7</u>	<u>\$ 92.4</u>	<u>\$ 5.3</u>	6%

By far the largest portion of the District's net assets (132%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Another portion of District's net assets is \$4.5 million, which is subject to constraints by bond financing agreements and enabling legislation.

District's unrestricted net assets were deficit by \$36.0 million generally because of financing charges accruing on pledged notes payable to developers for contributed infrastructure. Financing charges accumulated on the pledged notes payable totaled \$37.3 million as of June 30, 2010.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Management's Discussion and Analysis June 30, 2010

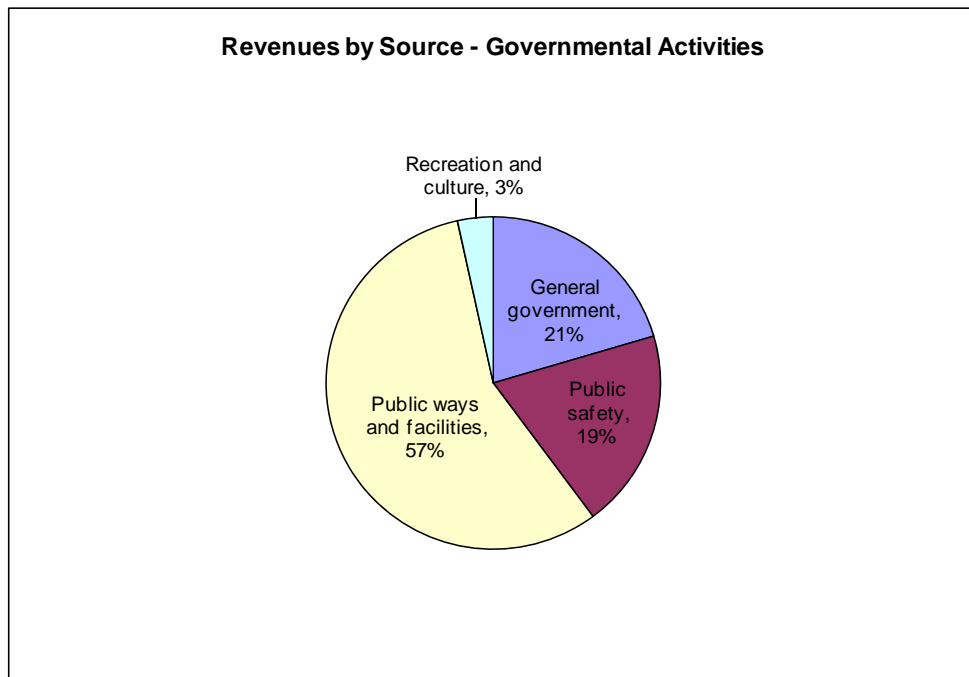
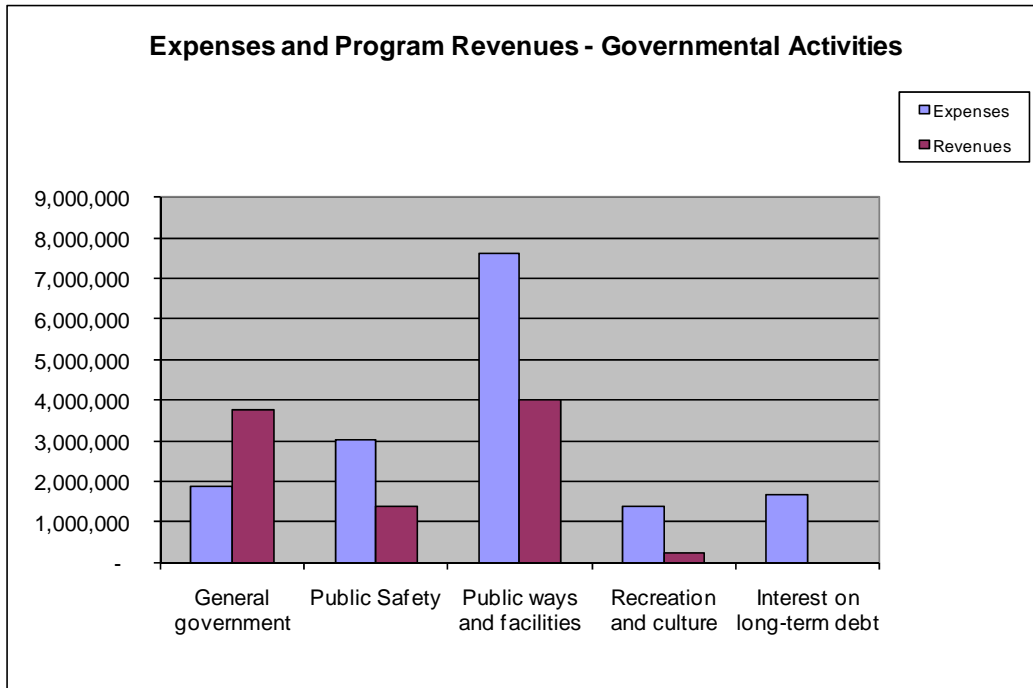
Mountain House Community Services District's Change in Net Assets (in millions)

	Governmental		Business-Type		Total		Total		
	Activities		Activities		Total		Dollar	Percent	
	2010	2009	2010	2009	2010	2009	Change	Change	
Revenues:									
Program revenues:									
Fees, fines and charges for services	\$ 5.8	\$ 5.9	\$ 5.0	\$ 5.7	\$ 10.9	\$ 11.6	\$ (0.7)	-6%	
Capital grants and contributions	1.2	0.0	0.0	0.0	1.2	0.0	1.2	100%	
General revenue:									
Property taxes	2.2	2.6	0.0	0.0	2.2	2.6	(0.5)	-18%	
Unrestricted interest and investment earnings	0.0	0.2	0.0	0.2	0.1	0.4	(0.3)	-80%	
Miscellaneous revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0%	
Total revenues	9.3	8.7	5.1	6.0	14.4	14.6	(0.3)	-2%	
Expenses:									
General government	1.9	2.5	0.0	0.0	1.9	2.5	(0.6)	-26%	
Public safety	3.0	3.6	0.0	0.0	3.0	3.6	(0.6)	-16%	
Public ways and facilities	7.6	8.3	0.0	0.0	7.6	8.3	(0.6)	-8%	
Recreation and culture	1.4	1.8	0.0	0.0	1.4	1.8	(0.4)	-21%	
Interest on long-term debt	1.7	5.0	0.0	0.0	1.7	5.0	(3.3)	-67%	
Water fund	0.0	0.0	6.0	5.0	6.0	5.0	1.0	20%	
Wastewater fund	0.0	0.0	3.8	6.3	3.8	6.3	(2.5)	-39%	
Stormwater fund	0.0	0.0	1.5	2.6	1.5	2.6	(1.1)	-43%	
Developer fund	0.0	0.0	0.5	1.7	0.5	1.7	(1.2)	-70%	
Total expenses	15.6	21.2	11.9	15.6	27.5	36.8	(9.3)	-25%	
Decrease in net assets	(6.3)	(12.5)	(6.8)	(9.7)	(13.2)	(22.2)	9.1	-41%	
Net assets, beginning	98.0	110.5	(5.6)	4.0	92.4	114.6	(22.2)	-19%	
Prior Period Adjustment	(3.8)	0.0	22.3	0.0	18.5	0.0	18.5	100%	
Net assets, ending	\$ 87.9	\$ 98.0	\$ 9.8	\$ (5.6)	\$ 97.7	\$ 92.4	\$ 5.3	6%	

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Management's Discussion and Analysis June 30, 2010

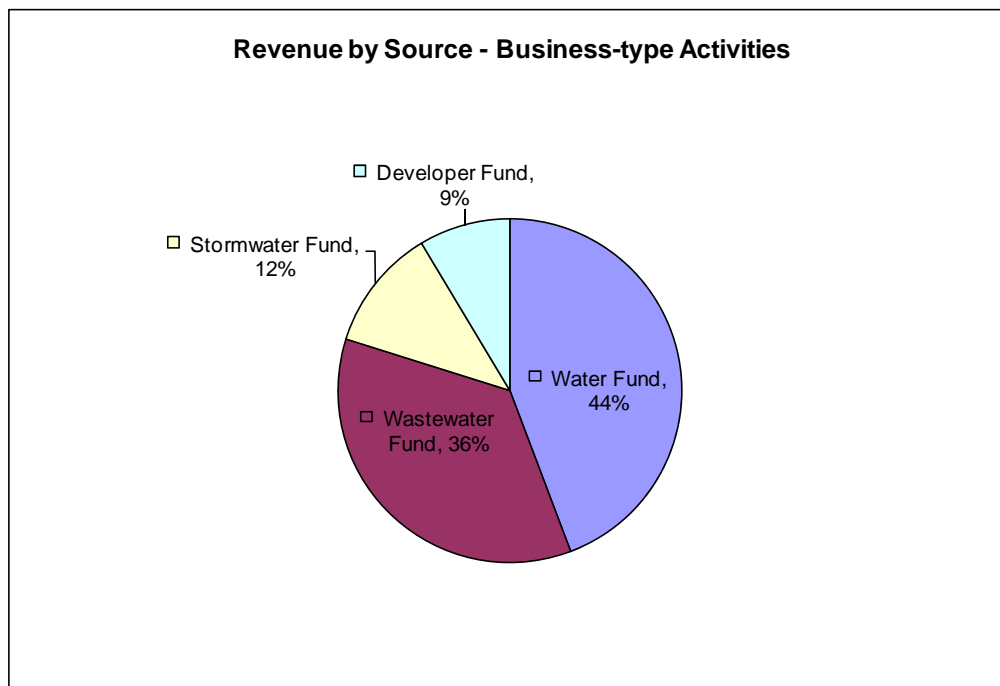
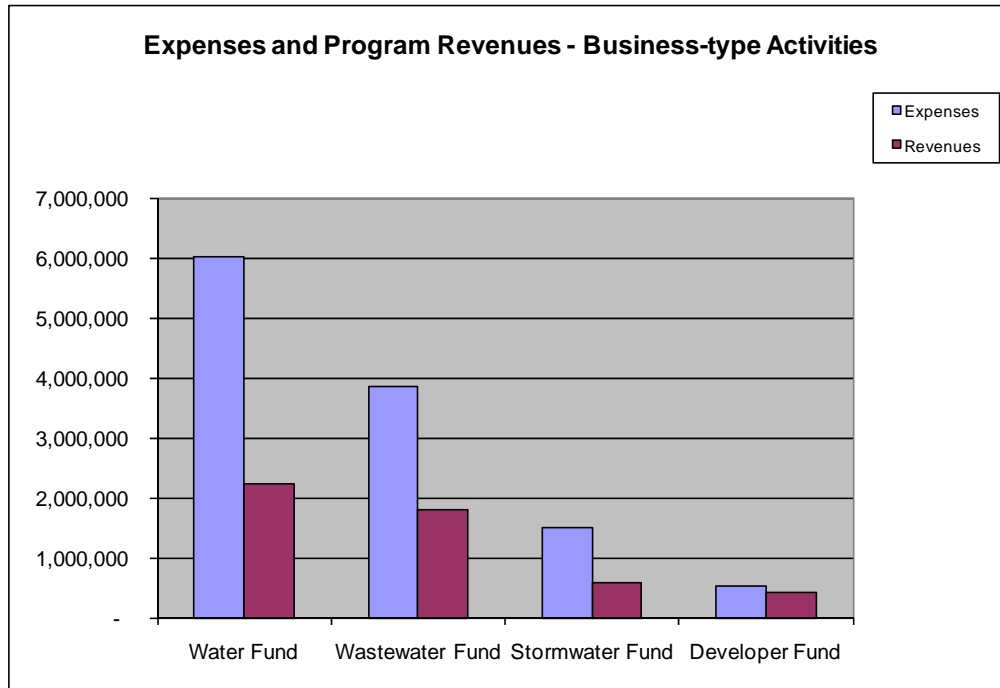
Governmental Activities: Governmental activities decreased District's net assets by \$10.1 million. This reduction is primarily due to interest on pledged notes payable to developers, depreciation on infrastructure assets and a prior period adjustment to correct pledged notes payable.



MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Management's Discussion and Analysis June 30, 2010

Business-Type Activities: Business-type activities increased District's net assets by \$15.5 million. This is primarily due to prior period adjustments to correct pledged notes payable offset by decreases for financing charges accruing on pledged notes payable to developers and depreciation on water, wastewater and stormwater utility and infrastructure assets.



MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Management's Discussion and Analysis June 30, 2010

FINANCIAL ANALYSIS OF DISTRICT FUNDS

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financial requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At June 30, 2010, the District's governmental funds reported total fund balances of \$11.3 million. Approximately 71% of this total amount, \$8.0 million is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending.

The general fund is the main operational fund of the District. At June 30, 2010, it had an unreserved fund balance of \$4.1 million.

The Special Assessments Fund is used to account for funding from property assessments to pay for roads, transportation, community services, public safety, public works and parks, and recreation. Therefore, fund balance must be used for these designated services. At June 30, 2010, unreserved fund balance of \$1.6 million was available to finance future appropriations.

The Impact Fund is used to account for fees collected from builders to mitigate the impact of development. The fees are used to reimburse developers for identified infrastructure projects. At June 30, 2010, unreserved fund balance was \$2.3 million.

Proprietary funds The District's proprietary funds provide similar information found in the government-wide financial statements, but in more detail.

GENERAL FUND BUDGETARY HIGHLIGHTS

Original Budget to Final Budget (in millions)			Increase
	<u>Original</u>	<u>Final</u>	<u>(Decrease)</u>
Estimated revenue	\$ 2.7	\$ 2.8	\$.1
Appropriations	\$ 4.3	\$ 4.0	(\$.3)

The increase in estimated revenue is due to the increase of franchise revenue from the garbage company. The decrease in appropriations is due to transfers for timing of bills for the prior year paid in the current year.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Management's Discussion and Analysis June 30, 2010

Final Budget to Actual (in millions)

	Final	Actual	Increase (Decrease)
Estimated revenue	\$ 2.8	\$ 2.5	(\$.3)
Appropriations	\$ 4.0	\$ 2.0	(\$ 2.0)

During the year, actual revenues were less than budgetary estimates. The shortfall is an aggregation of various increases and decreases of various revenue sources. The major decrease was property tax revenue and the major increase was the issuance of debt in exchange for the contribution of infrastructure from developers.

Actual expenditures were less than final budgeted estimates. A majority of the difference is from the timing and reporting of capital expenditures and transfers to other funds.

Capital assets

The District's capital assets, net of accumulated depreciation is shown below. Major capital asset acquisitions for fiscal year ending June 30, 2010 include the acquisition of the 15mgd water treatment plant, Westside Booster pump and the corporation yard. For additional information related to capital assets, see Note 5 in the Notes to the Basic Financial Statements.

Mountain House Community Services District's Capital Assets (net of depreciation) in millions

	Governmental Activities		Business-Type Activities		Total		Total	
	2010	2009	2010	2009	2010	2009	Dollar Change	Percent Change
	Land	\$ 27.2	\$ 26.0	\$ 2.6	\$ 2.1	\$ 29.7	\$ 28.0	\$ 1.7
Infrastructure	155.1	162.7	188.2	127.0	343.3	289.7	53.7	19%
Machinery and equipment	0.3	0.4	0.6	0.6	0.9	1.0	(0.1)	-14%
Total	\$ 182.6	\$ 189.1	\$ 191.4	\$ 129.6	\$ 374.0	\$ 318.7	\$ 55.2	17%

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Management's Discussion and Analysis June 30, 2010

Long-term debt

The District's outstanding debt is shown below. Increases to outstanding debt were \$45.5 million consisting of new debt of \$65.9 million, financing charges of \$4.4 million which are applied to the outstanding balance of the pledged notes payable in accordance with acquisition agreements. Debt balances were reduced during the year by \$18.5 million for corrections made to certified costs reimbursable to developer and \$6.3 million in payments.

Mountain House Community Services District's Outstanding Debt

Pledged Notes and Revenue Bonds (in millions)

	Governmental Activities		Business-Type Activities		Total		Total	
	2010	2009	2010	2009	2010	2009	Dollar Change	Percent Change
	Pledged Notes Payable	\$ 106.0	\$ 101.2	\$ 157.9	\$ 116.8	\$ 263.8	\$ 218.1	\$45.8
Revenue Bonds	0.0	0.0	23.5	23.8	23.5	23.8	(0.3)	-1%
Total	\$ 106.0	\$ 101.2	\$ 181.4	\$ 140.6	\$ 287.3	\$ 241.9	\$ 45.5	19%

In addition to the long-term debt, the District also has a liability to pay future compensated absences in the amount of \$.1 million. For additional information related to long-term liabilities, see Note 6 in the Notes to the Basic Financial Statements.

Economic Factors and Next Year's Budgets and Rates

During the current fiscal year, unreserved, undesignated fund balance in the general fund decreased to \$4.1 million. The District has reserved \$3.3 million for loans and advances. It is intended that this use of available fund balance will avoid the need to raise taxes or charges during the 2010/11 fiscal year.

The water, wastewater, and stormwater rates were increased 2% for the budget year. These rate increases were necessary to keep up with inflation and to keep the District from having to institute large rate increases in future years. It is the intention of the District to continue to increase rates by the inflation factor each year to fund both debt service and operations and maintenance in future years without having to implement a large rate increase to cover the shortfall.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Management's Discussion and Analysis
June 30, 2010

Conditions Affecting Current Financial Position

Management is unaware of any conditions, which could have a significant impact on the District's current financial position, net assets or operating results in terms of the past, present and future.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Business Manager, 230 S. Sterling Dr. Suite 100, Mountain House, CA 95391.

**BASIC FINANCIAL STATEMENTS –
GOVERNMENT-WIDE FINANCIAL STATEMENTS**

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Statement of Net Assets June 30, 2010

	Primary Government		Totals
	Governmental Activities	Business-Type Activities	
Assets			
Cash and investments	\$ 7,172,174	\$ 555,364	\$ 7,727,538
Accounts receivable	38,534	1,292,688	1,331,222
Taxes receivable	74,492	--	74,492
Interest receivable	15,502	1,257	16,759
Internal balances	4,409,181	(4,409,181)	--
Deferred costs	--	354,683	354,683
Restricted assets:			
Cash and investments	--	2,922,886	2,922,886
Interest receivable	--	8,892	8,892
Capital assets:			
Nondepreciable	27,180,100	2,558,100	29,738,200
Depreciable, net	155,411,698	188,800,987	344,212,685
Total assets	\$ 194,301,681	\$ 192,085,676	\$ 386,387,357
Liabilities			
Accounts payable	\$ 338,545	\$ 313,891	\$ 652,436
Accrued interest	2,081	97,874	99,955
Deposits from others	--	71,672	71,672
Unearned revenue	--	543,143	543,143
Compensated absences:			
Due within one year	105,880	--	105,880
Due in more than one year	33,721	--	33,721
Long-term liabilities:			
Due within one year	1,043,900	1,741,840	2,785,740
Due in more than one year	104,925,390	179,487,418	284,412,808
Total liabilities	106,449,517	182,255,838	288,705,355
Net Assets			
Invested in capital assets, net of related debt	96,266,793	32,889,599	129,156,392
Restricted for special assessments	1,556,906	--	1,556,906
Restricted for debt service	--	2,931,778	2,931,778
Unrestricted	(9,971,535)	(25,991,539)	(35,963,074)
Total net assets	87,852,164	9,829,838	97,682,002
Total liabilities and net assets	\$ 194,301,681	\$ 192,085,676	\$ 386,387,357

The accompanying notes are an integral part of these financial statements.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Statement of Activities
For the Year Ended June 30, 2010

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Fees, Fines and Charges for Services</u>	<u>Capital Grants and Contributions</u>
Primary Government:			
Governmental Activities:			
General government	\$ 1,869,057	\$ 245,273	\$ 1,197,600
Public safety	3,037,944	1,362,535	--
Public ways and facilities	7,636,030	3,999,853	--
Recreation and culture	1,398,530	242,070	2,000
Interest on long-term debt	1,677,721	--	--
Total governmental activities	<u>15,619,282</u>	<u>5,849,731</u>	<u>1,199,600</u>
Business-Type Activities:			
Water Fund	6,024,406	2,217,501	--
Wastewater Fund	3,849,764	1,784,910	--
Storm Fund	1,500,947	578,710	--
Developer Fund	515,648	430,900	--
Total business-type activities	<u>11,890,765</u>	<u>5,012,021</u>	<u>--</u>
Total primary government	<u>\$ 27,510,047</u>	<u>\$ 10,861,752</u>	<u>\$ 1,199,600</u>

General Revenues:

Taxes:

Property taxes

Unrestricted interest and investment earnings

Miscellaneous revenues

Total general revenues

Change in net assets

Net assets, beginning of year

Prior period adjustment

Net assets, end of year

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and
Changes in Net Assets

Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (426,184)	\$ --	\$ (426,184)
(1,675,409)	--	(1,675,409)
(3,636,177)	--	(3,636,177)
(1,154,460)	--	(1,154,460)
(1,677,721)	--	(1,677,721)
(8,569,951)	--	(8,569,951)
--	(3,806,905)	(3,806,905)
--	(2,064,854)	(2,064,854)
--	(922,237)	(922,237)
--	(84,748)	(84,748)
--	(6,878,744)	(6,878,744)
(8,569,951)	(6,878,744)	(15,448,695)
2,171,424	--	2,171,424
40,642	44,060	84,702
34,997	--	34,997
2,247,063	44,060	2,291,123
(6,322,888)	(6,834,684)	(13,157,572)
98,004,988	(5,642,562)	92,362,426
(3,829,936)	22,307,084	18,477,148
\$ 87,852,164	\$ 9,829,838	\$ 97,682,002

Functions/Programs

Primary Government:	
Governmental Activities:	
General government	
Public safety	
Public ways and facilities	
Recreation and culture	
Interest on long-term debt	
Total governmental activities	
Business-Type Activities:	
Water Fund	
Wastewater Fund	
Storm Fund	
Developer Fund	
Total business-type activities	
Total primary government	
General Revenues:	
Taxes:	
Property taxes	
Unrestricted interest and investment earnings	
Miscellaneous revenues	
Total general revenues	
Change in net assets	
Net assets, beginning of year	
Prior period adjustment	
Net assets, end of year	

The accompanying notes are an integral part of these financial statements.

**BASIC FINANCIAL STATEMENTS –
FUND FINANCIAL STATEMENTS**

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Balance Sheet
Governmental Funds
June 30, 2010

	General Fund	Special Assessments Fund	Impact Fees Fund	Total
ASSETS				
Cash and investments	\$ 3,117,842	\$ 1,726,559	\$ 2,327,773	\$ 7,172,174
Accounts receivable	32,704	5,830	--	38,534
Interest receivable	7,471	4,614	3,417	15,502
Taxes receivable	74,492	--	--	74,492
Due from other funds	1,095,082	--	--	1,095,082
Advances to other funds	3,314,099	--	--	3,314,099
	<u>\$ 7,641,690</u>	<u>\$ 1,737,003</u>	<u>\$ 2,331,190</u>	<u>\$ 11,709,883</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 160,529	\$ 178,016	\$ --	\$ 338,545
Accrued interest	--	2,081	--	2,081
Unavailable revenue	74,361	--	--	74,361
Total liabilities	<u>234,890</u>	<u>180,097</u>	<u>--</u>	<u>414,987</u>
Fund balances:				
Reserved:				
Imprest cash	5,300	--	--	5,300
Loans and advances	3,314,099	--	--	3,314,099
Unreserved:				
Undesignated and reported in:				
General fund	4,087,401	--	--	4,087,401
Special revenue funds	--	1,556,906	2,331,190	3,888,096
Total fund balances	<u>7,406,800</u>	<u>1,556,906</u>	<u>2,331,190</u>	<u>11,294,896</u>
Total liabilities and fund balances	<u>\$ 7,641,690</u>	<u>\$ 1,737,003</u>	<u>\$ 2,331,190</u>	<u>\$ 11,709,883</u>

The accompanying notes are an integral part of these financial statements.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Assets - Governmental Activities
June 30, 2010

Fund Balance - total governmental funds	\$ 11,294,896
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the governmental funds.	182,591,798
Revenues not available to pay for current period expenditures are not current financial resources, and therefore, are reported as unavailable revenue in the governmental funds.	74,361
Long-term liabilities are not due and payable in the current period and therefore, are not reported in the governmental funds.	
Notes payable	(105,969,290)
Compensated absences	<u>(139,601)</u>
Net assets of governmental activities	<u>\$ 87,852,164</u>

The accompanying notes are an integral part of these financial statements.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds For the Year Ended June 30, 2010

	General Fund	Special Assessments Fund	Impact Fees Fund	Total
Revenues				
Taxes	\$ 2,173,328	\$ --	\$ --	\$ 2,173,328
Special assessments	--	4,681,793	--	4,681,793
Licenses and permits	184,716	--	--	184,716
Use of money and property	21,029	5,625	13,988	40,642
Charges for services	58,660	5,363	920,903	984,926
Other revenues	27,046	5,951	--	32,997
Donations	--	2,000	--	2,000
Total revenues	<u>2,464,779</u>	<u>4,700,732</u>	<u>934,891</u>	<u>8,100,402</u>
Expenditures				
Current:				
General government	1,812,680	--	--	1,812,680
Public safety	--	3,037,944	--	3,037,944
Public ways and facilities	--	757,204	180,039	937,243
Recreation and culture	--	422,890	--	422,890
Debt service:				
Principal	--	--	769,224	769,224
Total expenditures	<u>1,812,680</u>	<u>4,218,038</u>	<u>949,263</u>	<u>6,979,981</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>652,099</u>	<u>482,694</u>	<u>(14,372)</u>	<u>1,120,421</u>
Other Financing Sources (Uses)				
Transfers in	39,929	227,844	--	267,773
Transfers out	<u>(227,844)</u>	<u>(15,100)</u>	<u>(24,829)</u>	<u>(267,773)</u>
Total other financing sources (uses)	<u>(187,915)</u>	<u>212,744</u>	<u>(24,829)</u>	<u>--</u>
Net change in fund balances	464,184	695,438	(39,201)	1,120,421
Fund balances, beginning of year	<u>6,942,616</u>	<u>861,468</u>	<u>2,370,391</u>	<u>10,174,475</u>
Fund balances, end of year	<u>\$ 7,406,800</u>	<u>\$ 1,556,906</u>	<u>\$ 2,331,190</u>	<u>\$ 11,294,896</u>

The accompanying notes are an integral part of these financial statements.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Government-Wide Statement of Activities - Governmental Activities For the Year Ended June 30, 2010

Net change to fund balance - total governmental funds	\$ 1,120,421
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Expenditures for general capital assets, infrastructure, and other related capital assets adjustments	\$ 15,101
Less: current year depreciation	<u>(7,723,295)</u>
	(7,708,194)
Contribution of capital assets from developers and others increase net assets in the statement of activities, but do not appear in the governmental funds because they are not financial resources.	1,197,600
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds.	
Increase (decrease) in accrued property tax revenues	(1,904)
Long-term debt proceeds provide current resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Also, governmental funds report the effect of issuance costs when debt is first issued, whereas these amounts are deferred and amortized in the statement of of activities.	
Increase in notes payable due to financing costs	(1,677,722)
Principal repayments:	
Notes payable	769,224
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Change in compensated absences	<u>(22,313)</u>
Change in net assets of governmental activities	<u>\$ (6,322,888)</u>

The accompanying notes are an integral part of these financial statements.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Statement of Fund Net Assets Proprietary Funds June 30, 2010

	Business-type Activities - Enterprise Funds				
	Water	Wastewater	Stormwater	Developer	Total
Assets					
Cash and investments	\$ 1,921	\$ --	\$ --	\$ 553,443	\$ 555,364
Accounts receivable	93,179	69,705	25,497	1,104,307	1,292,688
Interest receivable	10	--	--	1,247	1,257
Unamortized debt issuance cost	172,753	140,530	41,400	--	354,683
Restricted assets:					
Cash and investments	1,388,152	1,162,540	372,194	--	2,922,886
Interest receivable	4,298	3,519	1,075	--	8,892
Capital assets:					
Nondepreciable	938,000	1,620,100	--	--	2,558,100
Depreciable, net	103,360,084	59,288,904	26,151,999	--	188,800,987
 Total assets	 \$ 105,958,397	 \$ 62,285,298	 \$ 26,592,165	 \$ 1,658,997	 \$ 196,494,857
Liabilities					
Accounts payable	\$ 173,360	\$ 100,975	\$ 20,449	\$ 19,107	\$ 313,891
Accrued interest	44,964	39,024	12,221	1,665	97,874
Due to other funds	--	--	--	1,095,082	1,095,082
Advances from other funds	1,241,527	1,822,180	250,392	--	3,314,099
Deposits from others	71,672	--	--	--	71,672
Unearned revenues	--	--	--	543,143	543,143
Long-term liabilities:					
Revenue bonds:					
Due within one year	230,000	185,000	55,000	--	470,000
Due in more than one year	10,688,452	9,269,929	2,925,257	--	22,883,638
Pledged notes payable:					
Due within one year	606,180	493,690	171,970	--	1,271,840
Due in more than one year	88,132,554	52,275,436	16,195,790	--	156,603,780
Total liabilities	101,188,709	64,186,234	19,631,079	1,658,997	186,665,019
Net Assets					
Invested in capital assets, net of related debt	12,302,020	9,412,030	11,175,549	--	32,889,599
Restricted for debt service	1,392,450	1,166,059	373,269	--	2,931,778
Unrestricted	(8,924,782)	(12,479,025)	(4,587,732)	--	(25,991,539)
Total net assets	4,769,688	(1,900,936)	6,961,086	--	9,829,838
 Total liabilities and net assets	 \$ 105,958,397	 \$ 62,285,298	 \$ 26,592,165	 \$ 1,658,997	 \$ 196,494,857

The accompanying notes are an integral part of these financial statements.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Statement of Revenues, Expenses and Changes in Fund Net Assets Proprietary Funds For the Year Ended June 30, 2010

	Business-type Activities - Enterprise Funds				
	Water	Wastewater	Stormwater	Developer	Total
Operating Revenues:					
Charges for services:					
User fees and charges	\$ 809,011	\$ 826,019	\$ 273,957	\$ 430,900	\$ 2,339,887
User fees and charges - pledged	1,208,061	958,891	304,753	--	2,471,705
Penalty charges	200,429	--	--	--	200,429
Total operating revenues	2,217,501	1,784,910	578,710	430,900	5,012,021
Operating Expenses:					
Salaries and benefits	403,584	306,726	96,862	304,939	1,112,111
Professional and special services	668,841	452,405	262,472	208,799	1,592,517
Utilities	552,697	160,122	--	1,910	714,729
Chemicals	173,531	132,375	--	--	305,906
Maintenance	16,785	91,349	31,235	--	139,369
Depreciation	2,235,868	1,383,127	697,039	--	4,316,034
Total operating expenses	4,051,306	2,526,104	1,087,608	515,648	8,180,666
Operating income (loss)	(1,833,805)	(741,194)	(508,898)	(84,748)	(3,168,645)
Nonoperating Revenues (Expenses):					
Interest revenue	20,612	16,745	5,554	1,149	44,060
Interest expense	(1,973,100)	(1,323,660)	(413,339)	--	(3,710,099)
Total nonoperating revenues (expenses)	(1,952,488)	(1,306,915)	(407,785)	1,149	(3,666,039)
Change in net assets	(3,786,293)	(2,048,109)	(916,683)	(83,599)	(6,834,684)
Net assets, beginning of year	(113,554)	(4,820,841)	(791,766)	83,599	(5,642,562)
Prior period adjustment	8,669,535	4,968,014	8,669,535	--	22,307,084
Net assets, end of year	\$ 4,769,688	\$ (1,900,936)	\$ 6,961,086	\$ --	\$ 9,829,838

The accompanying notes are an integral part of these financial statements.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2010

	Business-Type Activities - Enterprise Funds				
	Water	Wastewater	Stormwater	Developer	Total
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from customers	\$ 2,276,639	\$ 1,734,293	\$ 575,347	\$ 3,103,146	\$ 7,689,425
Cash payments to employees	(403,584)	(306,726)	(96,862)	(314,736)	(1,121,908)
Cash payments to suppliers for goods and services	(1,323,716)	(837,831)	(231,752)	(601,932)	(2,995,231)
Net cash provided (used) by operating activities	549,339	589,736	246,733	2,186,478	3,572,286
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Advances received	648,749	536,883	52,626	--	1,238,258
Repayment of temporary interfund borrowing	--	--	--	(2,625,379)	(2,625,379)
Net cash provided (used) by noncapital financing activities	648,749	536,883	52,626	(2,625,379)	(1,387,121)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Payments for acquisition of capital assets	--	(129,209)	--	--	(129,209)
Principal paid on long term debt	(2,295,360)	(2,379,982)	(892,903)	--	(5,568,245)
Interest paid on long term debt	(541,570)	(509,346)	(148,938)	--	(1,199,854)
Net cash provided (used) by capital and related financing activities	(2,836,930)	(3,018,537)	(1,041,841)	--	(6,897,308)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest on investments	23,388	19,736	6,401	(8,910)	40,615
Net cash provided (used) by investing activities	23,388	19,736	6,401	(8,910)	40,615
Net Increase (Decrease) in Cash and Cash Equivalents	(1,615,454)	(1,872,182)	(736,081)	(447,811)	(4,671,528)
Cash and cash equivalents, beginning of year	3,005,527	3,034,722	1,108,275	1,001,254	8,149,778
Cash and cash equivalents, end of year	<u>\$ 1,390,073</u>	<u>\$ 1,162,540</u>	<u>\$ 372,194</u>	<u>\$ 553,443</u>	<u>\$ 3,478,250</u>

Continued

The accompanying notes are an integral part of these financial statements.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Statement of Cash Flows (continued)
 Proprietary Funds
 For the Year Ended June 30, 2010

	Business-Type Activities - Enterprise Funds				
	Water	Wastewater	Stormwater	Developer	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	\$ (1,833,805)	\$ (741,194)	\$ (508,898)	\$ (84,748)	\$ (3,168,645)
Adjustments to reconcile operating income (loss) to cash flows from operating activities:					
Depreciation	2,235,868	1,383,127	697,039	--	4,316,034
Changes in assets and liabilities:					
(Increase) decrease in:					
Accounts receivable	29,715	(24,385)	58,736	2,619,339	2,683,405
Increase (decrease) in:					
Accounts payable	48,689	(27,812)	(144)	(56,179)	(35,446)
Deposits with others	68,872	--	--	--	68,872
Unearned revenue	--	--	--	(291,934)	(291,934)
Net Cash Provided (Used) by Operating Activities	<u>\$ 549,339</u>	<u>\$ 589,736</u>	<u>\$ 246,733</u>	<u>\$ 2,186,478</u>	<u>\$ 3,572,286</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

The notes provided in the Financial Section of this report are considered an integral and essential part of adequate disclosure and fair presentation of this report. The notes include a Summary of Significant Accounting Policies for the District and other necessary disclosure of pertinent matters relating to the financial position of the District. The notes express significant insight to the financial statements and are conjunctive to understanding the rationale for presentation of the financial statements and information contained in this document.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Notes to the Basic Financial Statements
June 30, 2010

Note 1: **Summary of Significant Accounting Policies**

A. **Reporting Entity**

The reporting entity refers to the scope of activities, organizations and functions included in the financial statements. The Mountain House Community Services District (District) is a political subdivision created by the State of California and, as such, can exercise the powers specified by the Constitution and laws of the State of California. The District operates under the general laws of the State and is governed by an elected five member Board of Directors (Board). The Board currently consists of five members of the community elected at large.

For financial reporting purposes, the District's basic financial statements include all financial activities that are controlled by or are dependent upon actions taken by the Board.

The accounting methods and procedures adopted by the Mountain House Community Services District conform to generally accepted accounting principles as applied to governmental entities. The District reviewed the criteria developed by the Governmental Accounting Standards Board (GASB) in its issuance of Statement No. 14, relating to the financial reporting entity to determine whether the District is financially accountable for other entities. The District has determined that no other outside entity meets the above criteria, and therefore, no agency has been included as a component unit in the financial statements. In addition, the District is not aware of any entity that would be financially accountable for the District that would result in the District being considered a component unit of that entity.

Outside of Reporting Entity

The District entered into a Joint Exercise of Powers Agreement dated April 1, 2007, between the District and the County of San Joaquin (County) for the purpose of creating the Mountain House Public Financing Authority (Authority). The Authority was created to facilitate the financing and refinancing of certain public programs and projects of the District through the issuance of the Utility Systems Revenue Bonds. The Authority is legally separate from the District and has its own governing board.

B. **Basis of Presentation and Method of Accounting**

Government-Wide Financial Statements

The statement of net assets and statement of activities display information about the primary government. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Notes to the Basic Financial Statements
June 30, 2010

Note 1: **Summary of Significant Accounting Policies** (continued)

B. **Basis of Presentation and Method of Accounting** (continued)

Government-Wide Financial Statements (continued)

internal activities. These statements distinguish between the *governmental* and *business-type activities* of the District. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties.

The statement of activities demonstrates the degree to which the program expenses of a given function are offset by program revenues. Program expenses include direct expenses, which are clearly identifiable with a specific function, and allocated indirect expenses. Program revenues include 1) charges paid by the recipients of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program.

Revenues that are not classified as program revenues, including all taxes, are presented instead as general revenues.

When both restricted and unrestricted net assets are available, restricted resources are used only after the unrestricted resources are depleted.

Fund Financial Statements

The fund financial statements provide information about the District's funds. Separate statements for each fund category – *governmental and proprietary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are separately aggregated and reported as nonmajor funds.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. 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. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. *Nonoperating* revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities. All revenues and expenses not meeting the definition of operating revenues and expenses are reported as nonoperating.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Notes to the Basic Financial Statements
June 30, 2010

Note 1: **Summary of Significant Accounting Policies** (continued)

B. Basis of Presentation and Method of Accounting (continued)

Fund Financial Statements (continued)

The District reports the following major governmental funds:

- The *General Fund* is the general operating fund of the District. It is used to account for all financial resources and transactions except those required to be accounted for in another fund. It includes certain special accounts that are used to accumulate resources for designated purposes.
- The *Special Assessments Fund* is used to account for funding from property assessments to pay for roads, transportation, community services, public safety, public works, parks and recreation.
- The *Impact Fund* is used to account for fees collected from builders to mitigate the impact of development. The fees are used to reimburse developers for identified infrastructure projects.

The District reports the following major enterprise funds:

- The *Water Fund* is used to account for the revenues from water users and the associated expenses to provide water treatment and services, and debt service.
- The *Wastewater Fund* is used to account for the revenues from wastewater users and the associated expenses to provide wastewater treatment and services, and debt service.
- The *Stormwater Fund* is used to account for the revenues from stormwater line users and the associated expenses to provide stormwater treatment and services, and debt service.
- The *Developer Fund* is used to account for funding from the developer fees and charges for services to developers related to their construction of infrastructure.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Notes to the Basic Financial Statements
June 30, 2010

Note 1: **Summary of Significant Accounting Policies** (continued)

C. Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting.

Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from entitlements and donations are recognized in the fiscal year in which all eligible requirements have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available (“susceptible to accrual”). Property taxes, interest, and charges for services are accrued when their receipt occurs within sixty days after the end of the accounting period so as to be measurable and available. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due. General capital assets acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and capital leases are reported as other financing sources.

For its business-type activities and enterprise funds, the District has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board or any accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Notes to the Basic Financial Statements
June 30, 2010

Note 1: **Summary of Significant Accounting Policies** (continued)

D. Cash and Cash Equivalents

The statements of cash flows include both cash and cash equivalents. Cash equivalents are defined as all cash and investments with maturities of 90 days or less and the District's investment in the County of San Joaquin's pooled cash and investments.

E. Receivables and Unearned Revenue

Receivables consist mostly of property taxes, developer reimbursements, and utility billings. Management believes its receivables are fully collectible and, accordingly, no allowances for doubtful accounts is required.

The District reports unearned revenue on its financial statements. Unearned revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues also arise when the District receives resources before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability unearned revenue is removed from the financial statements and revenue is recognized.

F. Restricted Assets

The District has entered Project Reimbursement Agreements with Trimark Communities, the District's developer, which provides for quarterly payments by the District to Trimark for the reimbursement of the cost of the capital construction of water, wastewater, and stormwater facilities from pledged revenues.

A portion of the District's utility bills to its customers is pledged to reimburse the developer for these facilities. The cash and receivables not yet disbursed to the developer are reported as restricted assets. This cash is held at Wells Fargo Bank to pay related debt service on the long term debt (revenue bonds) issued in lieu of quarterly payments.

G. Capital Assets

Capital assets (including infrastructure) are recorded at historical costs or at estimated historical cost if actual historical cost is not available. The District defines capital assets as assets with an initial, individual cost of more than \$1,000 for equipment/furniture and \$5,000 for structures and improvements, and an estimated useful life in excess of one year.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Notes to the Basic Financial Statements
June 30, 2010

Note 1: **Summary of Significant Accounting Policies** (continued)

G. Capital Assets (continued)

Capital assets acquired by the governmental funds are accounted for as expenditures of those funds and capitalized and recorded as assets in the government-wide financial statements. Infrastructure acquired from district developers is recorded when an offer of dedication is accepted and capitalized using amounts from certified cost reports. When certified cost reports are not available at the time of dedication, infrastructure is capitalized based on estimates. Cost estimates are adjusted in the subsequent year as certified cost reports become available.

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements that significantly increase values, change capacities or extend useful lives are capitalized. Upon sale or retirement of fixed assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

Depreciation is recorded using the straight-line method over the estimated useful lives of the capital assets. The range of estimated useful lives by type of asset is as follows:

Structures and Improvements	10-50 years
Equipment and machinery	2-10 years
Infrastructure	25 years

H. Compensated Absences

Unused vacation leave may be accumulated up to a specified maximum and is paid at the time of termination from District employment. In accordance with the Memorandum of Understanding (MOU) between the District and the employees' unions, the District is only obligated to pay for unused sick leave up to a certain percentage at the time of eligible employees' retirement. Upon retirement, the District converts the non-cash pay out portion to a sick-leave bank to provide the post retirement medical or dental premium coverage for eligible employees.

The District has an agreement with the County of San Joaquin to have the County handle the accounting for compensated vacation and sick leave accruals. The County accrues as current liabilities compensated vacation and other leave benefits that are attributable to employees' services already rendered but not yet paid. A portion of the unused sick leave (based on the past three years' experience) to be paid upon retirement is also accrued as part of the current compensated absences liability. The compensated absences liability is calculated in accordance with GASB Statement No. 16.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Notes to the Basic Financial Statements
June 30, 2010

Note 1: **Summary of Significant Accounting Policies** (continued)

H. **Compensated Absences** (continued)

The County provides full-time employees with 12 days of paid sick leave per year. Unused sick leave is allowed to accumulate. Based on the current employee organizations' Memoranda of Understanding (MOU), regular employees who were on the payroll as of August 27, 2001, upon retirement, may use a portion of their accumulated unused and un-cashed sick leave to pay for the monthly post-employment health insurance premiums or to use it as part of their pension benefits. Employees hired after August 27, 2001 are not eligible for this benefit.

I. **Property Tax Revenues**

Property taxes attach as an enforceable lien on property as of January 1st. Taxes are levied on July 1st and are payable in two installments on December 10th and April 10th.

The County of San Joaquin is responsible for the collection and allocation of property taxes. Under California law, property taxes are assessed and collected by the County up to 1% of the full cash value of taxable property, plus other increases approved by the voters and distributed in accordance with statutory formulas. The District recognizes property taxes when the individual installments are due provided they are collected within 60 days after year-end.

The District participates in an alternative method of distribution of property tax levies and assessments known as the "Teeter Plan." The State Revenue and Taxation Code allows counties to distribute secured real property and assessment and supplemental property taxes on an accrual basis resulting in full payment to cities each fiscal year. Any subsequent delinquent payments, penalties and interest during a fiscal year will revert to the County.

J. **Special Assessments**

There are four special taxes used to fund the services in the District. Each tax is levied per one hundred square feet of living area and per one hundred square feet of parcel area. The tax rate is subject to adjustment annually. The various assessments fund the capital and operation costs of providing roadways and other transportation infrastructure; public safety; parks, recreation, and community facilities; and public works services. The County of San Joaquin collects the special assessments as part of the property tax collection system and the District recognizes special assessment revenue when the installments are due provided they are collected within 60 days after year-end.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Notes to the Basic Financial Statements
June 30, 2010

Note 1: **Summary of Significant Accounting Policies** (continued)

K. Use of Estimates

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

Note 2: **Cash and Investments**

At June 30, 2010, the District's total cash and investments at fair value were as follows:

<i>Cash:</i>	
Cash on hand	\$ 5,300
Deposits	<u>994,447</u>
Total cash	<u>999,747</u>
<i>Investments:</i>	
Pooled in County treasury	7,722,238
Restricted with fiscal agent	<u>1,928,439</u>
Total investments	<u>9,650,677</u>
Total cash and investments	<u>\$ 10,650,424</u>

Except for amounts held by fiscal agents in accordance with bond ordinances, all of the District's cash is deposited in the County Treasury. The County maintains a cash and investment pool that is available to all funds for which the County Treasury is the depository, for the purpose of increasing interest earnings through investment activities. The District has not adopted an investment policy, but the County's Board of Supervisors approves an investment policy each year and provides oversight for all pooled investments in the County Treasury. Copies of the Treasurer-Tax Collector's monthly reports can be obtained from the Treasurer-Tax Collector's Office at the County of San Joaquin.

The District's cash and investments are stated at fair value at June 30, 2010. Interest earned on the pooled funds is accrued and apportioned quarterly, based upon the average daily balance of each fund. Information regarding categorizing, ratings, and risk of investments and fair value reporting can be found in the County of San Joaquin's annual financial report which can be obtained by contacting the Auditor-Controller's office at the County of San Joaquin.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Notes to the Basic Financial Statements June 30, 2010

Note 2: **Cash and Investments** (continued)

Required risk disclosures for the District's investment in the San Joaquin County Investment Pool at June 30, 2010 were as follows:

Credit risk	Not rated
Custodial risk	Not applicable
Concentration of credit risk	Not applicable
Interest rate risk	172 days

Investments held in the County's investment pool are available on demand and consist of cash held in the bank or on hand, debt securities, and investments in third-party investment pools.

Custodial Credit Risk of Cash Deposits

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 requires that a financial institution secure the District's cash deposits by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of pledged securities in the collateral pool must equal at least 110% of the District's cash deposits. California law also allows institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the District's total cash deposits.

At June 30, 2010, \$250,000 of deposits was covered by Federal Depository Insurance Corporation (FDIC) and the remainder was covered by the multiple financial institution collateral pool that insures public deposits.

Note 3: **Restricted Cash and Investments**

Restricted Cash

The District is required to pledge revenues received from the water, wastewater, and storm water utility fees towards the debt service for the 2007 Revenue Bonds. The amount held and restricted for this purpose at June 30, 2010 was \$994,447.

Funds Held by Fiscal Agents

The District holds all of its restricted investments with a fiscal agent in various accounts for the purpose of paying principal and interest on the 2007 revenue bonds and to establish a reserve for the bond issue.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Notes to the Basic Financial Statements June 30, 2010

Note 3: **Restricted Cash and Investments** (continued)

The fair value of investments is determined monthly based upon quoted market prices. At June 30, 2010, the District's investments with the fiscal agent were categorized as follows:

	Carrying Value	Fair Value	Weighted Average Maturity (Years)
Federal Agencies	\$ 1,119,493	\$ 1,130,701	1.43
Money Market Mutual Funds	797,738	797,738	0.00
	\$ 1,917,231	\$ 1,928,439	0.84

Concentration of Credit Risk

The following is a summary of the credit quality distribution and concentration of credit risk by investment type as a percentage of the District's total restricted investment portfolio at June 30, 2010:

	Moody's	% of Portfolio	Amount
Federal Agencies (FHLB)	AAA	29.63%	\$ 571,464
Federal Agencies (FNMA)	AA2	29.00%	559,237
Money Market Mutual Funds	N/A	41.37%	797,738
Total		100.00%	\$ 1,928,439

GASB Statement No. 40 requires that investments in single issuers exceeding 5% of the District's investments be disclosed as concentrations of credit risk. The District exceeded the 5% in each of the Federal Agencies, as shown above.

Custodial Credit Risk

For investments and deposits held with fiscal agents, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or deposits that are in the possession of an outside party. At year end, the District's cash and investments with fiscal agents had no securities exposed to custodial credit risk.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Notes to the Basic Financial Statements
June 30, 2010

Note 4: **Interfund Transactions**

Interfund receivables and payables represent borrowing between funds at year-end. The composition of interfund balances as of June 30, 2010, is as follows:

Due to/from other funds:

Amounts due to and from other funds are for temporary loans to cover deficit cash and other shortfalls.

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Developer	\$ 1,095,082

Advances to/from other funds:

Advances to utility funds are the result of shortfalls of expenses over revenues in the early years where the utility funds can not generate enough revenue in a brand new start-up community to pay all the operating expenses. It is expected that at some point in the future the utility funds will generate revenues in excess of expenses which will allow the repayment of advances.

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Water	\$ 1,241,527
	Wastewater	1,822,180
	Stormwater	250,392
		<u>\$ 3,314,099</u>

Transfers:

Transfers are indicative of subsidies of various District operations. Transfers between funds for the year ended June 30, 2010, were as follows:

<u>Transfers from</u>	<u>Transfers to</u>	<u>Amount</u>
General Fund	Special Assessments	\$ 227,844
Special Assessment Fund	General Fund	15,100
Impact Fees Fund	General Fund	24,829
		<u>\$ 267,773</u>

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Notes to the Basic Financial Statements June 30, 2010

Note 5: Capital Assets

Capital assets at June 30, 2010 consisted of the following:

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 25,982,500	\$ 1,197,600	\$ --	\$ 27,180,100
Total capital assets, not being depreciated	<u>25,982,500</u>	<u>1,197,600</u>	<u>--</u>	<u>27,180,100</u>
Capital assets, being depreciated:				
Equipment	575,375	15,101	--	590,476
Infrastructure	190,577,390	--	--	190,577,390
Total capital assets, being depreciated	<u>191,152,765</u>	<u>15,101</u>	<u>--</u>	<u>191,167,866</u>
Less accumulated depreciation for:				
Equipment	(161,532)	(100,197)	--	(261,729)
Infrastructure	(27,871,341)	(7,623,098)	--	(35,494,439)
Total accumulated depreciation	<u>(28,032,873)</u>	<u>(7,723,295)</u>	<u>--</u>	<u>(35,756,168)</u>
Total capital assets, being depreciated, net	<u>163,119,892</u>	<u>(7,708,194)</u>	<u>--</u>	<u>155,411,698</u>
Governmental activities capital assets, net	<u>\$ 189,102,392</u>	<u>\$ (6,510,594)</u>	<u>\$ --</u>	<u>\$ 182,591,798</u>
Business-Type Activities				
Capital assets, not being depreciated:				
Land	\$ 2,061,200	\$ 496,900	\$ --	\$ 2,558,100
Total capital assets, not being depreciated	<u>2,061,200</u>	<u>496,900</u>	<u>--</u>	<u>2,558,100</u>
Capital assets, being depreciated:				
Equipment	798,850	115,593	--	914,443
Other property	141,437,654	65,433,067	--	206,870,720
Total capital assets, being depreciated	<u>142,236,504</u>	<u>65,548,660</u>	<u>--</u>	<u>207,785,163</u>
Less accumulated depreciation for:				
Equipment	(180,818)	(178,621)	--	(359,439)
Other property	(14,487,323)	(4,137,414)	--	(18,624,737)
Total accumulated depreciation	<u>(14,668,141)</u>	<u>(4,316,035)</u>	<u>--</u>	<u>(18,984,176)</u>
Total capital assets, being depreciated, net	<u>127,568,363</u>	<u>61,232,625</u>	<u>--</u>	<u>188,800,987</u>
Business-type activities capital assets, net	<u>\$ 129,629,563</u>	<u>\$ 61,729,525</u>	<u>\$ --</u>	<u>\$ 191,359,087</u>

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Notes to the Basic Financial Statements June 30, 2010

Note 5: **Capital Assets** (continued)

Depreciation

Depreciation expense was charged to governmental functions as follows:

Governmental Activities:

General government	\$ 48,869
Public ways	6,698,786
Culture and recreation	975,640
	975,640
Total	\$ 7,723,295

Depreciation expense was charged to the business-type functions as follows:

Business-Type Activities:

Water	\$ 2,235,868
Wastewater	1,383,128
Stormwater	697,039
	697,039
Total	\$ 4,316,035

Note 6: **Long-Term Liabilities**

The following is a summary of long-term liabilities of the District for the year ended June 30, 2010:

<u>Governmental activities</u>	<u>Maturity</u>	<u>Interest Rates</u>	<u>Principal Installments</u>	<u>Date of Issue</u>	<u>Amount Authorized</u>	<u>Outstanding June 30, 2010</u>
Pledged notes payable <i>(to acquire infrastructure from developers)</i>	None	Agreement based	Based on impact fee receipts	Various	\$ 120,514,522	\$ 105,969,290
<u>Business-type activities</u>						
Revenue bonds, Series 2007 <i>(to refinance the acquisition and construction of water, wastewater, and storm drain improvements)</i>	2033	4.0% - 5.2%	\$430,000 - \$1,680,000	2007	24,365,000	23,480,000
Pledged notes payable <i>(to acquire water, wastewater, and storm drain infrastructure and utilities)</i>	None	Agreement based	Based on utility revenue receipts	Various	165,628,770	157,875,620

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Notes to the Basic Financial Statements
June 30, 2010

Note 6: **Long-Term Liabilities** (continued)

The following is a summary of long-term liabilities transactions for the year ended June 30, 2010:

	Balance July 1, 2009	Additions	Retirements	Adjustments ¹	Balance June 30, 2010	Amounts Due Within One Year
Governmental activities:						
Pledged notes payable	\$ 101,230,856	\$ 1,677,721	\$ (769,224)	\$ 3,829,937	\$ 105,969,290	\$ 1,043,900
Compensated absences	117,288	184,059	(161,746)	--	139,601	105,880
Total governmental activities long-term liabilities	<u>\$ 101,348,144</u>	<u>\$ 1,861,780</u>	<u>\$ (930,970)</u>	<u>\$ 3,829,937</u>	<u>\$ 106,108,891</u>	<u>\$ 1,149,780</u>
Business-type activities						
Revenue bonds	\$ 23,935,000	\$ --	\$ (455,000)	\$ --	\$ 23,480,000	\$ 470,000
Unamortized discount	(131,856)	--	5,494	--	(126,362)	--
Pledged notes payable	116,835,412	68,460,537	(5,113,245)	(22,307,084)	157,875,620	1,271,840
Total business-type activities long-term liabilities	<u>\$ 140,638,556</u>	<u>\$ 68,460,537</u>	<u>\$ (5,562,751)</u>	<u>\$ (22,307,084)</u>	<u>\$ 181,229,258</u>	<u>\$ 1,741,840</u>

¹ See Note 13 for discussion of the change in the beginning balance

Compensated absences are generally liquidated by the General Fund.

Pledged Notes Payable

The District acquired various infrastructure facilities from district developers. In accordance with the Master Acquisition and Reimbursement Agreement, the District is obligated to reimburse for the accepted infrastructure based on agreed amounts. In accordance with the agreement, financing charges are applied to the outstanding balance using the percentage increase in the Engineering News Record (ENR), a construction cost index.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Notes to the Basic Financial Statements
June 30, 2010

Note 6: **Long-Term Liabilities** (continued)

Payment Requirements for Debt Service

Due to the unknown amount and timing of future debt payments on the pledged notes payable, the future maturity schedules for these payables are not available. As of June 30, 2010, annual debt service requirements of the revenue bonds to maturity are as follows:

Year Ending June 30:	Bonds Payable		
	Principal	Interest	Total
2011	\$ 470,000	\$ 1,141,630	\$ 1,611,630
2012	605,000	1,119,440	1,724,440
2013	630,000	1,093,300	1,723,300
2014	660,000	1,065,940	1,725,940
2015	690,000	1,034,545	1,724,545
2016-2020	3,985,000	4,638,885	8,623,885
2021-2025	5,095,000	3,527,435	8,622,435
2026-2030	6,545,000	2,067,620	8,612,620
2031-2033	4,800,000	371,010	5,171,010
Subtotal	\$ 23,480,000	\$ 16,059,805	\$ 39,539,805
Less: Unamortized Discount	(126,362)		
Total	\$ 23,353,638		

Pledged Revenues

The District has pledged all utility revenues and all impact fee revenues to secure the repayment of principal and interest on the revenue bonds and the pledged notes payable in accordance with the terms and the provisions of the debts payable. Total principal and interest remaining on the revenue bonds is \$39,539,805, payable through June 2033. For the current year ended, principal and interest paid on the revenue bonds was \$455,000 and \$1,160,130, respectively. Total principal and interest remaining on the pledged notes payable is \$263,844,910. For the pledged notes payable, total debt service repaid was \$5,882,469. Total pledged revenues for the fiscal year ended June 30, 2010 were \$2,471,705 for utility revenues and \$920,903 for impact fee revenues.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Notes to the Basic Financial Statements
June 30, 2010

Note 6: **Long-Term Liabilities** (continued)

Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years. During the current year, the District performed calculations of excess investment earnings on various bonds and financings and at June 30, 2010 does not expect to incur a liability.

Note 7: **Operating Leases**

The District has two operating leases to rent space for the administration and library buildings. The minimum future lease obligations are listed below:

	<u>Governmental Activities</u>
Year Ended June 30:	
2011	731,952
2012	750,007
2013	663,781
2014	535,935
2015	428,260
2016-2018	888,358
Total minimum lease payments	<u><u>\$ 3,998,293</u></u>

Total rent expenditures for the current fiscal year ended were \$719,814.

Note 8: **Net Assets/Fund Balances**

Net Assets

The government-wide and business-type activities financial statements utilize a net assets presentation. Net assets are categorized as invested capital assets (net of related debt), restricted and unrestricted. These categories are described on the following page:

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Notes to the Basic Financial Statements
June 30, 2010

Note 8: **Net Assets/Fund Balances** (continued)

Net Assets (continued)

- *Invested in Capital Assets, Net of Related Debt* – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted Net Assets* – This category represents net assets that are subject to constraints either (1) externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation. Included in total restricted net assets at June 30, 2010, are net assets restricted by enabling legislation of \$1,556,906.
- *Unrestricted Net Assets* – This category represents net assets of the District, not restricted for any project or other purpose.

Fund Balances

In the fund financial statements, reserves and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The various reserves and designations are established by actions of the Board and management and can be increased, reduced or eliminated by similar actions.

The term “reserved” is used to indicate that a portion of reported fund balance is (1) legally restricted to a specific use or (2) not available for appropriation or expenditure. The District’s management will sometimes designate portions of unreserved (available) fund balance based on tentative future spending plans. Designated portions of fund balance represent financial resources legally available for uses other than those tentatively planned.

The District has “reserved” fund balances as follows:

- *Reserved for imprest cash* – to reflect the portion of the fund balance that is not available for expenditure because the District maintains revolving funds for daily operations.
- *Reserved for advances* – to reflect the portion of the fund balance that is not available for expenditure because the District has loaned the amount to other funds.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Notes to the Basic Financial Statements
June 30, 2010

Note 9: **Employees' Retirement Plan Description**

All full-time employees of the District participate in the San Joaquin County Employees' Retirement System (System), a cost-sharing, multiple-employer, public employee retirement system. The employees of the District become members of the system automatically upon appointment to a full-time permanent position. The Board of Retirement of the San Joaquin County Employees' Retirement Association (SJCERA) governs the County's pension fund.

The records of the System are the responsibility of the SJCERA and are maintained on a calendar year basis. The calendar year 2009 financial statements of the System are available by writing to San Joaquin County Employees Retirement Association, 6 South El Dorado Street, Suite 400, Stockton, CA 95202.

The System provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to System members and beneficiaries. It also provides post-employment health benefits (sick leave bank benefits) to certain members who meet criteria contained in the Memorandum of Understanding between San Joaquin County and SJCERA (see discussion below).

Funding Policy

Contribution rates for employers and employees were determined in accordance with actuarially determined contribution requirements by an actuarial valuation as of December 31, 2009. Employer's contributions are payable over each employee's future working lifetime. The employer rates reflect the entry age normal funding method. Under this method, part of the normal cost is being paid over the future working lifetimes of the members. The past service liability is amortized over a rolling 10-year period.

Annual Pension Cost

The District's annual pension cost in FY 2009-10 was \$301,284, and was equal to the District's required and actual contributions.

Three Year Trend Information

<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentages APC Contribution</u>	<u>Net Pension Obligation</u>
06/30/08	\$ 304,561	100%	\$ --
06/30/09	356,696	100%	--
06/30/10	301,284	100%	--

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Notes to the Basic Financial Statements
June 30, 2010

Note 10: **Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters and employees' health. Insurance for the District is secured through the County of San Joaquin's self-insurance programs for casualty, workers compensation, unemployment compensation, medical insurance, and dental insurance.

The County also joins together with other counties in the State through the California State Association of Counties (CSAC) to obtain general liability and malpractice insurance coverage for claims in excess of the coverage provided by the County. The County also purchases commercial stop loss insurance for the health and dental insurance coverage in excess of the County covered portion. Settled claims have not exceeded the CSAC coverage or the commercial insurance coverage in any of the past three fiscal years.

Note 11: **Fund Balance/Net Assets Deficit**

The following fund had deficit net assets at June 30, 2010:

	<u>Deficit Amount</u>
Wastewater	\$1,900,936

The deficit in this fund is expected to be eliminated in future years through future revenues.

Note 12: **Contributions for Capital Projects**

Under the Public Land Equity Program (PLEP) requirement, Trimark Communities, LLC, executed an irrevocable offer of dedication of 15 acres to the District for a Corporation Yard. Of the 15 acres, the District donated 5 acres to the Lammersville Joint Unified School District for their corporation yard on August 11, 2010. The value of the land that the District kept for the corporation yard is \$1,197,600.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Notes to the Basic Financial Statements June 30, 2010

Note 13: Prior Period Adjustment

Adjustments resulting from errors or changes to comply with provisions in the accounting standards are treated as adjustments to prior periods. Accordingly, the District reports the following changes as restatements of beginning net assets:

	<u>Government Wide</u>		<u>Major Enterprise Funds</u>		
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Water</u>	<u>Wastewater</u>	<u>Stormwater</u>
Net assets/fund balance as originally reported at June 30, 2009	\$ 98,004,988	\$ (5,642,562)	\$ (113,554)	\$ (4,820,841)	\$ (791,766)
Recharacterise interim funding proceeds as pledged notes payable. Amounts previously reported as revenue.	(1,300,700)	--	--	--	--
Correct costs certified as pledged payable to Developer. An error was discovered in the document certifying reimbursements pledged to Developer.	<u>(2,529,237)</u>	<u>22,307,084</u>	<u>8,669,535</u>	<u>4,968,014</u>	<u>8,669,535</u>
Net assets/fund balance as corrected at June 30, 2009	<u>\$ 94,175,051</u>	<u>\$ 16,664,522</u>	<u>\$ 8,555,981</u>	<u>\$ 147,173</u>	<u>\$ 7,877,769</u>

Note 14: New Accounting Pronouncements

The GASB has issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. This statement enhances the usefulness of fund balance information by establishing fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The definitions of the general fund, special revenue fund types, capital project fund type, debit service fund type and permanent fund type are clarified by the provisions in this statement. Interpretations of certain items within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities chosen to be reported as special revenue funds.

The requirements of this statement are effective for financial statements for periods beginning after June 15, 2010. Fund balance reclassifications made to conform to the provisions of the statement are required to be applied retroactively by restating beginning fund balance.

REQUIRED SUPPLEMENTARY INFORMATION

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Budgetary Comparison Schedule General Fund For the Year Ended June 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Budgetary fund balances, July 1	\$ 6,942,616	\$ 6,942,616	\$ 6,942,616	\$ --
Resources (inflows):				
Taxes	2,359,000	2,359,000	\$ 2,173,328	\$ (185,672)
Licenses and permits	77,000	137,000	184,716	47,716
Use of money and property	50,000	50,000	21,029	(28,971)
Charges for services	224,097	224,097	58,660	(165,437)
Other revenues	1,500	1,500	27,046	25,546
Transfers from other funds	23,500	23,500	39,929	16,429
Amounts available for appropriation	2,735,097	2,795,097	2,504,708	(290,389)
Charges to appropriations (outflows):				
General government:				
Salaries and benefits	1,780,517	1,780,517	1,721,279	59,238
Supplies and services	534,561	858,099	91,401	766,698
Transfers to other funds	1,966,833	1,384,168	227,844	1,156,324
Total charges to appropriations	4,281,911	4,022,784	2,040,524	1,982,260
Budgetary fund balances, June 30	\$ 5,395,802	\$ 5,714,929	\$ 7,406,800	\$ 1,691,871
Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures:				
<u>Sources/inflows of resources</u>				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 2,504,708
Differences - budget to GAAP:				
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes				(39,929)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds				\$ 2,464,779
<u>Uses/outflows of resources</u>				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 2,040,524
Differences - budget to GAAP:				
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes				(227,844)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds				\$ 1,812,680

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Budgetary Comparison Schedule Special Assessments Fund For the Year Ended June 30, 2010

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
Budgetary fund balances, July 1	\$ 861,468	\$ 861,468	\$ 861,468	\$ --
Resources (inflows):				
Special assessment taxes	\$ 4,717,733	\$ 4,717,733	\$ 4,681,793	\$ (35,940)
Use of money and property	43,100	43,100	5,625	(37,475)
Charges for services	11,000	11,000	5,363	(5,637)
Other revenues	45,000	45,000	5,951	(39,049)
Donations	--	--	2,000	2,000
Transfers from other funds	450,149	450,149	227,844	(222,305)
Amounts available for appropriation	5,266,982	5,266,982	4,928,576	(338,406)
Charges to appropriations (outflows):				
Public safety:				
Supplies and services	3,566,843	3,337,288	3,037,944	299,344
Public ways and facilities:				
Supplies and services	829,985	970,561	757,204	213,357
Recreation and culture:				
Supplies and services	552,438	624,226	422,890	201,336
Capital outlay	6,000	6,000	--	6,000
Transfers to other funds	--	--	15,100	(15,100)
Total charges to appropriations	4,955,266	4,938,076	4,233,138	704,938
Budgetary fund balances, June 30	\$ 1,173,184	\$ 1,190,374	\$ 1,556,906	\$ 366,532
Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures:				
<u>Sources/inflows of resources</u>				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 4,928,576
Differences - budget to GAAP:				
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes				(227,844)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds				\$ 4,700,732
<u>Uses/outflows of resources</u>				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 4,233,138
Differences - budget to GAAP:				
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes				(15,100)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds				\$ 4,218,038

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Budgetary Comparison Schedule
Impact Fees Fund
For the Year Ended June 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Budgetary fund balances, July 1	\$ 2,370,391	\$ 2,370,391	\$ 2,370,391	\$ --
Resources (inflows):				
Use of money and property	55,000	55,000	13,988	(41,012)
Charges for services	348,500	348,500	920,903	572,403
Amounts available for appropriation	<u>403,500</u>	<u>403,500</u>	<u>934,891</u>	<u>531,391</u>
Charges to appropriations (outflows):				
Public ways and facilities:				
Supplies and services	184,844	189,213	180,039	9,174
Debt service: principal	--	410,875	769,224	(358,349)
Transfers to other funds	23,500	23,500	24,829	(1,329)
Total charges to appropriations	<u>208,344</u>	<u>623,588</u>	<u>974,092</u>	<u>(350,504)</u>
Budgetary fund balances, June 30	<u>\$ 2,565,547</u>	<u>\$ 2,150,303</u>	<u>\$ 2,331,190</u>	<u>\$ 180,887</u>

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures:

Uses/outflows of resources

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule		\$ 974,092
Differences - budget to GAAP:		
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes		<u>(24,829)</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds		<u>\$ 949,263</u>

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Note to Required Supplementary Information
June 30, 2010

BUDGETARY BASIS OF ACCOUNTING

The District prepares and legally adopts an operating balanced final budget on or before July 1, of each year. Public hearings are conducted to review all proposed appropriations and the sources of financing before the adoption. Until the adoption of this balanced final budget, operations are governed by the prior budget, which is approved by the Board of Directors.

The budget is prepared on a modified accrual basis in accordance with generally accepted accounting principles. Throughout the fiscal year, supplemental appropriations may be made by the Board when revenues are received from unanticipated sources, or from anticipated sources in excess of estimates thereof, or from contingency sources.

The legal level for budgetary control (the level at which expenditures may not exceed budgeted appropriations) is at the index level. An "index" for legal appropriation purposes may be (1) a single department (2) a division of a large department having multiple divisions, or (3) an entire fund.

All amendments or transfers of line item appropriations within the same index require the General Manager's approval. Amendments and transfers of appropriations between indexes or that involve the addition or deletion of a project or piece of equipment must be approved by the General Manager. The Board of Directors has authorized the General Manager of the District to make year-end budget adjustments and appropriation transfers within the respective District budgets and funds to provide for expenditures in excess of budgeted amounts.

Budgeted amounts in the budgetary financial schedules are reported as originally adopted and amended during the fiscal year by resolutions approved by the Board of Directors.

OTHER REPORT



**INDEPENDENT AUDITOR'S 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***

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

We have audited the financial statements of the Mountain House Community Services District (District) as of and for the year ended June 30, 2010, and have issued our report thereon dated April 29, 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 the Mountain House Community Services 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 our 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.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Mountain House 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 the Mountain House Community Services District Board of Directors, management, and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

Gallina LLP

Roseville, California
April 29, 2011