

**MOUNTAIN HOUSE
COMMUNITY SERVICES DISTRICT**

AUDIT REPORT

**FOR THE YEAR ENDED
JUNE 30, 2011**

**MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
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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 and each major fund of Mountain House Community Services District (District) as of and for the year ended June 30, 2011, 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 and each major fund of Mountain House Community Services District as of June 30, 2011, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial

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

statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2012, 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.

Gallina LLP

Roseville, California
February 24, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Management's Discussion and Analysis June 30, 2011

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, 2011.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$84.4 million.
- The government's total net assets decreased by \$13.3 million. This is attributable to depreciation expense on infrastructure and interest on long term debt.
- As of the close of the current fiscal year, the District's governmental funds reported combined fund balances of \$13.2 million. Approximately \$3.3 million or approximately 25% of total fund balances are reported as Assigned (\$1.6 million) or Unassigned (\$1.7 million) fund balance making them available for spending at the District's discretion (in compliance with *Governmental Accounting Standards Board's (GASB) Statement No. 54, Fund Balance Reporting and Government Fund Type Definitions* see Note 1).
- At the end of the current fiscal year, the Assigned and Unassigned (GASB No. 54) fund balance for the General Fund was \$3.3 million, or 42% of the total General Fund expenditures.
- The District's total debt increased by \$20.4 million (7%) during the current fiscal year. The key factors in this increase were the dedication of the College Booster Pump Station and Storage Tanks, 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, 2011

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, Storm systems and developer activity.

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 two categories: governmental funds and proprietary 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 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*.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Management's Discussion and Analysis June 30, 2011

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. A budgetary comparison statement has been provided for the general fund, the special assessment fund and the impact fees fund located on pages 46-48 to demonstrate compliance with this budget.

Proprietary funds. The District maintains four 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, 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 \$84.4 million at the close of the most recent fiscal year.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Management's Discussion and Analysis June 30, 2011

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

	Government Activities		Business-Type Activities		Total		Total	
	2011	2010	2011	2010	2011	2010	Dollar Change	Percent Change
	Assets:							
Current and other assets	\$14.0	\$11.7	\$0.9	\$0.7	\$14.9	\$12.4	\$2.4	19%
Capital assets	174.9	182.6	203.8	191.4	378.7	374.0	4.8	1%
Total assets	<u>188.9</u>	<u>194.3</u>	<u>204.7</u>	<u>192.1</u>	<u>393.6</u>	<u>386.4</u>	<u>7.2</u>	<u>2%</u>
Liabilities:								
Long-term liabilities outstanding	107.4	106.1	200.1	181.2	307.5	287.3	20.2	7%
Other liabilities	0.9	0.3	0.7	1.0	1.6	1.4	0.3	19%
Total liabilities	<u>108.3</u>	<u>106.4</u>	<u>200.9</u>	<u>182.3</u>	<u>309.2</u>	<u>288.7</u>	<u>20.5</u>	<u>7%</u>
Net assets:								
Invested in capital assets, net of related debt	90.4	96.3	31.6	35.3	122.0	131.6	(9.6)	-7%
Restricted	5.6	1.6	4.2	2.9	9.8	4.5	5.3	119%
Unrestricted	(15.4)	(10.0)	(32.0)	(28.4)	(47.4)	(38.4)	(9.0)	23%
Total net assets	<u>\$80.5</u>	<u>\$87.9</u>	<u>\$3.8</u>	<u>\$9.8</u>	<u>\$84.4</u>	<u>\$97.7</u>	<u>\$(13.3)</u>	<u>-14%</u>

By far the largest portion of the District's net assets (144%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are 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 \$9.8 million, which is subject to constraints by bond financing agreements and enabling legislation.

District's unrestricted net assets were deficit by \$47.4 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 \$44.1 million as of June 30, 2011.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Management's Discussion and Analysis June 30, 2011

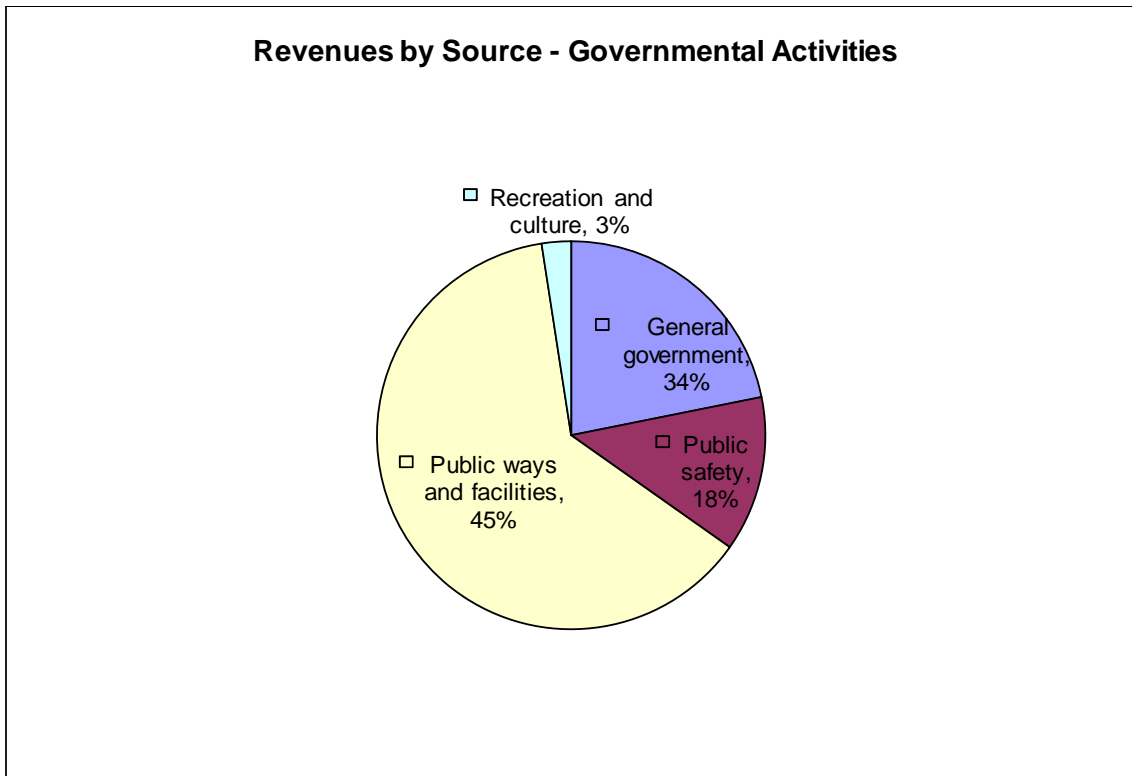
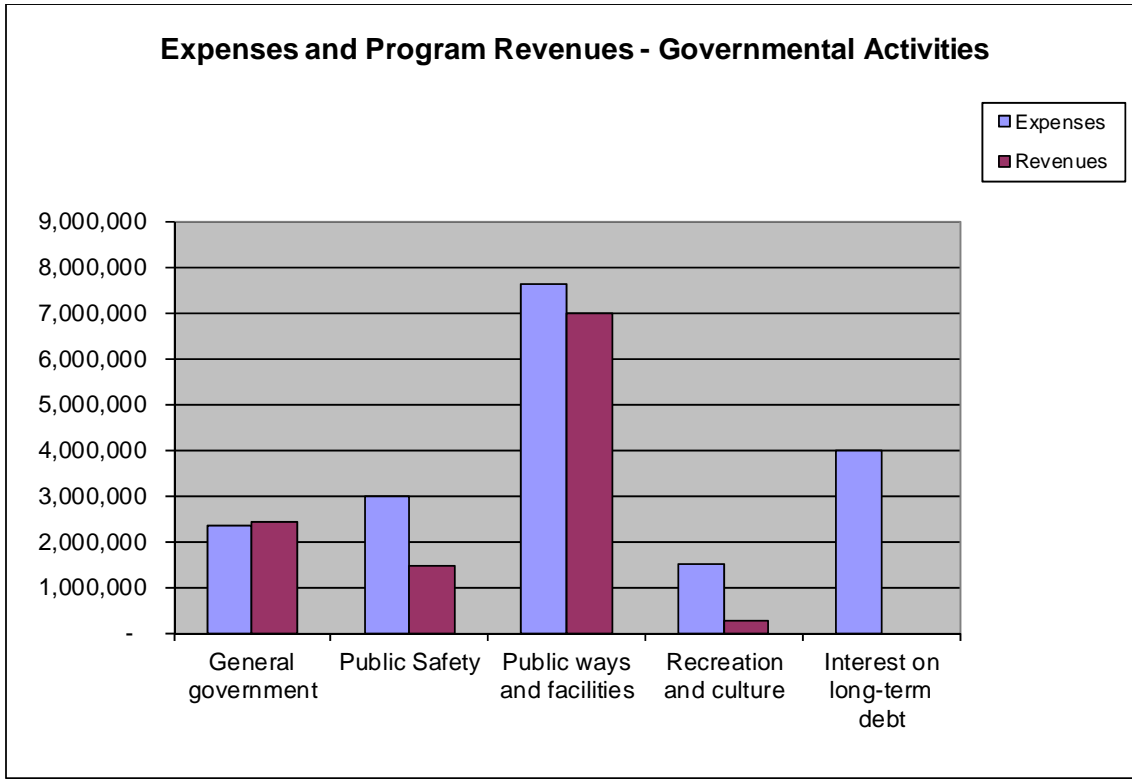
Mountain House Community Services District's Change in Net Assets (in millions)

	Government		Business-Type		Total		Total	
	Activities		Activities		Total		Dollar	Percent
	2011	2010	2011	2010	2011	2010	Change	Change
Revenues:								
Program revenues:								
Fees, fines and charges for services	\$9.7	\$5.8	\$5.6	\$5.0	\$15.3	\$10.9	\$4.4	41%
Capital grants and contributions	0.0	1.2	3.6	0.0	3.6	1.2	2.4	100%
General revenue:								
Property taxes	1.9	2.2	0.0	0.0	1.9	2.2	(0.2)	-10%
Unrestricted interest and investment earnings	0.0	0.0	0.0	0.0	0.1	0.1	(0.0)	-36%
Miscellaneous revenues	0.0	0.0	0.0	0.0	0.0	0.0	(0.0)	0%
Transfer	(0.6)	0.0	0.6	0.0	0.0	0.0	0.0	0%
Total revenues	11.2	9.3	9.8	5.1	21.0	14.4	6.6	46%
Expenses:								
General government	2.4	1.9	0.0	0.0	2.4	1.9	0.5	26%
Public safety	3.0	3.0	0.0	0.0	3.0	3.0	(0.1)	-2%
Public ways and facilities	7.6	7.6	0.0	0.0	7.6	7.6	(0.0)	0%
Recreation and culture	1.5	1.4	0.0	0.0	1.5	1.4	0.1	6%
Interest on long-term debt	4.0	1.7	0.0	0.0	4.0	1.7	2.3	138%
Water system	0.0	0.0	8.6	6.0	8.6	6.0	2.5	42%
Wastewater system	0.0	0.0	4.9	3.8	4.9	3.8	1.1	28%
Stormwater system	0.0	0.0	1.8	1.5	1.8	1.5	0.3	17%
Developer projects	0.0	0.0	0.5	0.5	0.5	0.5	0.0	1%
Total expenses	18.5	15.6	15.8	11.9	34.3	27.5	6.7	25%
Decrease in net assets	(7.3)	(6.3)	(6.0)	(6.8)	(13.3)	(13.2)	(0.1)	1%
Net assets, beginning	87.9	98.0	9.8	(5.6)	97.7	92.4	5.3	6%
Prior Period Adjustment	0.0	(3.8)	0.0	22.3	0.0	18.5	(18.5)	100%
Net assets, ending	\$80.5	\$87.9	\$3.8	\$9.8	\$84.4	\$97.7	\$(13.3)	-14%

Governmental Activities: Governmental activities decreased District's net assets by \$7.3 million. This reduction is primarily due to interest on pledged notes payable to developers and depreciation on infrastructure assets.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

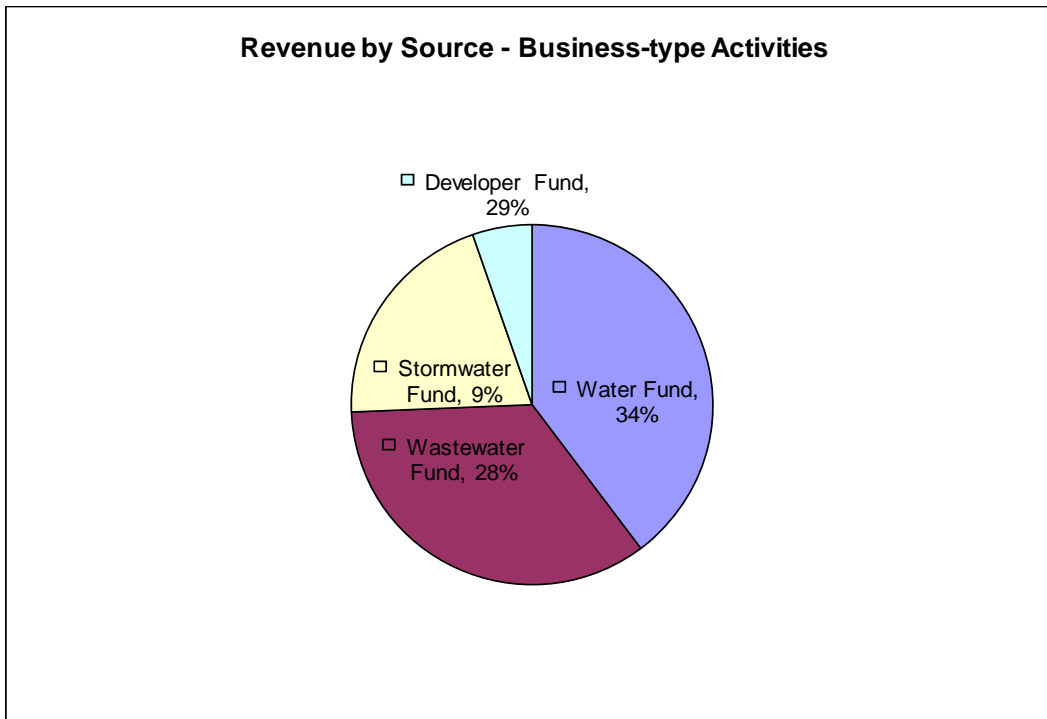
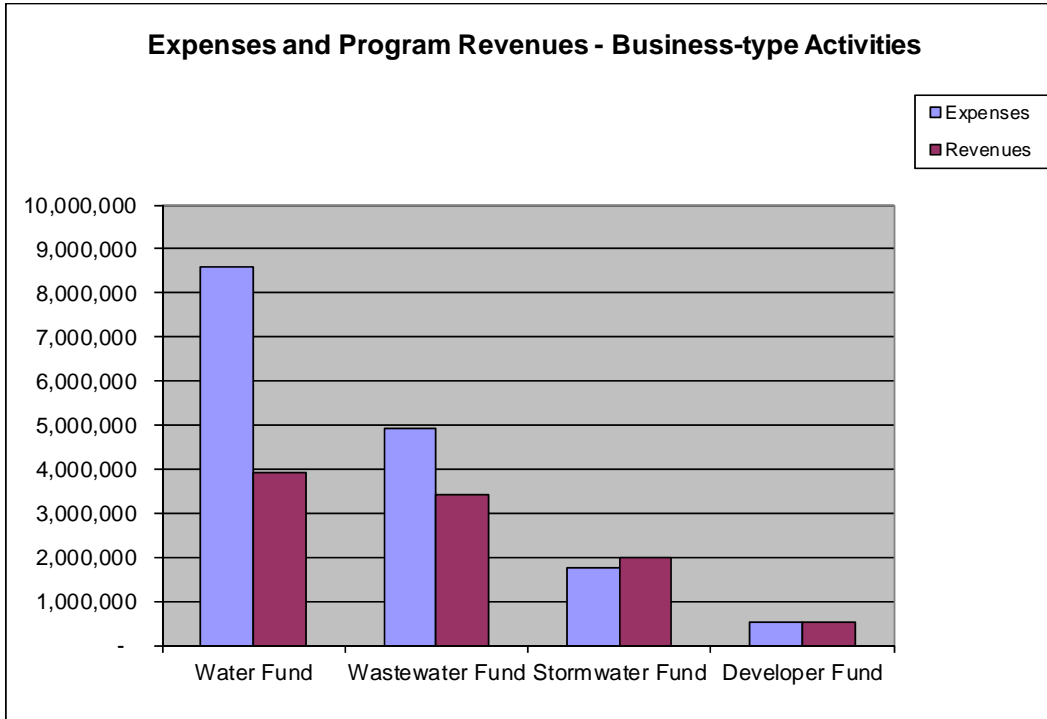
Management's Discussion and Analysis June 30, 2011



MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Management's Discussion and Analysis June 30, 2011

Business-Type Activities: Business-type activities decreased District's net assets by \$6.0 million. This is primarily due to financing charges accruing on pledged notes payable to developers; and depreciation on water, wastewater and stormwater utility infrastructure assets.



MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Management's Discussion and Analysis
June 30, 2011

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, 2011, the District's governmental funds reported total fund balances of \$13.2 million an increase of \$1.8 million.

The District implemented Governmental Accounting Standards Board's (GASB) Statement No. 54, Fund Balance Reporting and Government Fund Type Definitions. As a result of this implementation, the fund balance section of the balance sheet of the government funds has been modified. The change has been made in order for the District's new fund balance components to focus on "the extent to which the government is bound to honor constraints on the specific purposes for which amounts in the fund can be spent." Previously, the fund balance section focused on whether these resources were available for appropriation. It also distinguished the unreserved fund balance from the reserved fund balance. In order to show compliance with GASB Statement No. 54, however, the components of the new fund balance include the following line items:

- **Nonspendable fund balance** - \$4.3 million (inherently nonspendable) included the portion of net resources that cannot be spent because of their form, and the portion of net resources that cannot be spent because they must be maintained intact.
- **Restricted fund balance** - \$5.6 million (externally enforceable limitation on use) include amounts subject to limitation imposed by creditors, contributors, or laws and regulations of other government.
- **Assigned fund balance** - \$1.6 million (limitation resulting from intended use) consists of amounts where the intended use is established by the highest level of decision making.
- **Unassigned fund balance** - \$1.7 million (residual net resources) is the total fund balance in the general fund in excess of nonspendable, restricted, and assigned fund balance

The General Fund is the main operational fund of the District. At June 30, 2011, the fund balance components were reported as nonspendable \$4.3 million, assigned \$1.6 million and unassigned \$1.7 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, parks and recreation.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Management's Discussion and Analysis June 30, 2011

Therefore, fund balance must be used for these designated services. At June 30, 2011, restricted fund balance of \$2.3 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, 2011, restricted fund balance was \$3.3 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)

	<u>Original</u>	<u>Final</u>	Increase <u>(Decrease)</u>
Estimated revenue	\$ 2.7	\$ 2.7	\$ 0.0
Appropriations	\$ 3.8	\$ 3.9	\$ 0.1

The increase in appropriations is due to the increase of security measures from copper wire theft.

Final Budget to Actual (in millions)

	<u>Final</u>	<u>Actual</u>	Increase <u>(Decrease)</u>
Estimated revenue	\$ 2.7	\$ 2.5	(\$ 0.2)
Appropriations	\$ 3.9	\$ 2.3	(\$ 1.6)

During the year, actual revenues were less than budgetary estimates. The decrease is an aggregation of various increases and decreases of various revenue sources. The major decrease was property tax revenue and the major increase was licenses and permits relating to franchise revenue.

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, 2011, include the acquisition of the underground utilities in Neighborhood H and the College Park Booster Pump Station and Storage Tanks. For additional information related to capital assets, see Note 5 in the Notes to the Basic Financial Statements.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Management's Discussion and Analysis June 30, 2011

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

	Government		Business-Type		Total		Total	
	Activities		Activities		Total		Dollar	Percent
	2011	2010	2011	2010	2011	2010	Change	Change
Land	\$27.2	\$27.2	\$2.6	\$2.6	\$29.8	\$29.7	\$0.0	0%
Infrastructure	147.5	155.1	200.9	188.2	348.3	343.3	5.0	1%
Machinery and equipment	0.2	0.3	0.4	0.6	0.6	0.9	(0.3)	-31%
Total	174.9	182.6	203.8	191.4	378.7	374.0	4.8	1%

Long-term debt

The District's outstanding debt is shown below. Increases to outstanding debt were \$20.7 million consisting of new debt of \$15.4 million, financing charges of \$10 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 \$2.8 million in payment, and \$1.9 million for a change in estimate of certified costs to developer made when the notes were incurred. The original balances were booked based upon estimates that have been reevaluated upon the completion of the projects.

Mountain House Community Services District's Outstanding Debt Pledged Notes and Revenue Bonds (in millions)

	Government		Business-Type		Total		Total	
	Activities		Activities		Total		Dollar	Percent
	2011	2010	2011	2010	2011	2010	Change	Change
Pledged Notes Payable	\$107.4	\$106.0	\$167.6	\$157.9	\$275.0	\$263.8	\$11.2	4%
Revenue Bonds	0.0	0.0	33.0	23.5	33.0	23.5	9.5	41%
Total	\$107.4	\$106.0	\$200.6	\$181.4	\$308.0	\$287.3	\$20.7	7%

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, unassigned fund balance in the General Fund decreased to \$1.7 million. The District has assigned funds for a park monument and appropriations in subsequent years of \$1.6 million and nonspendable funds of \$4.3 million for advances to other funds. It is intended that this use of available fund balance will avoid the need to raise taxes or charges during the 2011/12 fiscal year.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Management's Discussion and Analysis June 30, 2011

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.

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 Finance Director, 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, 2011

	Primary Government		Totals
	Governmental Activities	Business-Type Activities	
Assets			
Cash and investments	\$ 8,898,543	\$ 513,159	\$ 9,411,702
Accounts receivable	94,041	545,632	639,673
Taxes receivable	74,460	--	74,460
Interest receivable	15,700	1,575	17,275
Internal balances	4,897,158	(4,897,158)	--
Deferred costs	--	489,741	489,741
Restricted assets:			
Cash and investments	--	4,218,151	4,218,151
Interest receivable	--	6,689	6,689
Capital assets:			
Nondepreciable	27,180,100	2,604,300	29,784,400
Depreciable, net	147,694,051	201,228,625	348,922,676
Total assets	\$ 188,854,053	\$ 204,710,714	\$ 393,564,767
Liabilities			
Accounts payable	\$ 747,697	\$ 199,936	\$ 947,633
Accrued interest	2,408	135,674	138,082
Deposits from others	--	153,635	153,635
Unearned revenue	--	240,488	240,488
Compensated absences:			
Due within one year	139,199	--	139,199
Due in more than one year	6,746	--	6,746
Long-term liabilities:			
Due within one year	1,592,500	1,654,190	3,246,690
Due in more than one year	105,821,378	198,477,819	304,299,197
Total liabilities	108,309,928	200,861,742	309,171,670
Net Assets			
Invested in capital assets, net of related debt	90,354,358	31,599,778	121,954,136
Restricted for community services, public works and transportation	5,585,353	--	5,585,353
Restricted for debt service	--	4,224,840	4,224,840
Unrestricted	(15,395,586)	(31,975,646)	(47,371,232)
Total net assets	80,544,125	3,848,972	84,393,097
Total liabilities and net assets	\$ 188,854,053	\$ 204,710,714	\$ 393,564,767

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, 2011

<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	\$ 2,353,072	\$ 437,854	\$ --
Public safety	2,985,984	1,443,620	--
Public ways and facilities	7,632,564	7,549,962	--
Recreation and culture	1,488,833	262,593	9,730
Interest on long-term debt	3,998,222	--	--
Total governmental activities	<u>18,458,675</u>	<u>9,694,029</u>	<u>9,730</u>
Business-Type Activities:			
Water System	8,574,306	2,479,164	1,241,327
Wastewater System	4,940,266	1,927,488	1,195,127
Storm System	1,759,607	685,885	1,195,127
Developer Projects	522,764	523,062	--
Total business-type activities	<u>15,796,943</u>	<u>5,615,599</u>	<u>3,631,581</u>
Total primary government	<u>\$ 34,255,618</u>	<u>\$ 15,309,628</u>	<u>\$ 3,641,311</u>

General Revenues:

 Taxes:

 Property taxes

 Unrestricted interest and investment earnings

 Miscellaneous revenues

 Transfers

 Total general revenues and transfers

Change in net assets

Net assets, beginning of year

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
\$ (1,915,218)	\$ --	\$ (1,915,218)
(1,542,364)	--	(1,542,364)
(82,602)	--	(82,602)
(1,216,510)	--	(1,216,510)
(3,998,222)	--	(3,998,222)
(8,754,916)	--	(8,754,916)
--	(4,853,815)	(4,853,815)
--	(1,817,651)	(1,817,651)
--	121,405	121,405
--	298	298
--	(6,549,763)	(6,549,763)
(8,754,916)	(6,549,763)	(15,304,679)
1,946,435	--	1,946,435
36,911	16,893	53,804
14,622	913	15,535
(551,091)	551,091	--
1,446,877	568,897	2,015,774
(7,308,039)	(5,980,866)	(13,288,905)
87,852,164	9,829,838	97,682,002
\$ 80,544,125	\$ 3,848,972	\$ 84,393,097

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 System
Wastewater System
Storm System
Developer Projects
Total business-type activities

Total primary government

General Revenues:

Taxes:

Property taxes
Unrestricted interest and investment earnings
Miscellaneous revenues
Transfers
Total general revenues and transfers

Change in net assets

Net assets, beginning of year

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, 2011

	General Fund	Special Assessments Fund	Impact Fees Fund	Total
ASSETS				
Cash and investments	\$ 2,819,373	\$ 2,313,723	\$ 3,765,447	\$ 8,898,543
Accounts receivable	25,809	6,500	61,732	94,041
Interest receivable	4,964	5,757	4,979	15,700
Taxes receivable	74,460	--	--	74,460
Due from other funds	618,204	--	--	618,204
Advances to other funds	4,278,954	--	--	4,278,954
	<u>4,278,954</u>	<u> --</u>	<u> --</u>	<u>4,278,954</u>
 Total assets	<u>\$ 7,821,764</u>	<u>\$ 2,325,980</u>	<u>\$ 3,832,158</u>	<u>\$ 13,979,902</u>
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 177,320	\$ 44,803	\$ 525,574	\$ 747,697
Accrued interest	--	2,408	--	2,408
Unavailable revenue	74,741	--	--	74,741
Total liabilities	<u>252,061</u>	<u>47,211</u>	<u>525,574</u>	<u>824,846</u>
 Fund balances:				
Nonspendable				
Advances to other funds	4,278,954	--	--	4,278,954
Restricted:				
Roads, Transportation and Community Services Operational and Administrative Functions				
	--	1,806,755	3,306,584	5,113,339
Public Works	--	363,868	--	363,868
Lighting and Landscaping	--	108,146	--	108,146
Assigned:				
Park Monument	100,000	--	--	100,000
Appropriations in subsequent year	1,531,849	--	--	1,531,849
Unassigned	1,658,900	--	--	1,658,900
Total fund balances	<u>7,569,703</u>	<u>2,278,769</u>	<u>3,306,584</u>	<u>13,155,056</u>
 Total liabilities and fund balances	<u>\$ 7,821,764</u>	<u>\$ 2,325,980</u>	<u>\$ 3,832,158</u>	<u>\$ 13,979,902</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, 2011

Fund Balance - total governmental funds	\$ 13,155,056
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.	174,874,151
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.	74,741
Long-term liabilities are not due and payable in the current period and therefore, are not reported in the governmental funds.	
Notes payable	(107,413,878)
Compensated absences	<u>(145,945)</u>
Net assets of governmental activities	<u>\$ 80,544,125</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, 2011

	General Fund	Special Assessments Fund	Impact Fees Fund	Total
Revenues				
Taxes	\$ 1,946,055	\$ --	\$ --	\$ 1,946,055
Special assessments	--	4,968,243	--	4,968,243
Licenses and permits	223,401	--	--	223,401
Use of money and property	13,717	8,294	14,900	36,911
Charges for services	214,453	2,960	2,275,019	2,492,432
Other revenues	10,722	--	3,900	14,622
Donations	--	9,730	--	9,730
Total revenues	<u>2,408,348</u>	<u>4,989,227</u>	<u>2,293,819</u>	<u>9,691,394</u>
Expenditures				
Current:				
General government	2,304,975	--	--	2,304,975
Public safety	--	2,985,984	--	2,985,984
Public ways and facilities	--	768,187	159,247	927,434
Recreation and culture	--	513,193	--	513,193
Capital outlay	4,875	--	--	4,875
Debt service:				
Principal	--	--	1,094,773	1,094,773
Total expenditures	<u>2,309,850</u>	<u>4,267,364</u>	<u>1,254,020</u>	<u>7,831,234</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>98,498</u>	<u>721,863</u>	<u>1,039,799</u>	<u>1,860,160</u>
Other Financing Sources (Uses)				
Transfers in	64,405	--	--	64,405
Transfers out	--	--	(64,405)	(64,405)
Total other financing sources (uses)	<u>64,405</u>	<u>--</u>	<u>(64,405)</u>	<u>--</u>
Net change in fund balances	162,903	721,863	975,394	1,860,160
Fund balances, beginning of year	<u>7,406,800</u>	<u>1,556,906</u>	<u>2,331,190</u>	<u>11,294,896</u>
Fund balances, end of year	<u>\$ 7,569,703</u>	<u>\$ 2,278,769</u>	<u>\$ 3,306,584</u>	<u>\$ 13,155,056</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, 2011

Net change to fund balance - total governmental funds \$ 1,860,160

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	\$ 4,875	
Less: current year depreciation	<u>(7,722,523)</u>	(7,717,648)

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	380
--	-----

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	(2,539,360)
Principal repayments:	
Notes payable	1,094,773

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>(6,344)</u>
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Change in net assets of governmental activities	<u><u>\$ (7,308,039)</u></u>
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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, 2011

	Business-type Activities - Enterprise Funds				
	Water	Wastewater	Stormwater	Developer Projects	Total
Assets					
Cash and investments	\$ 366	\$ --	\$ 21,767	\$ 491,026	\$ 513,159
Accounts receivable	87,447	66,636	23,930	367,619	545,632
Interest receivable	248	335	138	854	1,575
Unamortized debt issuance cost	249,894	183,546	56,301	--	489,741
Restricted assets:					
Cash and investments	2,161,274	1,556,291	500,586	--	4,218,151
Interest receivable	3,243	2,625	821	--	6,689
Capital assets:					
Nondepreciable	984,200	1,620,100	--	--	2,604,300
Depreciable, net	115,525,440	59,077,002	26,626,183	--	201,228,625
Total assets	\$ 119,012,112	\$ 62,506,535	\$ 27,229,726	\$ 859,499	\$ 209,607,872
Liabilities					
Accounts payable	\$ 157,001	\$ 41,373	\$ 1,562	\$ --	\$ 199,936
Accrued interest	66,907	51,386	16,574	807	135,674
Due to other funds	--	--	--	618,204	618,204
Advances from other funds	1,853,151	2,175,411	250,392	--	4,278,954
Deposits from others	153,635	--	--	--	153,635
Unearned revenues	--	--	--	240,488	240,488
Long-term liabilities:					
Revenue bonds:					
Due within one year	755,000	575,000	185,000	--	1,515,000
Due in more than one year	15,372,656	11,845,394	3,811,563	--	31,029,613
Pledged notes payable:					
Due within one year	26,520	104,660	8,010	--	139,190
Due in more than one year	100,531,826	51,156,076	15,760,304	--	167,448,206
Total liabilities	118,916,696	65,949,300	20,033,405	859,499	205,758,900
Net Assets					
Invested in capital assets, net of related debt	11,140,300	9,656,097	10,803,381	--	31,599,778
Restricted for debt service	2,164,517	1,558,916	501,407	--	4,224,840
Unrestricted	(13,209,401)	(14,657,778)	(4,108,467)	--	(31,975,646)
Total net assets	95,416	(3,442,765)	7,196,321	--	3,848,972
Total liabilities and net assets	\$ 119,012,112	\$ 62,506,535	\$ 27,229,726	\$ 859,499	\$ 209,607,872

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, 2011

	Business-type Activities - Enterprise Funds				Total
	Water	Wastewater	Stormwater	Developer Projects	
Operating Revenues:					
Charges for services:					
User fees and charges	\$ 916,969	\$ 877,504	\$ 345,981	\$ 523,062	\$ 2,663,516
User fees and charges - pledged	1,349,923	1,049,984	339,904	--	2,739,811
Penalty charges	213,185	--	--	--	213,185
Total operating revenues	<u>2,480,077</u>	<u>1,927,488</u>	<u>685,885</u>	<u>523,062</u>	<u>5,616,512</u>
Operating Expenses:					
Professional and special services	994,602	790,069	221,045	522,764	2,528,480
Utilities	565,449	172,791	--	--	738,240
Chemicals	159,552	66,976	--	--	226,528
Maintenance	116,602	161,833	92,873	--	371,308
Depreciation	2,529,771	1,407,029	720,942	--	4,657,742
Total operating expenses	<u>4,365,976</u>	<u>2,598,698</u>	<u>1,034,860</u>	<u>522,764</u>	<u>8,522,298</u>
Operating income (loss)	<u>(1,885,899)</u>	<u>(671,210)</u>	<u>(348,975)</u>	<u>298</u>	<u>(2,905,786)</u>
Nonoperating Revenues (Expenses):					
Interest revenue	8,231	6,707	2,253	--	17,191
Interest expense	(4,208,330)	(2,341,568)	(724,747)	(298)	(7,274,943)
Noncapital contribution	170,399	269,115	111,577	--	551,091
Total nonoperating revenues (expenses)	<u>(4,029,700)</u>	<u>(2,065,746)</u>	<u>(610,917)</u>	<u>(298)</u>	<u>(6,706,661)</u>
Net loss before capital contributions	(5,915,599)	(2,736,956)	(959,892)	--	(9,612,447)
Capital contributions	<u>1,241,327</u>	<u>1,195,127</u>	<u>1,195,127</u>	<u>--</u>	<u>3,631,581</u>
Change in net assets	(4,674,272)	(1,541,829)	235,235	--	(5,980,866)
Net assets, beginning of year	<u>4,769,688</u>	<u>(1,900,936)</u>	<u>6,961,086</u>	<u>--</u>	<u>9,829,838</u>
Net assets, end of year	<u>\$ 95,416</u>	<u>\$ (3,442,765)</u>	<u>\$ 7,196,321</u>	<u>\$ --</u>	<u>\$ 3,848,972</u>

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, 2011

	Business-Type Activities - Enterprise Funds				Total
	Water	Wastewater	Stormwater	Developer Projects	
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from customers	\$ 2,567,773	\$ 1,930,556	\$ 687,450	\$ 480,217	\$ 5,665,996
Cash payments for interfund services	(360,143)	(273,709)	(86,435)	(258,080)	(978,367)
Cash payments to suppliers for goods and services	(1,492,421)	(977,561)	(246,369)	(283,791)	(3,000,142)
Net cash provided (used) by operating activities	<u>715,209</u>	<u>679,286</u>	<u>354,646</u>	<u>(61,654)</u>	<u>1,687,487</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Advances received	<u>611,624</u>	<u>353,231</u>	<u>--</u>	<u>--</u>	<u>964,855</u>
Net cash provided (used) by noncapital financing activities	<u>611,624</u>	<u>353,231</u>	<u>--</u>	<u>--</u>	<u>964,855</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Proceeds from long term debt	5,625,000	3,265,000	1,110,000	--	10,000,000
Principal paid on long term debt	(5,657,033)	(3,448,183)	(1,170,356)	--	(10,275,572)
Interest paid on long term debt	(532,280)	(462,850)	(146,500)	--	(1,141,630)
Net cash provided (used) by capital and related financing activities	<u>(564,313)</u>	<u>(646,033)</u>	<u>(206,856)</u>	<u>--</u>	<u>(1,417,202)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest on investments	<u>9,047</u>	<u>7,267</u>	<u>2,369</u>	<u>(763)</u>	<u>17,920</u>
Net cash provided (used) by investing activities	<u>9,047</u>	<u>7,267</u>	<u>2,369</u>	<u>(763)</u>	<u>17,920</u>
Net Increase (Decrease) in Cash and Cash Equivalents	771,567	393,751	150,159	(62,417)	1,253,060
Cash and cash equivalents, beginning 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>
Cash and cash equivalents, end of year	<u>\$ 2,161,640</u>	<u>\$ 1,556,291</u>	<u>\$ 522,353</u>	<u>\$ 491,026</u>	<u>\$ 4,731,310</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, 2011

	Business-Type Activities - Enterprise Funds				
	Water	Wastewater	Stormwater	Developer Projects	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	\$ (1,885,899)	\$ (671,210)	\$ (348,975)	\$ 298	\$ (2,905,786)
Adjustments to reconcile operating income (loss) to cash flows from operating activities:					
Depreciation	2,529,771	1,407,029	720,942	--	4,657,742
Changes in assets and liabilities:					
(Increase) decrease in:					
Accounts receivable	5,732	3,069	1,566	259,810	270,177
Increase (decrease) in:					
Accounts payable	(16,359)	(59,602)	(18,887)	(19,107)	(113,955)
Deposits with others	81,964	--	--	--	81,964
Unearned revenue	--	--	--	(302,655)	(302,655)
 Net Cash Provided (Used) by Operating Activities	 <u>\$ 715,209</u>	 <u>\$ 679,286</u>	 <u>\$ 354,646</u>	 <u>\$ (61,654)</u>	 <u>\$ 1,687,487</u>
 Noncash investing, capital and financing activities:					
Noncapital contribution	<u>\$ 170,399</u>	<u>\$ 269,115</u>	<u>\$ 111,577</u>	<u>\$ --</u>	<u>\$ 551,091</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, 2011

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, 2011

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.

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, 2011

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, 2011

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, 2011

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 into 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, 2011

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

The District has an agreement with the County of San Joaquin to have the County handle the accounting for compensated vacation. The County accrues as current liabilities compensated vacation and other leave benefits that are attributable to employees' services already rendered but not yet paid. Unused vacation may be accumulated up to a specified maximum and is paid at the time of separation from District employment. Unused sick leave benefits generally do not vest with the employee upon separation and have not been accrued.

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.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Notes to the Basic Financial Statements
June 30, 2011

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

I. **Property Tax Revenues** (continued)

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.

K. **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 as follows:

- *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.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Notes to the Basic Financial Statements
June 30, 2011

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

K. Net Assets/Fund Balances (continued)

Net Assets (continued)

- *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, 2011, are net assets restricted by enabling legislation of \$2,278,769.
- *Unrestricted Net Assets* – This category represents net assets of the District, not restricted for any project or other purpose.

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

Fund Balances

In the Governmental Fund Statements, the following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable fund balance – amounts that cannot be spent because they are either not spendable in form or legally or contractually required to remain intact.

Restricted fund balance – amounts with constraints placed on their use by those external to the District, including creditors, grantors, contributors or laws and regulations of other governments. It also includes constraints imposed by law through constitutional provisions or enabling legislation.

Committed fund balance – amounts that can only be used for specific purposes determined by formal action of the District's highest level of decision-making authority (the Board of Directors) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.

Assigned fund balance – amounts that are constrained by the District's intent to be used for specific purposes. The intent can be established at either the highest level of decision making or by a body or an official designed for that purpose.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Notes to the Basic Financial Statements
June 30, 2011

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

K. Net Assets/Fund Balances (continued)

Fund Balances (continued)

Unassigned fund balance – the residual classification that includes amounts not contained in the other classifications.

The District's board establishes, modifies or rescinds fund balance commitments and assignments by passage of a resolution. When restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, followed by the unrestricted committed, assigned and unassigned resources as they are needed.

L. Implementation of New Accounting Standard

Governmental Accounting Standards Board Statement No. 54

For the fiscal year ended June 30, 2011, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB 54 establishes new accounting and financial reporting standards for all governments that report governmental funds. The statement provides more clearly defined categories within fund balance to make the nature and extent of the constraints placed on the fund balance more transparent. GASB 54 also clarifies the existing governmental fund type definitions to improve the comparability of governmental fund statements.

M. 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.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Notes to the Basic Financial Statements
June 30, 2011

Note 2: **Cash and Investments**

At June 30, 2011, the District's total cash and investments at fair value were as follows:

<i>Cash:</i>	
Cash on hand	\$ 5,300
Deposits	<u>708,406</u>
Total cash	<u>713,706</u>
 <i>Investments:</i>	
Pooled in County treasury	9,406,402
Restricted with fiscal agent	<u>3,509,745</u>
Total investments	<u>12,916,147</u>
Total cash and investments	<u>\$ 13,629,853</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, 2011 determined using statements provided by custodial agents. 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.

Required risk disclosures for the District's investment in the San Joaquin County Investment Pool at June 30, 2011 were as follows:

Credit risk	Not rated
Custodial risk	Not applicable
Concentration of credit risk	Not applicable
Interest rate risk	189 days weighted average

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.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Notes to the Basic Financial Statements
June 30, 2011

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

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, 2011, \$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 and the 2011 Revenue Bonds. The amount held and restricted for this purpose at June 30, 2011 was \$708,406.

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 the 2011 Revenue Bonds, and to establish a reserve for the bond issue.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Notes to the Basic Financial Statements June 30, 2011

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

The fair value of investments is determined monthly based upon quoted market prices. At June 30, 2011, the District's investments with the fiscal agent were categorized as follows:

	Fair Value	Weighted Averag Maturity (Years)
Federal Agencies	\$ 822,574	1.38
U.S. Treasuries	245,659	0.12
Money Market Mutual Funds	2,441,512	0.00
	\$ 3,509,745	0.33

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, 2011:

	Standard & Poor's	% of Portfolio	Amount
Federal Agencies (FHLB)	AA+	15.89%	\$ 557,534
Federal Agencies (FNMA)	AA+	7.55%	265,040
U.S. Treasuries	AA+	7.00%	245,659
Money Market Mutual Funds	N/A	69.56%	2,441,512
Total		100.00%	\$ 3,509,745

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, 2011

Note 4: **Interfund Transactions**

Interfund receivables and payables represent borrowing between funds at year-end. The composition of interfund balances as of June 30, 2011, 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	\$ 618,204

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 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	\$ 1,853,151
	Wastewater	2,175,411
	Stormwater	250,392
		<u>\$ 4,278,954</u>

Transfers:

Transfers are indicative of subsidies of various District operations. Transfers between funds for the year ended June 30, 2011, were as follows:

<u>Transfers from</u>	<u>Transfers to</u>	<u>Amount</u>
Impact Fees Fund	General Fund	<u>\$ 64,405</u>

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Notes to the Basic Financial Statements
June 30, 2011

Note 5: **Capital Assets**

Capital assets at June 30, 2011 consisted of the following:

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2011</u>
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 27,180,100	\$ --	\$ --	\$ 27,180,100
Total capital assets, not being depreciated	<u>27,180,100</u>	<u>--</u>	<u>--</u>	<u>27,180,100</u>
Capital assets, being depreciated:				
Equipment	590,476	4,875	--	595,351
Infrastructure	190,577,390	--	--	190,577,390
Total capital assets, being depreciated	<u>191,167,866</u>	<u>4,875</u>	<u>--</u>	<u>191,172,741</u>
Less accumulated depreciation for:				
Equipment	(261,729)	(99,427)	--	(361,156)
Infrastructure	(35,494,438)	(7,623,096)	--	(43,117,534)
Total accumulated depreciation	<u>(35,756,167)</u>	<u>(7,722,523)</u>	<u>--</u>	<u>(43,478,690)</u>
Total capital assets, being depreciated, net	<u>155,411,699</u>	<u>(7,717,648)</u>	<u>--</u>	<u>147,694,051</u>
Governmental activities capital assets, net	<u>\$ 182,591,799</u>	<u>\$ (7,717,648)</u>	<u>\$ --</u>	<u>\$ 174,874,151</u>
Business-Type Activities				
Capital assets, not being depreciated:				
Land	\$ 2,558,100	\$ 46,200	\$ --	\$ 2,604,300
Total capital assets, not being depreciated	<u>2,558,100</u>	<u>46,200</u>	<u>--</u>	<u>2,604,300</u>
Capital assets, being depreciated:				
Equipment	914,443	--	--	914,443
Other property	206,870,719	17,085,381	--	223,956,100
Total capital assets, being depreciated	<u>207,785,162</u>	<u>17,085,381</u>	<u>--</u>	<u>224,870,543</u>
Less accumulated depreciation for:				
Equipment	(359,439)	(178,620)	--	(538,059)
Other property	(18,624,737)	(4,479,122)	--	(23,103,859)
Total accumulated depreciation	<u>(18,984,176)</u>	<u>(4,657,742)</u>	<u>--</u>	<u>(23,641,918)</u>
Total capital assets, being depreciated, net	<u>188,800,986</u>	<u>12,427,639</u>	<u>--</u>	<u>201,228,625</u>
Business-type activities capital assets, net	<u>\$ 191,359,086</u>	<u>\$ 12,473,839</u>	<u>\$ --</u>	<u>\$ 203,832,925</u>

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Notes to the Basic Financial Statements June 30, 2011

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

Depreciation

Depreciation expense was charged to governmental functions as follows:

Governmental Activities:

General government	\$ 48,097
Public ways	6,698,786
Culture and recreation	975,640
	975,640
Total	\$ 7,722,523

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

Business-Type Activities:

Water	\$ 2,529,771
Wastewater	1,407,029
Stormwater	720,942
	720,942
Total	\$ 4,657,742

Note 6: **Long-Term Liabilities**

The following is a summary of long-term liabilities of the District for the year ended June 30, 2011:

<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, 2011</u>
Pledged notes payable <i>(to acquire infrastructure from developers)</i>	None	Agreement based	Based on impact fee receipts	Various	\$ 120,514,522	\$ 107,413,878
<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	23,010,000
Revenue bonds, Series 2011 <i>(to refinance the acquisition and construction of water, wastewater, and storm drain improvements)</i>	2035	2.00% - 5.75%	\$100,000 - \$2,200,000	2011	10,000,000	10,000,000
Pledged notes payable <i>(to acquire water, wastewater, and storm drain infrastructure and utilities)</i>	None	Agreement based	Based on utility revenue receipts	Various	181,862,300	167,587,396

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Notes to the Basic Financial Statements June 30, 2011

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

The following is a summary of long-term liabilities transactions for the year ended June 30, 2011:

	Balance July 1, 2010	Additions	Retirements	Adjustment	Balance June 30, 2011	Amounts Due Within One Year
Governmental activities:						
Pledged notes payable	\$ 105,969,290	\$ 3,891,409	\$ (1,094,774)	\$ (1,352,047)	\$ 107,413,878	\$ 1,592,500
Compensated absences	139,601	160,276	(153,932)	--	145,945	139,199
Total governmental activities long-term liabilities	<u>\$ 106,108,891</u>	<u>\$ 4,051,685</u>	<u>\$ (1,248,706)</u>	<u>\$ (1,352,047)</u>	<u>\$ 107,559,823</u>	<u>\$ 1,731,699</u>
Business-type activities						
Revenue bonds	\$ 23,480,000	\$ 10,000,000	\$ (470,000)	\$ --	\$ 33,010,000	\$ 1,515,000
Less discount	(126,362)	(345,717)	6,692	--	(465,387)	--
Pledged notes payable	157,875,620	19,571,386	(9,308,519)	(551,091)	167,587,396	139,190
Total business-type activities long-term liabilities	<u>\$ 181,229,258</u>	<u>\$ 29,225,669</u>	<u>\$ (9,771,827)</u>	<u>\$ (551,091)</u>	<u>\$ 200,132,009</u>	<u>\$ 1,654,190</u>

Compensated absences are generally liquidated by the General Fund.

New Debt Issuance

On June 7, 2011, the Mountain House Public Financing Authority issued Utility Systems Revenue Bonds Series 2011 in the amount of \$10,000,000 to finance the acquisition and construction of the completed water, wastewater, and storm drain system. The new bonds bear interest from 2% to 5.75% and are due in annual installments ranging from \$100,000 to \$2,200,000 through December 1, 2035.

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, 2011

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

Adjustments to Long Term Debt

The District reduced the governmental activities pledged notes payable to reflect a change in estimate made when the notes were incurred. The original balance was adjusted to reflect revised estimates made upon completion of the projects. A portion of the business-type pledged notes payable has been transferred to the governmental activities.

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 liabilities are not available. As of June 30, 2011, annual debt service requirements of the revenue bonds to maturity are as follows:

Year Ending June 30:	Bonds Payable		
	Principal	Interest	Total
2012	\$ 1,515,000	\$ 1,611,109	\$ 3,126,109
2013	735,000	1,583,306	2,318,306
2014	765,000	1,553,321	2,318,321
2015	790,000	1,518,851	2,308,851
2016	830,000	1,480,071	2,310,071
2017-2021	4,740,000	6,793,553	11,533,553
2022-2026	6,020,000	5,476,704	11,496,704
2027-2031	7,705,000	3,749,816	11,454,816
2032-2036	9,910,000	1,460,591	11,370,591
Subtotal	\$ 33,010,000	\$ 25,227,322	\$ 58,237,322
Less: Unamortized Discount	(465,387)		
Total	\$ 32,544,613		

Pledged Revenues

The District has pledged all utility revenues to secure the repayment of principal and interest on the revenue bonds in accordance with the terms and the provisions of the debt agreements. Total principal and interest remaining on the revenue bonds is \$58,237,322, payable through December 2035. For the current year ended, principal and interest paid on the revenue bonds was \$470,000 and \$1,141,630, respectively. Total pledged utility revenues for the fiscal year ended June 30, 2011 were \$2,739,811.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Notes to the Basic Financial Statements
June 30, 2011

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, 2011 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. On June 8, 2011, the lease for the administration building was amended where the base rent was reduced for 24 months starting July 1, 2011. The minimum future lease obligations are listed below:

	<u>Governmental Activities</u>
Year Ended June 30:	
2012	\$ 575,256
2013	492,422
2014	520,037
2015	531,304
2016	553,538
2017	282,559
Total minimum lease payments	<u><u>\$ 2,955,116</u></u>

Total rent expenditures for the current fiscal year ended were \$695,580.

Note 8: **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.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Notes to the Basic Financial Statements
June 30, 2011

Note 8: **Employees' Retirement Plan Description** (continued)

The records of the System are the responsibility of the SJCERA and are maintained on a calendar year basis. The calendar year 2010 financial statements of the System were audited by other auditors and are available by writing to San Joaquin County Employees Retirement Association, 6 South El Dorado Street, Suite 400, Stockton, CA 95202.

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 the fiscal year ended June 30, 2010 was \$370,771, and was equal to the District's required and actual contributions.

Three Year Trend Information

<u>Year</u> <u>Ending</u>	<u>Annual</u> <u>Pension Cost</u> <u>(APC)</u>	<u>Percentages</u> <u>APC</u> <u>Contribution</u>	<u>Net Pension</u> <u>Obligation</u>
06/30/09	\$ 356,696	100%	\$ --
06/30/10	301,284	100%	--
06/30/11	370,771	100%	--

Note 9: **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. The District purchases commercial insurance for liability, property, error and omissions, and workers' compensation.

The District participated in the County of San Joaquin's self-insurance programs for unemployment compensation, medical insurance, and dental insurance. 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.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Notes to the Basic Financial Statements
June 30, 2011

Note 10: **Fund Balance/Net Assets Deficit**

The following fund had deficit net assets at June 30, 2011:

	<u>Deficit Amount</u>
Wastewater	\$ 3,442,765

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

REQUIRED SUPPLEMENTARY INFORMATION

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Budgetary fund balances, July 1	\$ 7,406,800	\$ 7,406,800	\$ 7,406,800	\$ --
Resources (inflows):				
Taxes	2,229,200	2,229,200	\$ 1,946,055	\$ (283,145)
Licenses and permits	104,000	104,000	223,401	119,401
Use of money and property	50,000	50,000	13,717	(36,283)
Charges for services	179,000	179,000	214,453	35,453
Other revenues	--	--	10,722	10,722
Transfers from other funds	99,236	99,236	64,405	(34,831)
Amounts available for appropriation	<u>2,661,436</u>	<u>2,661,436</u>	<u>2,472,753</u>	<u>(188,683)</u>
Charges to appropriations (outflows):				
General government:				
Salaries and benefits	2,046,376	2,046,376	1,955,432	90,944
Supplies and services	1,535,372	1,611,572	1,381,142	230,430
Capital outlay	54,000	54,000	4,875	49,125
Cost allocation to other funds	(1,461,763)	(1,461,763)	(1,031,599)	(430,164)
Transfers to other funds	1,604,375	1,604,375	--	1,604,375
Total charges to appropriations	<u>3,778,360</u>	<u>3,854,560</u>	<u>2,309,850</u>	<u>1,544,710</u>
Budgetary fund balances, June 30	<u>\$ 6,289,876</u>	<u>\$ 6,213,676</u>	<u>\$ 7,569,703</u>	<u>\$ 1,356,027</u>
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				\$ 2,472,753
Differences - budget to GAAP:				
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes				<u>(64,405)</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds				<u>\$ 2,408,348</u>

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Budgetary Comparison Schedule
 Special Assessments Fund
 For the Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
Budgetary fund balances, July 1	\$ 1,556,906	\$ 1,556,906	\$ 1,556,906	\$ --
Resources (inflows):				
Special assessment taxes	\$ 4,997,143	\$ 5,039,916	\$ 4,968,243	\$ (71,673)
Use of money and property	16,250	16,250	8,294	(7,956)
Charges for services	4,000	4,000	2,960	(1,040)
Donations	--	--	9,730	9,730
Transfers from other funds	2,292,840	2,292,840	--	(2,292,840)
Amounts available for appropriation	<u>7,310,233</u>	<u>7,353,006</u>	<u>4,989,227</u>	<u>(2,363,779)</u>
Charges to appropriations (outflows):				
Public safety:				
Supplies and services	3,367,421	3,367,421	2,985,984	381,437
Public ways and facilities:				
Supplies and services	957,992	1,000,765	768,187	232,578
Recreation and culture:				
Supplies and services	682,245	682,245	513,193	169,052
Capital outlay	46,200	46,200	--	46,200
Transfers to other funds	2,292,840	2,292,840	--	2,292,840
Total charges to appropriations	<u>7,346,698</u>	<u>7,389,471</u>	<u>4,267,364</u>	<u>3,122,107</u>
Budgetary fund balances, June 30	<u>\$ 1,520,441</u>	<u>\$ 1,520,441</u>	<u>\$ 2,278,769</u>	<u>\$ 758,328</u>

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Budgetary Comparison Schedule
Impact Fees Fund
For the Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Budgetary fund balances, July 1	\$ 2,331,190	\$ 2,331,190	\$ 2,331,190	\$ --
Resources (inflows):				
Use of money and property	18,500	18,500	14,900	(3,600)
Charges for services	604,000	604,000	2,275,019	1,671,019
Other revenues	--	--	3,900	3,900
Amounts available for appropriation	622,500	622,500	2,293,819	1,671,319
Charges to appropriations (outflows):				
Public ways and facilities:				
Supplies and services	181,025	181,025	159,247	21,778
Debt service: principal	250,000	250,000	1,094,773	(844,773)
Transfers to other funds	24,000	24,000	64,405	(40,405)
Total charges to appropriations	455,025	455,025	1,318,425	(863,400)
Budgetary fund balances, June 30	\$ 2,498,665	\$ 2,498,665	\$ 3,306,584	\$ 807,919

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 \$ 1,318,425

Differences - budget to GAAP:

Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes (64,405)

Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds \$ 1,254,020

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Note to Required Supplementary Information
June 30, 2011

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, 2011, and have issued our report thereon dated February 24, 2012. 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
February 24, 2012