

**MOUNTAIN HOUSE
COMMUNITY SERVICES DISTRICT**

AUDIT REPORT

**FOR THE YEAR ENDED
JUNE 30, 2012**

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**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, 2012, 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 the District as of June 30, 2012, 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 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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2013, 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.

A handwritten signature in cursive script that reads "Gallina LLP".

Roseville, California
March 1, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

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MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Management's Discussion and Analysis June 30, 2012

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, 2012.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$70.9 million.
- The government's total net assets decreased by \$13.5 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 \$13.9 million. Approximately \$2.3 million or approximately 16% of total fund balances are reported as Assigned (\$.1 million) or Unassigned (\$2.2 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 \$2.3 million, or 95% of the total General Fund expenditures.
- The District's total debt increased by \$1.4 million (.4%) during the current fiscal year. The key factor in this increase was 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.

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

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Management's Discussion and Analysis
June 30, 2012

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 13-15 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*.

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 43-45 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 25-41 of this report.

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Management's Discussion and Analysis June 30, 2012

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 46-4649 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 \$70.9 million at the close of the most recent fiscal year.

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

	Governmental		Business-Type		Total		Total	
	Activities		Activities		Total		Dollar	Percent
	2012	2011	2012	2011	2012	2011	Change	Change
Assets:								
Current and other assets	\$15.6	\$14.0	\$0.8	\$0.9	\$16.4	\$14.9	\$1.6	10%
Capital assets	167.2	174.9	199.2	203.8	366.4	378.7	(12.3)	-3%
Total assets	<u>182.8</u>	<u>188.9</u>	<u>200.0</u>	<u>204.7</u>	<u>382.8</u>	<u>393.6</u>	<u>(10.8)</u>	<u>-3%</u>
Liabilities:								
Long-term liabilities outstanding	106.7	107.4	202.2	200.1	309.0	307.5	1.4	0%
Other liabilities	1.8	0.9	1.2	0.7	3.0	1.6	1.4	84%
Total liabilities	<u>108.5</u>	<u>108.3</u>	<u>203.5</u>	<u>200.9</u>	<u>311.9</u>	<u>309.2</u>	<u>2.8</u>	<u>1%</u>
Net assets:								
Invested in capital assets, net of related debt	87.0	90.4	24.4	31.6	111.3	122.0	(10.6)	-9%
Restricted	6.4	5.6	3.7	4.2	10.2	9.8	0.4	4%
Unrestricted	(19.1)	(15.4)	(31.6)	(32.0)	(50.7)	(47.4)	(3.3)	7%
Total net assets	<u>\$74.3</u>	<u>\$80.5</u>	<u>\$(3.5)</u>	<u>\$3.8</u>	<u>\$70.9</u>	<u>\$84.4</u>	<u>\$(13.5)</u>	<u>-16%</u>

By far the largest portion of the District's net assets (157%) 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 \$10.2 million, which is subject to constraints by bond financing agreements and enabling legislation.

District's unrestricted net assets were deficit by \$50.7 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 \$50.2 million as of June 30, 2012.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Management's Discussion and Analysis June 30, 2012

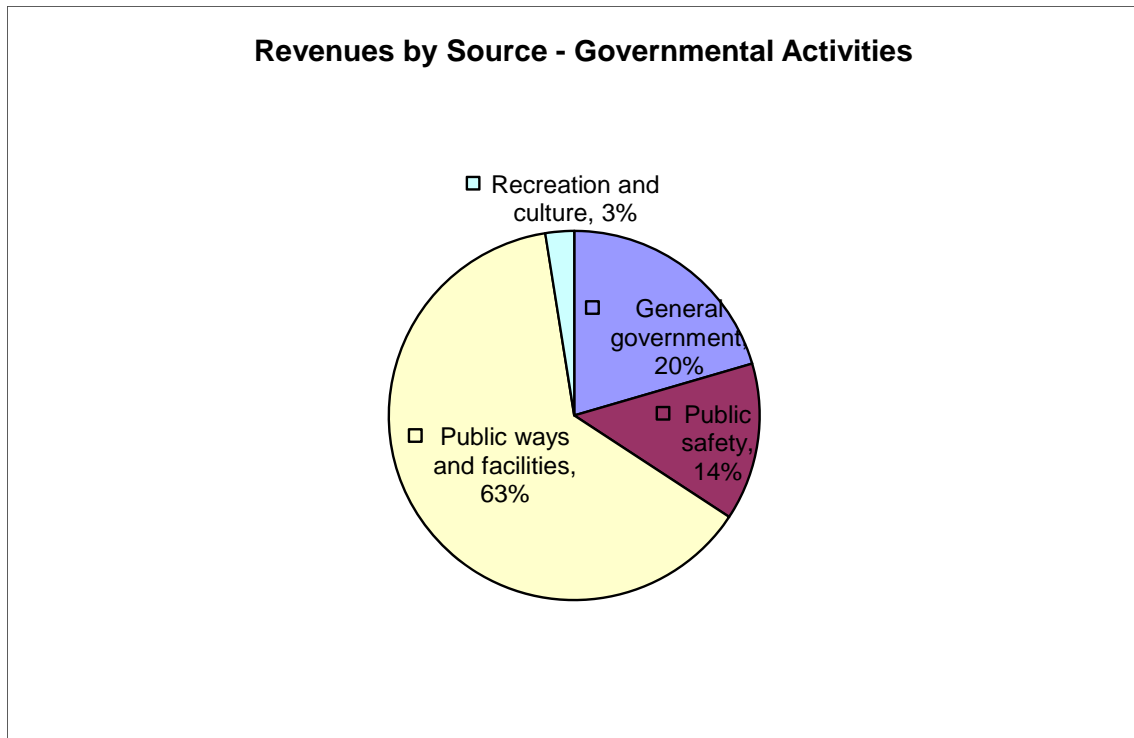
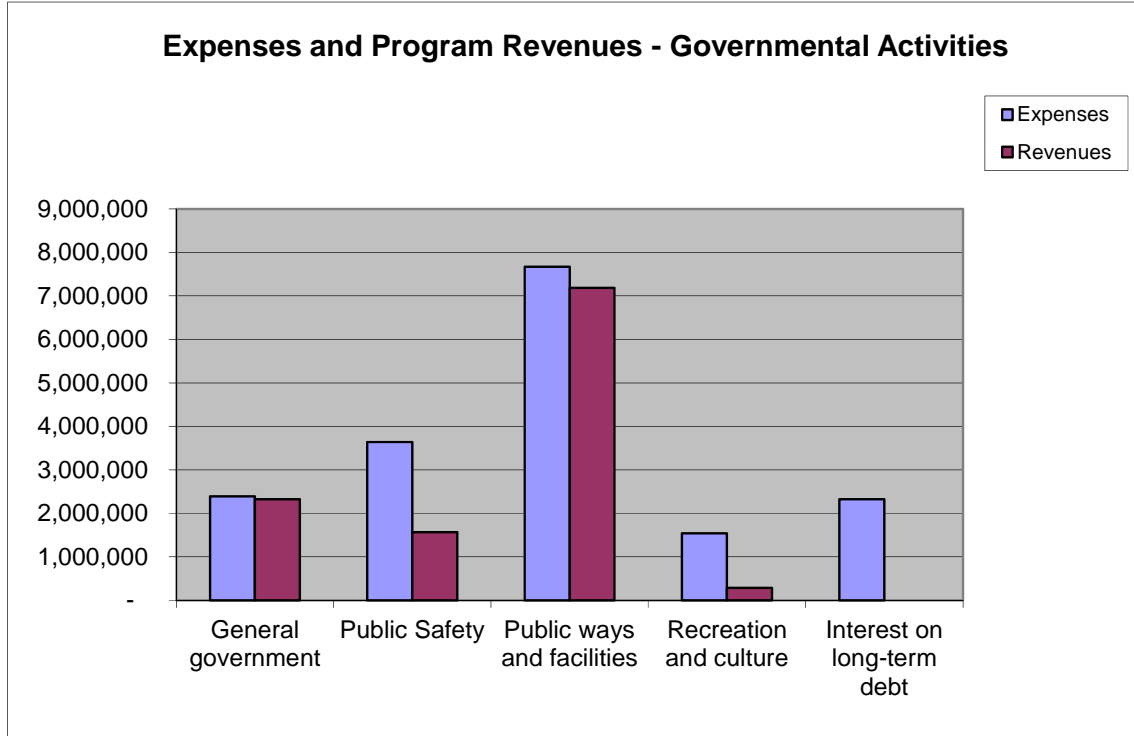
Mountain House Community Services District's Change in Net Assets (in millions)

	Government Activities		Business-Type Activities		Total		Total	
	2012	2011	2012	2011	2012	2011	Dollar Change	Percent Change
Revenues:								
Program revenues:								
Fees, fines and charges for services	\$9.6	\$9.7	\$6.2	\$5.6	\$15.8	\$15.3	\$0.5	3%
Capital grants and contributions	0.0	0.0	0.0	3.6	0.0	3.6	(3.6)	-100%
General revenue:								
Property taxes	1.7	1.9	0.0	0.0	1.7	1.9	(0.2)	-10%
Unrestricted interest and investment earnings	0.0	0.0	0.0	0.0	0.0	0.1	(0.0)	-16%
Miscellaneous revenues	0.0	0.0	0.0	0.0	0.0	0.0	(0.0)	0%
Transfer	0.0	(0.6)	0.0	0.6	0.0	0.0	0.0	0%
Total revenues	11.4	11.2	6.2	9.8	17.6	21.0	(3.4)	-16%
Expenses:								
General government	2.4	2.4	0.0	0.0	2.4	2.4	0.0	2%
Public safety	3.6	3.0	0.0	0.0	3.6	3.0	0.7	22%
Public ways and facilities	7.7	7.6	0.0	0.0	7.7	7.6	0.0	1%
Recreation and culture	1.5	1.5	0.0	0.0	1.5	1.5	0.1	3%
Interest on long-term debt	2.3	4.0	0.0	0.0	2.3	4.0	(1.7)	-42%
Water system	0.0	0.0	7.3	8.6	7.3	8.6	(1.3)	-15%
Wastewater system	0.0	0.0	4.4	4.9	4.4	4.9	(0.5)	-10%
Stormwater system	0.0	0.0	1.6	1.8	1.6	1.8	(0.2)	-9%
Developer projects	0.0	0.0	0.2	0.5	0.2	0.5	(0.3)	-59%
Total expenses	17.6	18.5	13.5	15.8	31.1	34.3	(3.1)	-9%
Decrease in net assets	(6.2)	(7.3)	(7.3)	(6.0)	(13.5)	(13.3)	(0.2)	2%
Net assets, beginning	80.5	87.9	3.8	9.8	84.4	97.7	(13.3)	-14%
Net assets, ending	<u>\$74.3</u>	<u>\$80.5</u>	<u>\$(3.5)</u>	<u>\$3.8</u>	<u>\$70.9</u>	<u>\$84.4</u>	<u>\$(13.5)</u>	<u>-16%</u>

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Management's Discussion and Analysis
June 30, 2012

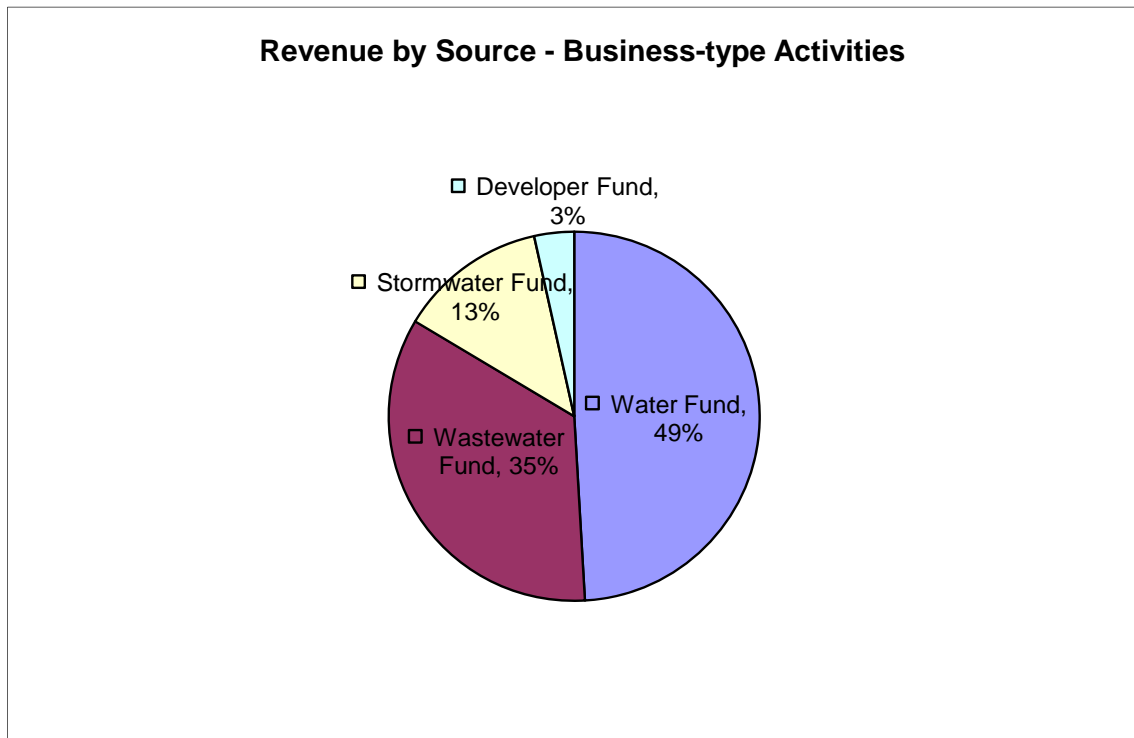
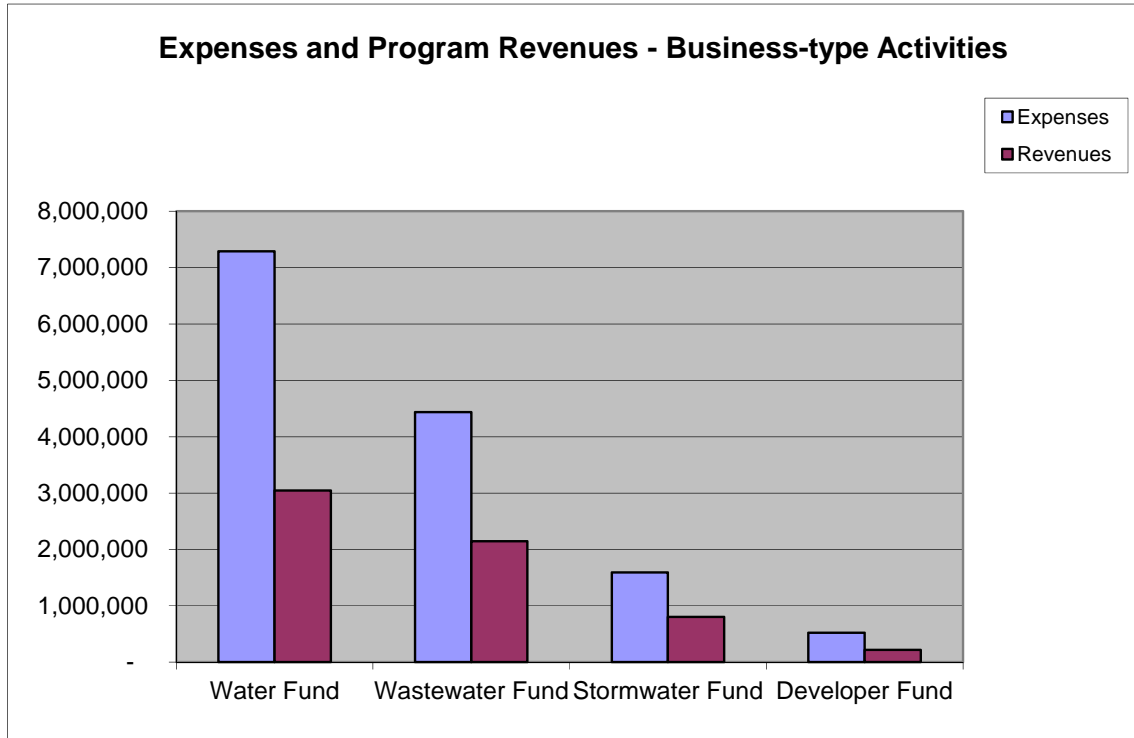
Governmental Activities: Governmental activities decreased District's net assets by \$6.2 million. This reduction is primarily due to interest on pledged notes payable to developers and depreciation on infrastructure assets.



MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Management's Discussion and Analysis
 June 30, 2012

Business-Type Activities: Business-type activities decreased District's net assets by \$7.3 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, 2012

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, 2012, the District's governmental funds reported total fund balances of \$13.9 million an increase of \$.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' 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** - \$5.2 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** - \$6.4 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 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** - \$2.2 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, 2012, the fund balance components were reported as nonspendable \$5.2 million, assigned \$.1 million and unassigned \$2.2 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. Therefore, fund balance must be used for these designated services. At June 30, 2012, restricted fund balance of \$2.6 million was available to finance future appropriations.

The Impact Fund is used to account for fees collected from builders to mitigate the impact of development. The fees are used to reimburse developers for identified infrastructure projects. At June 30, 2012, restricted fund balance was \$3.9 million.

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

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Management's Discussion and Analysis
June 30, 2012

GENERAL FUND BUDGETARY HIGHLIGHTS

Original Budget to Final Budget (in millions)

	<u>Original</u>	<u>Final</u>	Increase <u>(Decrease)</u>
Estimated revenue	\$ 2.5	\$ 2.4	(\$ 0.1)
Appropriations	\$ 4.0	\$ 3.3	\$ 0.7

The decrease in estimated revenues is due to less assessed value of property taxes received.

The decrease in appropriations is due to the decrease of in transfer to the proprietary funds.

Final Budget to Actual (in millions)

	<u>Final</u>	<u>Actual</u>	Increase <u>(Decrease)</u>
Estimated revenue	\$ 2.4	\$ 2.3	(\$ 0.1)
Appropriations	\$ 3.3	\$ 2.4	\$ 1.0

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 charges for services relating to solid waste revenue.

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

Capital assets

The District's capital assets, net of accumulated depreciation is shown below. There were no major capital asset acquisitions for fiscal year ending June 30, 2012. For additional information related to capital assets, see Note 5 in the Notes to the Basic Financial Statements.

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

	Government Activities		Business-Type Activities		Total		Total	
	2012	2011	2012	2011	2012	2011	Dollar Change	Percent Change
Land	\$27.2	\$27.2	\$2.6	\$2.6	\$29.8	\$29.8	\$0.0	0%
Infrastructure	139.8	147.5	196.4	200.9	336.2	348.3	(12.1)	-3%
Machinery and equipment	0.2	0.2	0.2	0.4	0.4	0.6	(0.2)	-37%
Total	<u>167.2</u>	<u>174.9</u>	<u>199.2</u>	<u>203.8</u>	<u>366.4</u>	<u>378.7</u>	<u>(12.3)</u>	<u>-3%</u>

Long-term debt

The District's outstanding debt is shown below. Increases to outstanding debt were \$1.4 million consisting of financing charges of \$6 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 \$1.5 million in payments.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

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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
	2012	2011	2012	2011	2012	2011	Change	Change
Pledged Notes Payable	\$106.7	\$107.4	\$171.2	\$167.6	\$277.9	\$275.0	\$2.9	1%
Revenue Bonds	0.0	0.0	31.0	33.0	31.0	33.0	(2.0)	-6%
Total	\$106.7	\$107.4	\$202.2	\$200.6	\$309.0	\$308.0	\$0.9	0%

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 increased to \$2.2 million. The District has nonspendable funds of \$5.2 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 2012/13 fiscal year. The special assessment rates are anticipated to increase 4% for the 2013/14 budget year. The water, wastewater, and stormwater rates are anticipated to increase 2% for the 2013/14 budget year. These rate increases are 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.

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

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MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Statement of Net Assets
June 30, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Totals
Assets			
Cash and investments	\$ 10,093,984	\$ 1,291,358	\$ 11,385,342
Accounts receivable, net	43,777	712,374	756,151
Taxes receivable	72,705	--	72,705
Interest receivable	6,108	211	6,319
Internal balances	5,401,186	(5,401,186)	--
Deferred costs	--	468,157	468,157
Restricted assets:			
Cash and investments	--	3,735,481	3,735,481
Interest receivable	--	5,073	5,073
Capital assets:			
Nondepreciable	27,180,100	2,604,300	29,784,400
Depreciable, net	140,024,182	196,570,884	336,595,066
Total assets	<u>\$182,822,042</u>	<u>\$ 199,986,652</u>	<u>\$382,808,694</u>
Liabilities			
Accounts payable	\$ 1,626,740	\$ 683,650	\$ 2,310,390
Accrued interest	960	132,377	133,337
Deposits from others	--	190,798	190,798
Unearned revenue	--	238,919	238,919
Compensated absences:			
Due within one year	111,635	--	111,635
Due in more than one year	12,137	--	12,137
Long-term liabilities:			
Due within one year	4,442,700	1,227,800	5,670,500
Due in more than one year	102,287,659	200,991,995	303,279,654
Total liabilities	<u>108,481,831</u>	<u>203,465,539</u>	<u>311,947,370</u>
Net Assets			
Invested in capital assets, net of related debt	86,989,725	24,351,783	111,341,508
Restricted for community services, public works and transportation	6,442,047	--	6,442,047
Restricted for debt service	--	3,740,554	3,740,554
Unrestricted	(19,091,561)	(31,571,224)	(50,662,785)
Total net assets	<u>74,340,211</u>	<u>(3,478,887)</u>	<u>70,861,324</u>
Total liabilities and net assets	<u>\$182,822,042</u>	<u>\$ 199,986,652</u>	<u>\$382,808,694</u>

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, 2012

<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	\$ 2,395,303	\$ 572,226	\$ --
Public safety	3,639,618	1,571,661	--
Public ways and facilities	7,673,241	7,162,870	--
Recreation and culture	1,540,544	282,682	--
Interest on long-term debt	2,321,019	--	--
Total governmental activities	<u>17,569,725</u>	<u>9,589,439</u>	<u>--</u>
Business-Type Activities:			
Water System	7,291,722	3,044,342	--
Wastewater System	4,437,496	2,141,312	--
Storm System	1,592,449	802,078	--
Developer Projects	215,833	215,223	--
Total business-type activities	<u>13,537,500</u>	<u>6,202,955</u>	<u>--</u>
Total primary government	<u>\$ 31,107,225</u>	<u>\$ 15,792,394</u>	<u>\$ --</u>

General Revenues:

Taxes:

Property taxes

Unrestricted interest and investment earnings

Miscellaneous revenues

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
\$ (1,823,077)	\$ --	\$ (1,823,077)
(2,067,957)	--	(2,067,957)
(510,371)	--	(510,371)
(1,257,862)	--	(1,257,862)
(2,321,019)	--	(2,321,019)
<u>(7,980,286)</u>	<u>--</u>	<u>(7,980,286)</u>
	(4,247,380)	(4,247,380)
	(2,296,184)	(2,296,184)
	(790,371)	(790,371)
	(610)	(610)
	<u>(7,334,545)</u>	<u>(7,334,545)</u>
<u>(7,980,286)</u>	<u>(7,334,545)</u>	<u>(15,314,831)</u>
1,747,322	--	1,747,322
28,330	3,578	31,908
720	3,108	3,828
<u>1,776,372</u>	<u>6,686</u>	<u>1,783,058</u>
(6,203,914)	(7,327,859)	(13,531,773)
<u>80,544,125</u>	<u>3,848,972</u>	<u>84,393,097</u>
<u>\$ 74,340,211</u>	<u>\$ (3,478,887)</u>	<u>\$ 70,861,324</u>

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
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.

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**BASIC FINANCIAL STATEMENTS –
FUND FINANCIAL STATEMENTS**

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MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Balance Sheet
Governmental Funds
June 30, 2012

	General Fund	Special Assessments Fund	Impact Fees Fund	Total
ASSETS				
Cash and investments	\$ 2,497,255	\$ 2,681,449	\$ 4,915,280	\$ 10,093,984
Accounts receivable	42,656	1,121	--	43,777
Interest receivable	1,261	2,532	2,315	6,108
Taxes receivable	72,705	--	--	72,705
Due from other funds	216,917	--	--	216,917
Advances to other funds	5,184,269	--	--	5,184,269
	<u>5,184,269</u>	<u> --</u>	<u> --</u>	<u>5,184,269</u>
 Total assets	 <u>\$ 8,015,063</u>	 <u>\$ 2,685,102</u>	 <u>\$ 4,917,595</u>	 <u>\$ 15,617,760</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	467,050	\$ 125,212	\$ 1,034,478	\$ 1,626,740
Accrued interest	--	960	--	960
Unavailable revenue	72,616	--	--	72,616
Total liabilities	<u>539,666</u>	<u>126,172</u>	<u>1,034,478</u>	<u>1,700,316</u>
Fund balances:				
Nonspendable				
Advances to other funds	5,184,269	--	--	5,184,269
Restricted:				
Roads, Transportation and Community Services Operational and Administrative Functions				
	--	1,924,941	3,883,117	5,808,058
Public Works	--	483,584	--	483,584
Lighting and Landscaping	--	150,405	--	150,405
Assigned:				
Park Monument	100,000	--	--	100,000
Unassigned	2,191,128	--	--	2,191,128
Total fund balances	<u>7,475,397</u>	<u>2,558,930</u>	<u>3,883,117</u>	<u>13,917,444</u>
 Total liabilities and fund balances	 <u>\$ 8,015,063</u>	 <u>\$ 2,685,102</u>	 <u>\$ 4,917,595</u>	 <u>\$ 15,617,760</u>

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

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Combining Balance Sheet
General Funds
June 30, 2012

	<u>GF01</u>	<u>GF02</u>	<u>Total</u>
ASSETS			
Cash and investments	\$ 2,411,035	\$ 86,220	\$ 2,497,255
Accounts receivable	42,656	--	42,656
Interest receivable	1,188	73	1,261
Taxes receivable	72,705	--	72,705
Due from other funds	216,917	--	216,917
Advances to other funds	<u>5,184,269</u>	<u>--</u>	<u>5,184,269</u>
 Total assets	 <u>\$ 7,928,770</u>	 <u>\$ 86,293</u>	 <u>\$ 8,015,063</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 467,050	\$ --	\$ 467,050
Accrued interest	--	--	--
Unavailable revenue	<u>72,616</u>	<u>--</u>	<u>72,616</u>
Total liabilities	<u>539,666</u>	<u>--</u>	<u>539,666</u>
Fund balances:			
Nonspendable			
Advances to other funds	5,184,269	--	5,184,269
Restricted:			
Roads, Transportation and Community Services Operational and Administrative Functions			
	--	--	--
Public Works			
	--	--	--
Lighting and Landscaping			
	--	--	--
Assigned:			
Park Monument	100,000		100,000
Unassigned	<u>2,104,835</u>	<u>86,293</u>	<u>2,191,128</u>
Total fund balances	<u>7,389,104</u>	<u>86,293</u>	<u>7,475,397</u>
 Total liabilities and fund balances	 <u>\$ 7,928,770</u>	 <u>\$ 86,293</u>	 <u>\$ 8,015,063</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, 2012

Fund Balance - total governmental funds	\$ 13,917,444
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.	167,204,282
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.	72,616
Long-term liabilities are not due and payable in the current period and therefore, are not reported in the governmental funds.	
Pledged notes payable	(106,730,359)
Compensated absences	<u>(123,772)</u>
Net assets of governmental activities	<u>\$ 74,340,211</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, 2012

	General Fund	Special Assessments Fund	Impact Fees Fund	Total
Revenues				
Taxes	\$ 1,749,447	\$ --	\$ --	\$ 1,749,447
Special assessments	--	5,263,794	--	5,263,794
Licenses and permits	306,232	--	--	306,232
Use of money and property	7,712	6,877	13,741	28,330
Charges for services	263,617	8,828	3,744,591	4,017,036
Other revenues	720	--	--	720
Donations	--	2,377	--	2,377
Total revenues	<u>2,327,728</u>	<u>5,281,876</u>	<u>3,758,332</u>	<u>11,367,936</u>
Expenditures				
Current:				
General government	2,354,996	--	--	2,354,996
Public safety	--	3,639,618	--	3,639,618
Public ways and facilities	--	797,194	177,261	974,455
Recreation and culture	--	564,903	--	564,903
Capital outlay	67,038	--	--	67,038
Debt service:				
Principal	--	--	3,004,538	3,004,538
Total expenditures	<u>2,422,034</u>	<u>5,001,715</u>	<u>3,181,799</u>	<u>10,605,548</u>
Net change in fund balances	(94,306)	280,161	576,533	762,388
Fund balances, beginning of year	<u>7,569,703</u>	<u>2,278,769</u>	<u>3,306,584</u>	<u>13,155,056</u>
Fund balances, end of year	<u>\$ 7,475,397</u>	<u>\$ 2,558,930</u>	<u>\$ 3,883,117</u>	<u>\$ 13,917,444</u>

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

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 General Funds
 For the Year Ended June 30, 2012

	<u>GF01</u>	<u>GF02</u>	<u>Total</u>
Revenues			
Taxes	\$ 1,749,447	\$ --	\$ 1,749,447
Special assessments	--	--	--
Licenses and permits	190,754	115,478	306,232
Use of money and property	7,418	294	7,712
Charges for services	219,666	43,951	263,617
Other revenues	720	--	720
Donations	--	--	--
Total revenues	<u>2,168,005</u>	<u>159,723</u>	<u>2,327,728</u>
Expenditures			
Current:			
General government	2,260,467	94,529	2,354,996
Public safety	--	--	--
Public ways and facilities	--	--	--
Recreation and culture	--	--	--
Capital outlay	67,038	--	67,038
Debt service:			
Principal	--	--	--
Total expenditures	<u>2,327,505</u>	<u>94,529</u>	<u>2,422,034</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(159,500)</u>	<u>65,194</u>	<u>(94,306)</u>
Other Financing Sources (Uses)			
Transfers in	--	--	--
Transfers out	--	--	--
Total other financing sources (uses)	<u>--</u>	<u>--</u>	<u>--</u>
Net change in fund balances	(159,500)	65,194	(94,306)
Fund balances, beginning of year	<u>7,548,604</u>	<u>21,099</u>	<u>7,569,703</u>
Fund balances, end of year	<u>\$ 7,389,104</u>	<u>\$ 86,293</u>	<u>\$ 7,475,397</u>

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

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Statement of Fund Net Assets
Proprietary Funds
June 30, 2012

	Business-type Activities - Enterprise Funds				Total
	Water	Wastewater	Stormwater	Nonmajor Developer Projects	
Assets					
Cash and investments	\$ 544,511	\$ 300,072	\$ 207,980	\$ 238,795	\$ 1,291,358
Accounts receivable, net	228,555	193,719	65,632	224,468	712,374
Interest receivable	--	--	60	151	211
Unamortized debt issuance cost	238,916	175,424	53,817	--	468,157
Restricted assets:					
Cash and investments	1,875,963	1,419,336	440,182	--	3,735,481
Interest receivable	2,451	1,986	636	--	5,073
Capital assets:					
Nondepreciable	984,200	1,620,100	--	--	2,604,300
Depreciable, net	<u>112,995,670</u>	<u>57,669,973</u>	<u>25,905,241</u>	<u>--</u>	<u>196,570,884</u>
 Total assets	 <u>\$ 116,870,266</u>	 <u>\$ 61,380,610</u>	 <u>\$ 26,673,548</u>	 <u>\$ 463,414</u>	 <u>\$ 205,387,838</u>
Liabilities					
Accounts payable	\$ 309,355	\$ 291,147	\$ 75,652	\$ 7,496	\$ 683,650
Accrued interest	65,467	50,553	16,275	82	132,377
Due to other funds	--	--	--	216,917	216,917
Advances from other funds	2,383,666	2,550,211	250,392	--	5,184,269
Deposits from others	190,798	--	--	--	190,798
Unearned revenues	--	--	--	238,919	238,919
Long-term liabilities:					
Revenue bonds:					
Due within one year	365,000	280,000	90,000	--	735,000
Due in more than one year	15,018,051	11,572,351	3,723,815	--	30,314,217
Pledged notes payable:					
Due within one year	228,980	202,970	60,850	--	492,800
Due in more than one year	<u>102,457,787</u>	<u>52,170,183</u>	<u>16,049,808</u>	<u>--</u>	<u>170,677,778</u>
Total liabilities	<u>121,019,104</u>	<u>67,117,415</u>	<u>20,266,792</u>	<u>463,414</u>	<u>208,866,725</u>
Net Assets					
Invested in capital assets, net of related debt	7,295,281	7,284,715	9,771,787	--	24,351,783
Restricted for debt service	1,878,414	1,421,322	440,818	--	3,740,554
Unrestricted	<u>(13,322,533)</u>	<u>(14,442,842)</u>	<u>(3,805,849)</u>	<u>--</u>	<u>(31,571,224)</u>
Total net assets	<u>(4,148,838)</u>	<u>(5,736,805)</u>	<u>6,406,756</u>	<u>--</u>	<u>(3,478,887)</u>
 Total liabilities and net assets	 <u>\$ 116,870,266</u>	 <u>\$ 61,380,610</u>	 <u>\$ 26,673,548</u>	 <u>\$ 463,414</u>	 <u>\$ 205,387,838</u>

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, 2012

	Business-type Activities - Enterprise Funds				Total
	Water	Wastewater	Stormwater	Nonmajor Developer Projects	
Operating Revenues:					
Charges for services:					
User fees and charges	\$ 1,392,895	\$ 898,960	\$ 443,010	\$ 215,223	\$ 2,950,088
User fees and charges - pledged	1,414,855	1,242,352	359,068	--	3,016,275
Penalty charges	238,474	1,226	--	--	239,700
Total operating revenues	<u>3,046,224</u>	<u>2,142,538</u>	<u>802,078</u>	<u>215,223</u>	<u>6,206,063</u>
Operating Expenses:					
Professional and special services	851,465	874,759	227,154	215,833	2,169,211
Utilities	681,159	184,169	--	--	865,328
Chemicals	120,839	65,644	--	--	186,483
Maintenance	59,507	136,196	90,681	--	286,384
Depreciation	2,529,770	1,407,029	720,942	--	4,657,741
Total operating expenses	<u>4,242,740</u>	<u>2,667,797</u>	<u>1,038,777</u>	<u>215,833</u>	<u>8,165,147</u>
Operating income (loss)	<u>(1,196,516)</u>	<u>(525,259)</u>	<u>(236,699)</u>	<u>(610)</u>	<u>(1,959,084)</u>
Nonoperating Revenues (Expenses):					
Interest revenue	1,244	918	806	610	3,578
Interest expense	(3,048,982)	(1,769,699)	(553,672)	--	(5,372,353)
Total nonoperating revenues (expenses)	<u>(3,047,738)</u>	<u>(1,768,781)</u>	<u>(552,866)</u>	<u>610</u>	<u>(5,368,775)</u>
Change in net assets	(4,244,254)	(2,294,040)	(789,565)	--	(7,327,859)
Net assets, beginning of year	<u>95,416</u>	<u>(3,442,765)</u>	<u>7,196,321</u>	<u>--</u>	<u>3,848,972</u>
Net assets, end of year	<u>\$ (4,148,838)</u>	<u>\$ (5,736,805)</u>	<u>\$ 6,406,756</u>	<u>\$ --</u>	<u>\$ (3,478,887)</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, 2012

	Business-Type Activities - Enterprise Funds				Total
	Water	Wastewater	Stormwater	Nonmajor Developer Projects	
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from customers	\$ 2,905,116	\$ 2,015,455	\$ 760,377	\$ 371,335	\$ 6,052,283
Cash payments to suppliers for goods and services	(1,523,455)	(1,010,994)	(243,746)	(624,155)	(3,402,350)
Net cash provided (used) by operating activities	<u>1,381,661</u>	<u>1,004,461</u>	<u>516,631</u>	<u>(252,820)</u>	<u>2,649,933</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Advances received	530,515	374,800	--	--	905,315
Net cash provided (used) by noncapital financing activities	<u>530,515</u>	<u>374,800</u>	<u>--</u>	<u>--</u>	<u>905,315</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Principal paid on long term debt	(859,664)	(601,520)	(193,007)	--	(1,654,191)
Interest paid on long term debt	(795,965)	(616,515)	(198,884)	--	(1,611,364)
Net cash provided (used) by capital and related financing activities	<u>(1,655,629)</u>	<u>(1,218,035)</u>	<u>(391,891)</u>	<u>--</u>	<u>(3,265,555)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest on investments	2,287	1,891	1,069	589	5,836
Net cash provided (used) by investing activities	<u>2,287</u>	<u>1,891</u>	<u>1,069</u>	<u>589</u>	<u>5,836</u>
Net Increase (Decrease) in Cash and Cash Equivalents	258,834	163,117	125,809	(252,231)	295,529
Cash and cash equivalents, beginning 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>
Cash and cash equivalents, end of year	<u>\$ 2,420,474</u>	<u>\$ 1,719,408</u>	<u>\$ 648,162</u>	<u>\$ 238,795</u>	<u>\$ 5,026,839</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, 2012

	Business-Type Activities - Enterprise Funds				Total
	Water	Wastewater	Stormwater	Developer Projects	
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	\$ (1,196,516)	\$ (525,259)	\$ (236,699)	\$ (610)	\$ (1,959,084)
Adjustments to reconcile operating income (loss) to cash flows from operating activities:					
Depreciation	2,529,770	1,407,029	720,942	--	4,657,741
Changes in assets and liabilities:					
(Increase) decrease in:					
Accounts receivable	(141,108)	(127,083)	(41,702)	156,112	(153,781)
Increase (decrease) in:					
Accounts payable	189,515	249,774	74,090	(408,322)	105,057
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,381,661</u>	<u>\$ 1,004,461</u>	<u>\$ 516,631</u>	<u>\$ (252,820)</u>	<u>\$ 2,649,933</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, 2012

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 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. 61, 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 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 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.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Notes to the Basic Financial Statements
June 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

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.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Notes to the Basic Financial Statements
June 30, 2012

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.

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. Amounts in the Statement of Fund Net Assets for the Proprietary Funds are aggregated into a single accounts receivable. Below is the detail of the receivable for the proprietary funds:

	<u>Water</u>	<u>Wastewater</u>	<u>Stormwater</u>	<u>Total</u>
Receivable	\$ 353,555	\$ 251,719	\$ 107,632	\$ 712,906
Less: Allowance for uncollectibles	<u>(125,000)</u>	<u>(58,000)</u>	<u>(42,000)</u>	<u>(225,000)</u>
Net Receivables	<u>\$ 228,555</u>	<u>\$ 193,719</u>	<u>\$ 65,632</u>	<u>\$ 487,906</u>

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Notes to the Basic Financial Statements
June 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Receivables and Unearned Revenue (continued)

The District reports unearned revenue on its financial statements. Unearned revenues arise when 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

Certain proceeds of the District's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

The District has entered Project Acquisition 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.

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. Contributed fixed assets are valued at their estimated fair market value on the date contributed. Contributed capital assets include public domain (infrastructure) general fixed assets consisting of certain improvements including pavements in progress, bridges, right of ways, and utility facilities.

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

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Notes to the Basic Financial Statements
June 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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.

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 five 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 on the following page:

- *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, 2012

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, 2012, are net assets restricted by enabling legislation of \$10,182,601.
- *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 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.

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.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Notes to the Basic Financial Statements
June 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Use of Estimates

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

NOTE 2: CASH AND INVESTMENTS

At June 30, 2012, the District's total cash and investments at fair value were as follows:

Cash	
Cash on hand	\$ 5,300
Deposits	2,031,757
Total cash	<u>2,037,057</u>
Investments	
Pooled in County treasury	10,034,372
Restricted with fiscal agent	3,049,394
Total investments	<u>13,083,766</u>
Total cash and investments	<u>\$ 15,120,823</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 required to be stated at fair value at June 30, 2012, 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, 2012, were as follows:

Credit Risk	Not rated
Custodial Risk	Not applicable
Concentration of risk	Not applicable
Interest rate risk	Unavailable

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, 2012

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, 2012, \$250,000 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, 2012 was \$686,0887

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. The fair value of investments is determined monthly based upon quoted market prices. At June 30, 2012, the District's investments with the fiscal agent were categorized as follows:

	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Federal Agencies	\$ 548,000	0.82
Money Market Mutual Funds	<u>2,501,394</u>	0.00
	<u><u>\$ 3,049,394</u></u>	

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, 2012:

	<u>Standard & Poor's</u>	<u>% of Portfolio</u>	<u>Amount</u>
Federal Agencies (FHLB)	AA+	9.63%	\$ 293,628
Federal Agencies (FNMA)	AA+	8.34%	254,372
Money Market Mutual Funds	N/A	<u>82.03%</u>	<u>2,501,394</u>
Total		<u><u>100.00%</u></u>	<u><u>\$ 3,049,394</u></u>

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Notes to the Basic Financial Statements
June 30, 2012

NOTE 3: RESTRICTED CASH AND INVESTMENTS (CONTINUED)

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.

NOTE 4: INTERFUND TRANSACTIONS

Interfund receivables and payables represent borrowing between funds at year-end. The composition of interfund balances as of June 30, 2012, is as follows:

Due to/from other funds:

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

Receivable Fund	Payable Fund	Amount
General Fund	Developer	\$ 216,917

Advances to/from other funds:

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

Receivable Fund	Payable Fund	Amount
General Fund	Water	\$ 2,383,666
	Wastewater	2,550,211
	Stormwater	250,392
		\$ 5,184,269

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Notes to the Basic Financial Statements
June 30, 2012

NOTE 5: CAPITAL ASSETS

Capital assets at June 30, 2012 consisted of the following:

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2012</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	595,351	67,038	--	662,389
Infrastructure	190,577,390	--	--	190,577,390
Total capital assets, being depreciated	<u>191,172,741</u>	<u>67,038</u>	<u>--</u>	<u>191,239,779</u>
Less accumulated depreciation for:				
Equipment	(361,156)	(113,811)	--	(474,967)
Infrastructure	(43,117,534)	(7,623,096)	--	(50,740,630)
Total accumulated depreciation	<u>(43,478,690)</u>	<u>(7,736,907)</u>	<u>--</u>	<u>(51,215,597)</u>
Total capital assets, being depreciated, net	<u>147,694,051</u>	<u>(7,669,869)</u>	<u>--</u>	<u>140,024,182</u>
Governmental activities capital assets, net	<u>\$ 174,874,151</u>	<u>\$ (7,669,869)</u>	<u>\$ --</u>	<u>\$ 167,204,282</u>
Business-Type Activities				
Capital assets, not being depreciated:				
Land	\$ 2,604,300	\$ --	\$ --	\$ 2,604,300
Total capital assets, not being depreciated	<u>2,604,300</u>	<u>--</u>	<u>--</u>	<u>2,604,300</u>
Capital assets, being depreciated:				
Equipment	914,443	--	--	914,443
Other property	223,956,100	--	--	223,956,100
Total capital assets, being depreciated	<u>224,870,543</u>	<u>--</u>	<u>--</u>	<u>224,870,543</u>
Less accumulated depreciation for:				
Equipment	(538,059)	(178,619)	--	(716,678)
Other property	(23,103,859)	(4,479,122)	--	(27,582,981)
Total accumulated depreciation	<u>(23,641,918)</u>	<u>(4,657,741)</u>	<u>--</u>	<u>(28,299,659)</u>
Total capital assets, being depreciated, net	<u>201,228,625</u>	<u>(4,657,741)</u>	<u>--</u>	<u>196,570,884</u>
Business-type activities capital assets, net	<u>\$ 203,832,925</u>	<u>\$ (4,657,741)</u>	<u>\$ --</u>	<u>\$ 199,175,184</u>

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Notes to the Basic Financial Statements
June 30, 2012

NOTE 5: CAPITAL ASSETS (CONTINUED)

Depreciation

Depreciation expense was charged to governmental functions as follows:

Governmental Activities:

General government	\$ 62,480
Public ways	6,698,786
Culture and recreation	<u>975,641</u>
 Total	 <u><u>\$ 7,736,907</u></u>

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

Business-Type Activities:

Water	\$ 2,529,770
Wastewater	1,407,029
Stormwater	<u>720,942</u>
 Total	 <u><u>\$ 4,657,741</u></u>

NOTE 6: LONG-TERM LIABILITIES

The following is a summary of long-term liabilities of the District for the year ended June 30, 2012:

<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, 2012</u>
Pledged notes payable <i>(to acquire infrastructure from developers)</i>	None	Agreement based	Based on impact fee receipts	Various	<u>\$ 132,401,349</u>	<u>\$ 106,730,359</u>
 <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	\$ 22,405,000
Revenue bonds, Series 2011 <i>(to refinance the acquisition and construction of water, wastewater, and storm drain improvements)</i>	2036	2.00% - 5.75%	\$100,000 - \$2,200,000	2011	10,000,000	9,090,000
Pledged notes payable <i>(to acquire water, wastewater, and storm drain infrastructure and utilities)</i>	None	Agreement based	Based on utility revenue receipts	Various	<u>185,085,788</u>	<u>171,170,578</u>
 Total Business-Type Activities					 <u><u>\$ 219,450,788</u></u>	 <u><u>\$ 202,665,578</u></u>

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Notes to the Basic Financial Statements
June 30, 2012

NOTE 6: LONG-TERM LIABILITIES (CONTINUED)

The following is a summary of long-term liabilities transactions for the year ended June 30, 2012:

	Balance July 1, 2011	Additions	Retirements	Balance June 30, 2012	Amounts Due Within One Year
Governmental activities:					
Pledged notes payable	\$ 107,413,878	\$ 2,321,019	\$ (3,004,538)	\$ 106,730,359	\$ 4,442,700
Compensated absences	145,945	253,383	(275,556)	123,772	111,635
Total governmental activities long-term liabilities	<u>\$ 107,559,823</u>	<u>\$ 2,574,402</u>	<u>\$ (3,280,094)</u>	<u>\$ 106,854,131</u>	<u>\$ 4,554,335</u>
Business-type activities					
Revenue bonds	\$ 33,010,000	\$ --	\$ (1,515,000)	\$ 31,495,000	\$ 735,000
Less discount	(465,387)	--	19,604	(445,783)	--
Pledged notes payable	167,587,396	3,722,373	(139,191)	171,170,578	492,800
Total business-type activities long-term liabilities	<u>\$ 200,132,009</u>	<u>\$ 3,722,373</u>	<u>\$ (1,634,587)</u>	<u>\$ 202,219,795</u>	<u>\$ 1,227,800</u>

Compensated absences are generally liquidated by the General Fund.

Pledged Notes Payable

The District acquired various infrastructure facilities from the 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, 2012

NOTE 6: LONG-TERM LIABILITIES (CONTINUED)

Payment Requirements for Debt Service

Due to the unknown amount and timing of future debt payments on the pledged notes payable, the future maturity schedules for these payables are not available. As of June 30, 2012, annual debt service requirements of the revenue bonds to maturity are as follows:

Year Ending June 30:	Bonds Payable		
	Principal	Interest	Total
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	865,000	1,442,471	2,307,471
2018-2022	4,965,000	6,564,326	11,529,326
2023-2027	6,320,000	5,166,068	11,486,068
2028-2032	8,100,000	3,347,878	11,447,878
2033-2036	8,125,000	959,901	9,084,901
Subtotal	<u>\$ 31,495,000</u>	<u>\$ 23,616,193</u>	<u>\$ 55,111,193</u>

Pledged Revenues

The District has pledged utility revenues to secure the repayment of principal and interest on the revenue bonds and the pledged notes payable in accordance with the terms and the provisions of the debt agreements. Total principal and interest remaining on the revenue bonds is \$55,111,193, payable through December 2035. For the current year ended, principal and interest paid on the revenue bonds was \$1,515,000 and \$1,611,109, respectively. Total pledged utility revenues for the fiscal year ended June 30, 2012 was \$3,016,275.

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, 2012, does not expect to incur a liability.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Notes to the Basic Financial Statements
June 30, 2012

NOTE 7: OPERATING LEASES

The District has two operating leases to rent space for the administration and library buildings. On June 8, 2012 the lease for the administration building was amended where the base rent was reduced for 24 months starting July 1, 2011. The District and the landlord are in negotiations regarding the library lease. The minimum future lease obligations are listed below:

	<u>Governmental Activities</u>
Year Ended June 30:	
2013	\$ 492,422
2014	520,037
2015	531,304
2016	553,538
2017	282,559
Total minimum lease payments	<u>\$ 2,379,860</u>

Total rent expenditures for the current fiscal year ended were \$564,877.

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.

The records of the System are the responsibility of the SJCERA and are maintained on a calendar year basis. The calendar year 2011 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, 2010. 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 on a 20-year open period amortization until January 1, 2014, when it will be decreased by one year in each valuation report until a 12-year amortization period is reached.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Notes to the Basic Financial Statements
June 30, 2012

NOTE 8: EMPLOYEES' RETIREMENT PLAN DESCRIPTION (CONTINUED)

Annual Pension Cost

The District's annual pension cost in the fiscal year ended June 30, 2012, was \$372,248, and was equal to the District's required and actual contributions.

Three Year Trend Information

<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentages APC Contribution</u>	<u>Net Pension Obligation</u>
06/30/10	\$ 301,284	100%	\$ --
06/30/11	370,771	100%	--
06/30/12	372,248	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 insures through 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.

NOTE 10: FUND BALANCE/NET ASSETS DEFICIT

The following funds had deficit net assets at June 30, 2012:

	<u>Deficit Amount</u>
Water	\$ 4,148,838
Wastewater	5,736,805

The deficit in these funds are expected to be eliminated in future years through future revenues.

NOTE 11: NEW ACCOUNTING PRONOUNCEMENTS

GASB recently released several new accounting and financial reporting standards. The following new standards may have a significant impact on the District's financial reporting process.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, is effective in financial statements for periods beginning after June 15, 2012. It improves financial reporting for a governmental financial reporting entity.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Notes to the Basic Financial Statements
June 30, 2012

NOTE 11: **NEW ACCOUNTING PRONOUNCEMENTS** (CONTINUED)

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, is effective in financial statements for periods beginning after December 15, 2011. It establishes accounting and financial reporting standards for the financial statements of state and local governments.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, is effective for periods beginning after December 15, 2011. It provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, is effective for periods beginning after December 15, 2012. It improves financial reporting for state and local governments by reclassifying, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

GASB Statement No. 66, *Technical Corrections – 2012*, is effective for periods beginning after December 15, 2012. It improves financial reporting for state and local governments by resolving conflicting guidance that resulted from issuance of GASB Statements Nos. 54 and 62.

GASB Statement No. 67, *Financial Reporting for Pension Plans*, is effective for periods beginning after June 15, 2013. It improves financial reporting for state and local governments by improving the usefulness of pension information included in the general purpose financial reports of state and local governmental pension plans for making decisions and assessing accountability.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, is effective for periods beginning after June 15, 2014. The principal objective of this statement is to improve the usefulness of information for decisions made by the various users of the general purpose external financial reports of governments whose employees – both active employees and inactive employees – are provided with pensions. An additional objective is to improve the information provided in government financial reports about pension-related financial support provided by certain non-employer entities that make contributions to pension plans that are used to provide benefits to the employees of other entities.

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REQUIRED SUPPLEMENTARY INFORMATION

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MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Budgetary fund balances, July 1	\$ 7,569,703	\$ 7,569,703	\$ 7,569,703	\$ --
Resources (inflows):				
Taxes	\$ 2,016,100	\$ 1,760,600	\$ 1,749,447	\$ (11,153)
Licenses and permits	194,000	283,200	306,232	23,032
Use of money and property	16,400	9,200	7,712	(1,488)
Charges for services	177,000	207,900	263,617	55,717
Other revenues	--	--	720	720
Transfers from other funds	51,000	105,000	--	(105,000)
Amounts available for appropriation	<u>2,454,500</u>	<u>2,365,900</u>	<u>2,327,728</u>	<u>(38,172)</u>
Charges to appropriations (outflows):				
General government:				
Salaries and benefits	2,043,198	2,004,200	1,999,500	4,700
Supplies and services	1,190,245	1,156,500	1,146,268	10,232
Capital outlay	61,000	61,000	67,038	(6,038)
Cost allocation to other funds	(880,391)	(745,000)	(790,772)	45,772
Transfers to other funds	<u>1,572,297</u>	<u>791,800</u>	<u>--</u>	<u>791,800</u>
Total charges to appropriations	<u>3,986,349</u>	<u>3,268,500</u>	<u>2,422,034</u>	<u>846,466</u>
Budgetary fund balances, June 30	<u>\$ 6,037,854</u>	<u>\$ 6,667,103</u>	<u>\$ 7,475,397</u>	<u>\$ 808,294</u>

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Budgetary Comparison Schedule
 Special Assessments Fund
 For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Budgetary fund balances, July 1	\$ 2,278,769	\$ 2,278,769	\$ 2,278,769	\$ --
Resources (inflows):				
Special assessment taxes	5,249,200	5,266,300	5,263,794	\$ (2,506)
Use of money and property	11,800	8,300	6,877	(1,423)
Charges for services	5,000	10,200	8,828	(1,372)
Donations	--	--	2,377	2,377
Amounts available for appropriation	5,266,000	5,284,800	5,281,876	(2,924)
Charges to appropriations (outflows):				
Public safety:				
Supplies and services	3,351,220	3,677,000	3,639,618	37,382
Public ways and facilities:				
Supplies and services	1,067,100	816,000	797,194	18,806
Recreation and culture:				
Supplies and services	633,732	551,700	564,903	(13,203)
Capital outlay	20,000	2,200	--	2,200
Total charges to appropriations	5,072,052	5,046,900	5,001,715	45,185
Budgetary fund balances, June 30	\$ 2,472,717	\$ 2,516,669	\$ 2,558,930	\$ 42,261

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Budgetary Comparison Schedule
Impact Fees Fund
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>			<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final Budget</u>
Budgetary fund balances, July 1	\$ 3,306,584	\$ 3,306,584	\$ 3,306,584	\$ --
Resources (inflows):				
Use of money and property	11,800	12,700	13,741	1,041
Charges for services	<u>2,325,000</u>	<u>2,673,900</u>	<u>3,744,591</u>	<u>1,070,691</u>
Amounts available for appropriation	<u>2,336,800</u>	<u>2,686,600</u>	<u>3,758,332</u>	<u>1,071,732</u>
Charges to appropriations (outflows):				
Public ways and facilities:				
Supplies and services	177,000	171,100	177,261	(6,161)
Debt service: principal	1,134,400	2,634,300	3,004,538	(370,238)
Transfers to other funds	<u>51,000</u>	<u>105,000</u>	<u>--</u>	<u>105,000</u>
Total charges to appropriations	<u>1,362,400</u>	<u>2,910,400</u>	<u>3,181,799</u>	<u>(271,399)</u>
Budgetary fund balances, June 30	<u><u>\$ 4,280,984</u></u>	<u><u>\$ 3,082,784</u></u>	<u><u>\$ 3,883,117</u></u>	<u><u>\$ 800,333</u></u>

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Note to Required Supplementary Information
June 30, 2012

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.

Expenditures were in excess of budgeted appropriations in the Impact Fees Fund by \$370,238 for debt service principal expenditures and by \$6,161 for supplies and services expenditures.

OTHER REPORT

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**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, 2012, and have issued our report thereon dated March 1, 2013. 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 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

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

This report is intended solely for the information and use of the 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.

A handwritten signature in cursive script that reads "Gallina LLP". The signature is written in black ink and is positioned above the typed name and date.

Roseville, California
March 1, 2013