

**MOUNTAIN HOUSE
COMMUNITY SERVICES DISTRICT**

Audited Financial Statements

June 30, 2014

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MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Audited Financial Statements

For the Year Ended June 30, 2014

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information, of Mountain House Community Services District (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements for California Special Districts. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

To the Board of Directors
Mountain House, California

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the District as of June 30, 2014 and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

Other Matters

Report on Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 to 11 and 39 to 42 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2015 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 and contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Richardson & Company, LLP

March 30, 2015

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

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. 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, 2014.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$50.2 million.
- The government's total net position decreased by \$12 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 \$20.5 million. Approximately \$2.9 million or approximately 14% of total fund balances are reported as Assigned (\$.1 million) or Unassigned (\$2.8 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 A).
- At the end of the current fiscal year, the Assigned and Unassigned (GASB No. 54) fund balance for the General Fund was \$2.9 million, or 112% of the total General Fund expenditures.
- The District's total debt increased by \$3.5 million (1%) 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 Position 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 Position 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 position* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

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

The government-wide financial statements can be found on pages 12 - 14 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 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 15 - 18 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 39-41 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 and stormwater system operations 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 19 - 21 of this report.

**MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014**

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 22 – 38 of this report.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* consisting of the budgetary schedules described above under Notes to the Required Supplementary Information. Required supplementary information can be found on pages 39–42 of this report.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$50.2 million at the close of the most recent fiscal year.

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

	Government Activities		Business-Type Activities		Total		Total	
	2014	2013	2014	2013	2014	2013	Dollar Change	Percent Change
Assets:								
Current and other assets	\$22.3	\$18.4	\$0.8	\$0.8	\$23.1	\$19.2	\$3.9	21%
Capital assets	155.9	163.8	190.4	194.8	346.3	358.6	(12.3)	-3%
Total assets	178.2	182.1	191.2	195.6	369.4	377.8	(8.4)	-2%
Deferred outflow s:								
Unamortized bond issuance costs	0.0	0.0	0.0	0.4	0.0	0.4	(0.4)	-100%
Total deferred outflow of resources	0.0	0.0	0.0	0.4	0.0	0.4	(0.4)	-100%
Liabilities:								
Long-term liabilities outstanding	107.6	106.8	208.8	206.1	316.4	312.8	3.6	1%
Other liabilities	1.8	1.8	1.0	1.3	2.8	3.1	(0.3)	-12%
Total liabilities	109.4	108.5	209.8	207.4	319.1	315.9	3.3	1%
Net position:								
Net investment in capital assets	80.4	86.3	17.5	20.9	97.9	107.2	(9.3)	-9%
Restricted	11.1	8.4	4.6	4.0	15.7	12.4	3.3	26%
Unrestricted	(22.7)	(21.1)	(40.7)	(36.3)	(63.4)	(57.4)	(6.0)	10%
Total net position	\$68.8	\$73.6	\$(18.6)	\$(11.4)	\$50.2	\$62.2	\$(12.0)	-19%

By far the largest portion of the District's net position (194%) reflects its investment in capital assets (e.g., land, infrastructure, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014**

The restricted portion of District's net position, \$15.7 million, is subject to constraints by bond financing agreements and enabling legislation.

The District's unrestricted net position were deficit by \$63.4 million generally because of financing charges accruing on pledged notes payable to developers for contributed infrastructure. Financing charges accumulated on the pledged notes payable totaled \$64.4 million as of June 30, 2014.

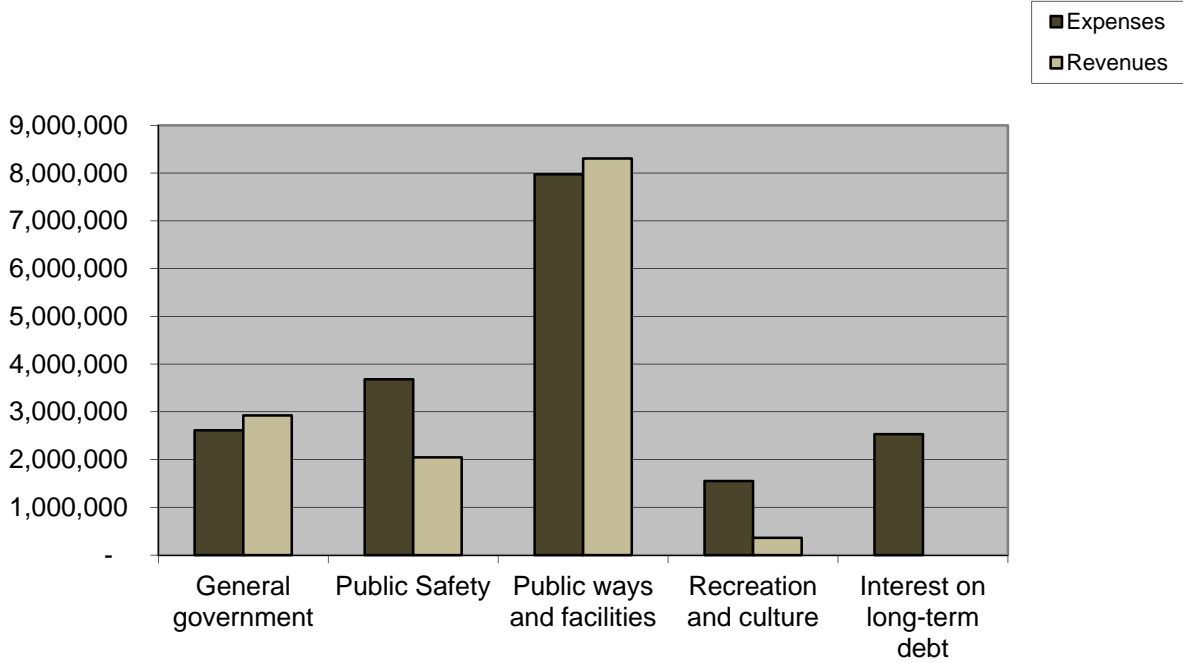
Mountain House Community Services District's Change in Net Position (in millions)

	Government Activities		Business-Type Activities		Total		Total	
	2014	2013	2014	2013	2014	2013	Dollar Change	Percent Change
Revenues:								
Program revenues:								
Fees, fines and charges for services	\$3.9	\$7.7	\$8.1	\$7.0	\$12.0	\$14.7	\$(2.6)	-19%
Capital grants and contributions	0.0	1.4			0.0	1.4	(1.4)	-100%
Special assessments	6.8	5.9	0.0	0.0	6.8	5.9	1.0	17%
General revenue:								
Property taxes	2.1	1.7	0.0	0.0	2.1	1.7	0.4	22%
Unrestricted interest and investment earnings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	23%
Miscellaneous revenues	0.8	0.6	0.0	0.0	0.8	0.6	0.2	0%
Total revenues	13.6	17.3	8.1	7.0	21.7	24.3	(2.5)	-11%
Expenses:								
General government	2.6	2.3			2.6	2.3	0.3	15%
Public safety	3.7	3.6			3.7	3.6	0.1	3%
Public ways and facilities	8.0	7.9			8.0	7.9	0.1	1%
Recreation and culture	1.6	1.5			1.6	1.5	0.1	4%
Interest on long-term debt	2.5	2.9			2.5	2.9	(0.3)	-12%
Water system			7.9	8.0	7.9	8.0	(0.2)	-2%
Wastewater system			4.7	4.8	4.7	4.8	(0.1)	-3%
Stormwater system			1.5	1.7	1.5	1.7	(0.2)	-9%
Developer projects			0.9	0.3	0.9	0.3	0.6	203%
Total expenses	18.4	18.1	15.0	14.9	33.4	33.0	0.5	1%
Decrease in net position	(4.8)	(0.8)	(6.9)	(7.8)	(11.7)	(8.6)	(2.9)	35%
Net position, beginning	73.6	74.3	(11.3)	(3.5)	62.2	70.9	(8.6)	-12%
Retroactive write-off of bond issuance costs			(0.4)					
Net position, ending	\$68.8	\$73.6	\$(18.6)	\$(11.3)	\$50.2	\$62.2	\$(11.6)	-19%

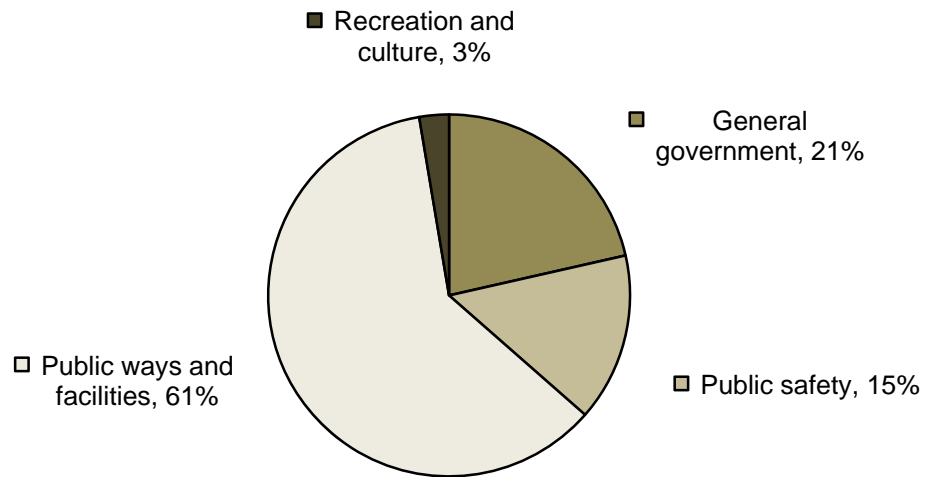
Governmental Activities: Governmental activities decreased District's net position by \$4.6 million. This reduction is primarily due to interest on pledged notes payable to developers and depreciation on infrastructure assets.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2014

Expenses and Program Revenues - Governmental Activities

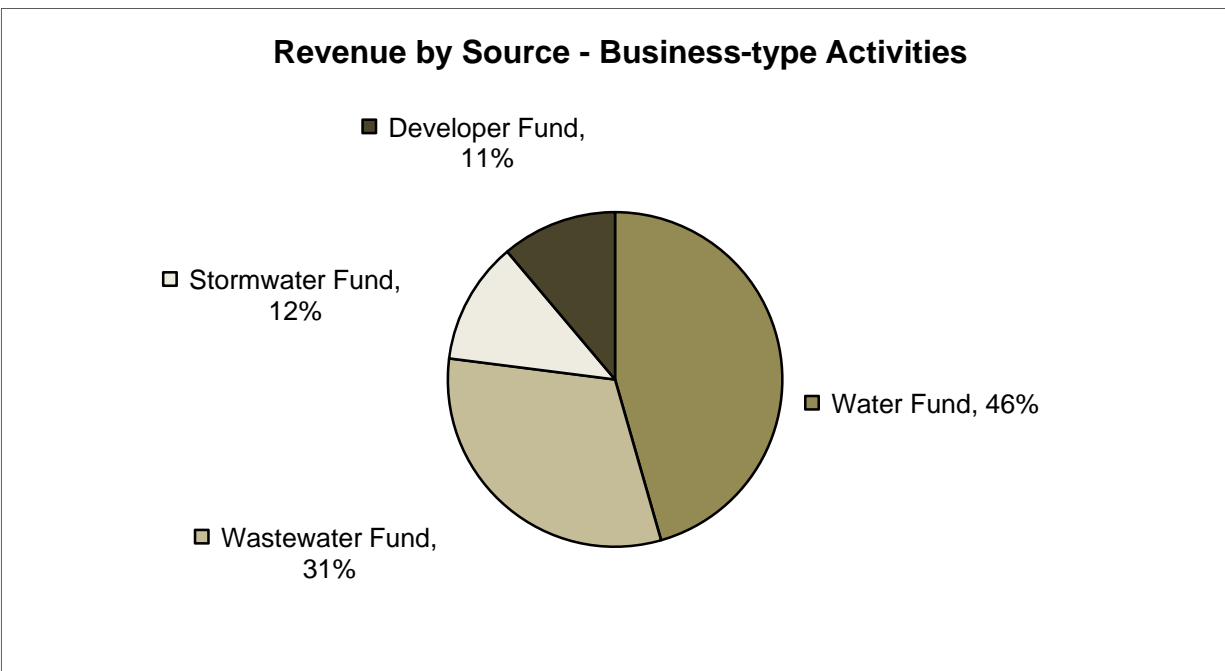
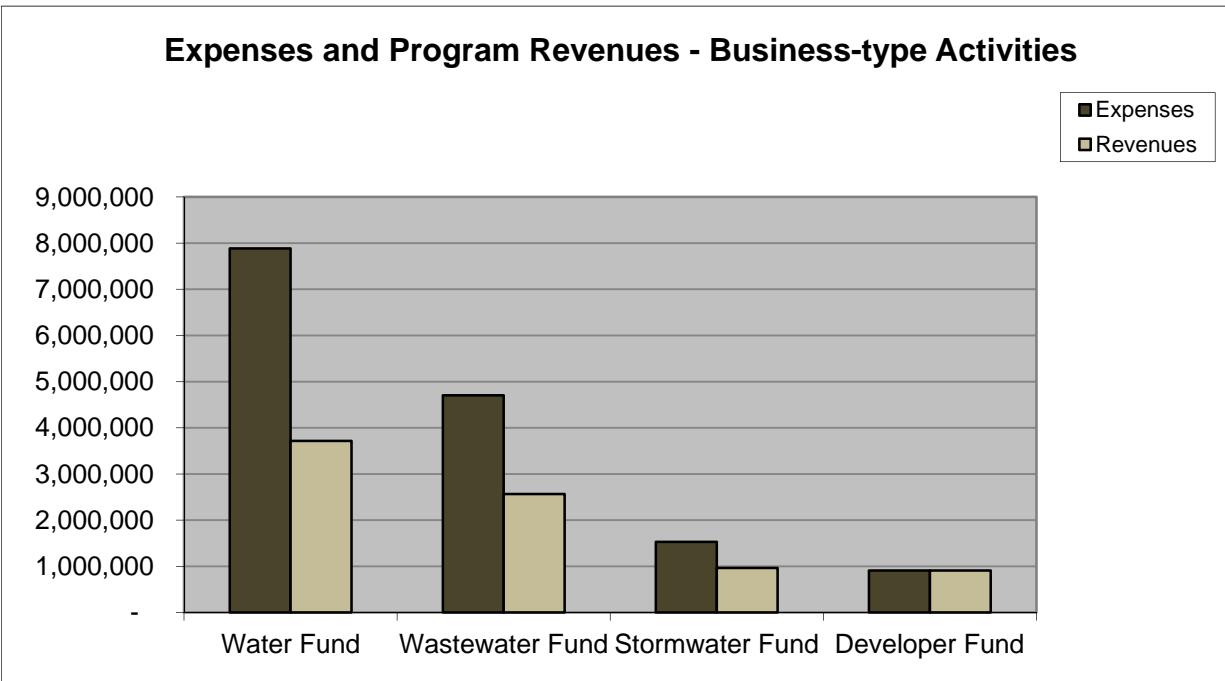


Revenues by Source - Governmental Activities



MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2014

Business-Type Activities: Business-type activities decreased District's net position by \$6.9 million. This is primarily due to financing charges accruing on pledged notes payable to developers and depreciation on water, wastewater and stormwater utility infrastructure.



MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

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, 2014, the District's governmental funds reported total fund balances of \$20.5 million, an increase of \$4 million over the prior year.

The District reports the following components of fund balance:

- **Nonspendable fund balance** - \$6.3 million (inherently nonspendable) included the portion of net resources that cannot be spent because of their form, and the portion of net resources that cannot be spent because they must be maintained intact.
- **Restricted fund balance** - \$11.1 million (externally enforceable limitation on use) include amounts subject to limitation imposed by creditors, contributors, or laws and regulations of other government.
- **Committed 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.
- **Assigned fund balance** - \$.1 million (intended use of resources) consists of amounts where the intended use is established by the highest level of decision making.
- **Unassigned fund balance** - \$2.8 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, 2014, the fund balance components were reported as nonspendable \$5.7 million, assigned \$.1 million and unassigned \$2.8 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, 2014, \$.6 million was reported as nonspendable and the restricted fund balance of \$4.5 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, 2014, restricted fund balance was \$6.8 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, 2014**

GENERAL FUND BUDGETARY HIGHLIGHTS

Original Budget to Final Budget (in millions)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Increase (Decrease)</u>
Estimated revenue	\$ 2.4	\$ 2.8	\$ 0.4
Appropriations	3.0	3.0	0.0

Final Budget to Actual (in millions)

	<u>Final Budget</u>	<u>Actual</u>	<u>Increase (Decrease)</u>
Estimated revenue	\$ 2.8	\$ 3.0	\$ 0.2
Appropriations	3.0	2.6	.4

During the year, actual revenues were larger than budgetary estimates. The increase is an aggregation of various increases and decreases of revenue sources.

Actual expenditures were less than final budgeted estimates. A majority of the difference is from higher than anticipated cost allocations to developer funds and advances to other funds originally budgeted as transfers.

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, 2014. For additional information related to capital assets, see Note D 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	
	2014	2013	2014	2013	2014	2013	Dollar Change	Percent Change
Land	\$28.0	\$28.0	\$2.6	\$2.6	\$30.6	\$30.6	\$0.0	0%
Infrastructure	127.8	135.6	187.7	192.2	315.6	327.8	(12.2)	-4%
Machinery and equipment	0.1	0.1	0.0	0.0	0.1	0.2	(0.0)	-29%
Total	<u>\$156.0</u>	<u>\$163.8</u>	<u>\$190.3</u>	<u>\$194.8</u>	<u>\$346.3</u>	<u>\$358.6</u>	<u>\$(12.3)</u>	<u>-3%</u>

Long-term debt

The District's outstanding debt is shown below. Increases to outstanding debt were \$3.5 million consisting of financing charges of \$6.8 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 \$3.3 million in payments.

**MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014**

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

	Government Activities		Business-Type Activities		Total		Total	
	2014	2013	2014	2013	2014	2013	Dollar Change	Percent Change
	Pledged Notes Payable	\$107.5	\$106.7	\$179.2	\$175.7	\$286.7	\$282.4	\$4.3
Revenue Bonds	0.0	0.0	30.0	30.8	30.0	30.8	(0.8)	-2%
Total	\$107.5	\$106.7	\$209.2	\$206.5	\$316.7	\$313.1	\$3.5	1%

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 E 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 \$2.8 million. The District has nonspendable funds of \$5.7 million for advances to other funds. The special assessment rates are anticipated to increase 4% for the 2015/16 budget year. The water, wastewater, and stormwater rates are anticipated to remain at current levels pending a rate study. It is the intention of the District to study the cost of providing services to fund both debt service and operations and maintenance. Rate increases may be necessary to keep up with inflation and to keep the District from having to institute large rate increases in future years.

Conditions Affecting Current Financial Position

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

Requests for Information

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

BASIC FINANCIAL STATEMENTS

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
Statement of Net Position
June 30, 2014

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 14,945,911	\$ 1,075,123	\$ 16,021,034
Restricted cash		4,559,400	4,559,400
Accounts receivable, net	217,439	1,666,805	1,884,244
Internal balances	6,500,282	(6,500,282)	
Other receivables		13	13
Prepays	608,658		608,658
Rent deposit	5,000		5,000
Capital assets:			
Non-depreciable	28,041,500	2,604,300	30,645,800
Depreciable, net of accumulated depreciation	127,902,203	187,763,773	315,665,976
Total capital assets	155,943,703	190,368,073	346,311,776
TOTAL ASSETS	178,220,993	191,169,132	369,390,125
LIABILITIES			
Accounts payable	1,728,884	418,499	2,147,383
Accrued interest payable		126,598	126,598
Unearned revenues	46,916	239,078	285,994
Deposits from others		204,443	204,443
Long-term liabilities:			
Due within one year			
Bonds, capital leases and contracts	3,224,071	2,761,900	5,985,971
Compensated absences	106,230		106,230
Due in more than one year			
Bonds, capital leases and contracts	104,244,953	206,036,327	310,281,280
Compensated absences	23,803		23,803
TOTAL LIABILITIES	109,374,857	209,786,845	319,161,702
NET POSITION			
Net investment in capital assets	80,398,272	17,520,100	97,918,372
Restricted for:			
Capital projects	766,103		766,103
Roads, transportation and community services	10,331,431		10,331,431
Debt service		4,559,413	4,559,413
Unrestricted	(22,649,670)	(40,697,226)	(63,346,896)
TOTAL NET POSITION	\$ 68,846,136	\$ (18,617,713)	\$ 50,228,423

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, 2014

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>
<u>Primary government</u>		<u>Charges for Services</u>
Governmental Activities		
General government	\$ 2,611,252	\$ 147,411
Public safety	3,682,494	2,047,519
Public ways and facilities	7,974,031	8,305,090
Recreation and culture	1,550,346	360,905
Interest on long-term debt	2,531,103	
TOTAL GOVERNMENTAL ACTIVITIES	18,349,226	10,860,925
Business-type activities		
Water	7,883,200	3,712,879
Wastewater	4,692,470	2,566,536
Stormwater	1,530,367	965,249
Developer Projects	910,453	910,285
Total business-type activities	15,016,490	8,154,949
TOTAL PRIMARY GOVERNMENT	\$ 33,365,716	\$ 19,015,874

General revenues:

Taxes:

Property taxes, levied for general purposes

Franchise and miscellaneous taxes

Unrestricted investment earnings

Other

Total general revenues, special items, and transfers

Change in net assets

Net position, beginning of year, as previously reported

Restatement

Net position, end of year, as restated

Net position, end of year

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

Net (Expense) Revenue and Changes in Net Position

Primary Government

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (2,463,841)		\$ (2,463,841)
(1,634,975)		(1,634,975)
331,059		331,059
(1,189,441)		(1,189,441)
<u>(2,531,103)</u>		<u>(2,531,103)</u>
<u>(7,488,301)</u>		<u>(7,488,301)</u>
	\$ (4,170,321)	(4,170,321)
	(2,125,934)	(2,125,934)
	(565,118)	(565,118)
	<u>(168)</u>	<u>(168)</u>
	<u>(6,861,541)</u>	<u>(6,861,541)</u>
<u>(7,488,301)</u>	<u>(6,861,541)</u>	<u>(14,349,842)</u>
2,056,137		2,056,137
692,637		692,637
20,539	(512)	20,027
9,186	2,453	11,639
<u>2,778,499</u>	<u>1,941</u>	<u>2,780,440</u>
<u>(4,709,802)</u>	<u>(6,859,600)</u>	<u>(11,569,402)</u>
73,555,938	(11,311,540)	62,244,398
	(446,573)	(446,573)
<u>73,555,938</u>	<u>(11,758,113)</u>	<u>61,797,825</u>
<u>\$ 68,846,136</u>	<u>\$ (18,617,713)</u>	<u>\$ 50,228,423</u>

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
Balance Sheet
Governmental Funds
June 30, 2014

	Major Funds			Total Governmental Funds
	General Fund	Special Assessments Fund	Impact Fees Fund	
ASSETS				
Cash and investments	\$ 2,329,296	\$ 4,777,545	\$ 7,839,070	\$ 14,945,911
Accounts receivable, net	217,439			217,439
Deposits			5,000	5,000
Due from other funds	794,950			794,950
Advances to other funds	5,705,332			5,705,332
Prepays		608,658		608,658
TOTAL ASSETS	\$ 9,047,017	\$ 5,386,203	\$ 7,844,070	\$ 22,277,290
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	401,719	255,059	1,072,106	1,728,884
Unearned revenue		46,916		46,916
TOTAL LIABILITIES	401,719	301,975	1,072,106	1,775,800
 Fund balances:				
Nonspendable	5,705,332	608,658		6,313,990
Restricted for:				
Roads, transportation and community services, operational and administrative functions		3,328,077	6,771,964	10,100,041
Public works		766,103		766,103
Lighting and landscaping		231,390		231,390
Committed		150,000		150,000
Assigned:				
Park monument	100,000			100,000
Unassigned	2,839,966			2,839,966
TOTAL FUND BALANCES	8,645,298	5,084,228	6,771,964	20,501,490
TOTAL LIABILITIES AND FUND BALANCES	\$ 9,047,017	\$ 5,386,203	\$ 7,844,070	\$ 22,277,290

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 Statement of Net Position
June 30, 2014

Total fund balance, governmental funds	\$ 20,501,490
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.	155,943,703
Long-term assets and liabilities are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the	
Long-term debt	(107,469,024)
Compensated absences	<u>(130,033)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET POSITION	<u><u>\$ 68,846,136</u></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, 2014

	<u>Major Funds</u>			Total Governmental Funds
	General Fund	Special Assessments Fund	Impact Fees Fund	
REVENUES				
Taxes	\$ 2,125,613			\$ 2,125,613
Special assessments		\$ 6,844,451		6,844,451
Licenses and permits	134,212			134,212
Franchise fees	720,647			720,647
Developer and impact fees	13,199	4,183	\$ 3,864,880	3,882,262
Investment earnings	4,108	6,876	9,555	20,539
Other	8,853	333		9,186
TOTAL REVENUES	<u>3,006,632</u>	<u>6,855,843</u>	<u>3,874,435</u>	<u>13,736,910</u>
EXPENDITURES				
Current:				
General government	2,595,981			2,595,981
Public safety		3,682,494		3,682,494
Public ways and facilities		977,114	155,848	1,132,962
Recreation and culture		609,128		609,128
Debt Service:				
Principal			1,715,316	1,715,316
TOTAL EXPENDITURES	<u>2,595,981</u>	<u>5,268,736</u>	<u>1,871,164</u>	<u>9,735,881</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>410,651</u>	<u>1,587,107</u>	<u>2,003,271</u>	<u>4,001,029</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	114,373			114,373
Transfers out			(114,373)	(114,373)
TOTAL OTHER FINANCING SOURCES AND USES	<u>114,373</u>		<u>(114,373)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	525,024	1,587,107	1,888,898	4,001,029
Fund balances, beginning of year	<u>8,120,274</u>	<u>3,497,121</u>	<u>4,883,066</u>	<u>16,500,461</u>
FUND BALANCES, END OF YEAR	<u>\$ 8,645,298</u>	<u>\$ 5,084,228</u>	<u>\$ 6,771,964</u>	<u>\$ 20,501,490</u>

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

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental
Funds to the Statement of Activities
For the Year Ended June 30, 2014

Net change in fund balances - total governmental funds: \$ 4,001,029

Amounts reported for Governmental Activities in the Statement of Activities are different

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. Some capital assets were contributed.

Depreciation expense (7,812,288)

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned.

(97,486)

Governmental funds report bond proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of bond and note principal as an expenditure, In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount by which proceeds exceeded repayments.

1,715,316

Interest expenses reported in the Government-wide Statement of Activities does not require the use of current financial resources and therefore is not expenditures in the governmental funds.

(2,531,103)

Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:

Compensated absences 14,730

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (4,709,802)

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

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
Statement of Fund Net Position
Proprietary Funds
June 30, 2014

	Major Funds			Nonmajor Funds	Total
	Enterprise Funds			Developer	
	Water	Wastewater	Stormwater	Projects	
ASSETS					
Current assets:					
Cash and investments	\$ 189,990	\$ 100,411	\$ 550,075	\$ 234,647	\$ 1,075,123
Accounts receivable, net	396,382	330,381	103,649	836,393	1,666,805
Total current assets	<u>586,372</u>	<u>430,792</u>	<u>653,724</u>	<u>1,071,040</u>	<u>2,741,928</u>
Non-current assets:					
Restricted cash	2,346,818	1,677,918	534,664		4,559,400
Restricted interest receivable	8	4	1		13
Capital assets:					
Non-depreciable	984,200	1,620,100			2,604,300
Depreciable, net of accumulated depreciation	<u>107,987,049</u>	<u>54,929,576</u>	<u>24,847,148</u>		<u>187,763,773</u>
Total non-current assets	<u>111,318,075</u>	<u>58,227,598</u>	<u>25,381,813</u>	-	<u>194,927,486</u>
TOTAL ASSETS	<u>111,904,447</u>	<u>58,658,390</u>	<u>26,035,537</u>	<u>1,071,040</u>	<u>197,669,414</u>
LIABILITIES					
Current Liabilities:					
Accounts payable	138,565	90,303	538	189,093	418,499
Accrued interest payable	62,626	48,351	15,594	27	126,598
Due to other funds	29,335	122,773		642,842	794,950
Deposits from others	204,443				204,443
Unearned revenue				239,078	239,078
Bonds, notes and loans payable, current portion	<u>1,394,900</u>	<u>1,016,400</u>	<u>350,600</u>		<u>2,761,900</u>
Total current liabilities	<u>1,829,869</u>	<u>1,277,827</u>	<u>366,732</u>	<u>1,071,040</u>	<u>4,545,468</u>
Long-term liabilities:					
Advances from other funds	2,425,921	3,029,019	250,392		5,705,332
Bonds, notes and loans payable	<u>120,813,323</u>	<u>64,922,506</u>	<u>20,300,498</u>		<u>206,036,327</u>
Total non-current liabilities	<u>123,239,244</u>	<u>67,951,525</u>	<u>20,550,890</u>	-	<u>211,741,659</u>
TOTAL LIABILITIES	<u>125,069,113</u>	<u>69,229,352</u>	<u>20,917,622</u>	<u>1,071,040</u>	<u>216,287,127</u>
NET POSITION					
Net investment in capital assets	3,306,418	5,422,209	8,791,473		17,520,100
Restricted for:					
Debt service	2,346,826	1,677,922	534,665		4,559,413
Unrestricted	<u>(18,817,910)</u>	<u>(17,671,093)</u>	<u>(4,208,223)</u>		<u>(40,697,226)</u>
TOTAL NET POSITION	<u><u>\$(13,164,666)</u></u>	<u><u>\$(10,570,962)</u></u>	<u><u>\$ 5,117,915</u></u>	<u><u>\$ -</u></u>	<u><u>\$(18,617,713)</u></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 Position
Proprietary Funds
For the Year Ended June 30, 2014

	Major Funds			Nonmajor Fund	Total
	Enterprise Funds			Developer	
	Water	Wastewater	Stormwater	Projects	
OPERATING REVENUES					
Charges for services	\$ 1,653,396	\$ 1,173,640	\$ 524,925	\$ 910,112	\$ 4,262,073
Charges for services - pledged	1,713,183	1,392,896	440,324		3,546,403
Penalty charges and other	348,753				348,753
TOTAL OPERATING REVENUES	3,715,332	2,566,536	965,249	910,112	8,157,229
OPERATING EXPENSES					
Professional and special services	944,976	916,939	219,534	910,453	2,991,902
Utilities	793,055	186,021			979,076
Chemicals	198,920	61,269			260,189
Maintenance	110,914	240,227	113,877		465,018
Depreciation	2,525,075	1,401,652	603,268		4,529,995
TOTAL OPERATING EXPENSES	4,572,940	2,806,108	936,679	910,453	9,226,180
OPERATING INCOME (LOSS)	(857,608)	(239,572)	28,570	(341)	(1,068,951)
NON-OPERATING REVENUES					
(EXPENSES)					
Interest and investment revenue	(1,672)		992	341	(339)
Interest expense	(3,310,260)	(1,886,362)	(593,688)		(5,790,310)
TOTAL NON-OPERATING REVENUE (EXPENSES)	(3,311,932)	(1,886,362)	(592,696)	341	(5,790,649)
CHANGE IN NET POSITION	(4,169,540)	(2,125,934)	(564,126)	-	(6,859,600)
Net position, beginning of year, as previously reported	(8,767,188)	(8,277,726)	5,733,374	-	(11,311,540)
Restatement	(227,938)	(167,302)	(51,333)	-	(446,573)
Net position, beginning of year, as restated	(8,995,126)	(8,445,028)	5,682,041	-	(11,758,113)
TOTAL NET POSITION, END OF YEAR	\$ (13,164,666)	\$ (10,570,962)	\$ 5,117,915	\$ -	\$ (18,617,713)

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, 2014

	<u>Enterprise Funds</u>			<u>Nonmajor Fund</u>	<u>Total</u>
	<u>Water</u>	<u>Wastewater</u>	<u>Stormwater</u>	<u>Developer Projects</u>	
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from customers	\$ 3,682,275	\$ 2,528,558	\$ 952,200	\$ 81,558	\$ 7,244,591
Cash received from interfund services provided	(320,976)	(280,001)	(81,954)	(262,788)	(945,719)
Cash paid to suppliers	(1,828,390)	(1,182,144)	(262,096)	(84,607)	(3,357,237)
CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>1,532,909</u>	<u>1,066,413</u>	<u>608,150</u>	<u>(265,837)</u>	<u>2,941,635</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Due to other funds	29,337	122,772			152,109
Advances received	42,254	217,210			259,464
CASH PROVIDED BY NONCAPITAL AND RELATED FINANCING ACTIVITIES	<u>71,591</u>	<u>339,982</u>	<u>-</u>	<u>-</u>	<u>411,573</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Capital expenditures	-	-	(50,000)	-	(50,000)
Principal paid on long-term liabilities	(705,886)	(622,243)	(176,625)		(1,504,754)
Interest paid on long-term liabilities	(768,266)	(593,579)	(191,114)		(1,552,959)
CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(1,474,152)</u>	<u>(1,215,822)</u>	<u>(417,739)</u>	<u>-</u>	<u>(3,107,713)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest received	276	1,363	1,714	661	4,014
INCREASE (DECREASE) IN CASH AND INVESTMENTS	<u>130,624</u>	<u>191,936</u>	<u>192,125</u>	<u>(265,176)</u>	<u>249,509</u>
Cash and investments, beginning of year	2,406,184	1,586,393	892,614	499,823	5,385,014
CASH AND INVESTMENTS, END OF YEAR	<u>\$ 2,536,808</u>	<u>\$ 1,778,329</u>	<u>\$ 1,084,739</u>	<u>\$ 234,647</u>	<u>\$ 5,634,523</u>
RECONCILIATION OF CASH AND INVESTMENTS TO THE STATEMENT OF NET ASSETS:					
Cash and investments	\$ 189,990	\$ 100,411	\$ 550,075	\$ 234,647	\$ 1,075,123
Restricted cash and investments	2,346,818	1,677,918	534,664		4,559,400
CASH AND INVESTMENTS	<u>\$ 2,536,808</u>	<u>\$ 1,778,329</u>	<u>\$ 1,084,739</u>	<u>\$ 234,647</u>	<u>\$ 5,634,523</u>
RECONCILIATION OF OPERATING (LOSS) INCOME TO CASH PROVIDED BY OPERATING ACTIVITIES:					
Operating income (loss)	\$ (857,608)	\$ (239,572)	\$ 28,570	\$ (341)	\$(1,068,951)
Adjustments to reconcile operating income (loss) to cash provided by operating activities:					
Depreciation	2,525,075	1,401,652	603,268		4,529,995
Bad debt expense	12,112	(53,677)	(59,793)		(101,358)
(Decrease) in accounts payable - interfund				471,688	471,688
Increase (decrease) in accounts payable - supplier	(101,504)	(57,691)	(10,638)	91,370	(78,463)
Increase (decrease) in deposits from others	10,295				10,295
Increase (decrease) in unearned revenue				(261,066)	(261,066)
(Increase) in customer receivables	(55,461)	15,701	46,745	(567,488)	(560,503)
CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,532,909</u>	<u>\$ 1,066,413</u>	<u>\$ 608,152</u>	<u>\$ (265,837)</u>	<u>\$ 2,941,637</u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES					
Finance charge added to loan balance	\$ 2,532,995	\$ 1,286,940	\$ 400,683		\$ 4,220,618

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

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MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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), formed in 1996, 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). In November 2008, Mountain House residents voted to have a locally-elected Board of Directors. 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 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 District owns the underlying capital assets that were financed with this debt. The accompanying basic financial statements of the District include the financial activities of the Authority as a blended component unit of the District, because financial operations are closely related and the District is financially accountable for the Authority. Debt issued by the Authority is reflected as debt of the District in these financial statements. The Authority has no other transactions and does not issue separate financial statements.

Basis of Presentation—Government-wide 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. Taxes and other items not properly included among program revenues are reported instead as general revenues. Revenues that are not classified as program revenues, including all taxes, are presented instead as general revenues.

Basis of Presentation—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 non-major funds. The District has only one non-major fund.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 as a result of the adoption of Resolutions 96-1, 96-2, 96-3 and 96-4.
- The Impact Fees 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.

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, special assessments and franchise fees. On an accrual basis, revenue from property taxes, special assessments and franchise fees is recognized in the fiscal year for which the taxes are levied.

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"). The District considers all revenues reported in the governmental funds to be available if the revenues are collected 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

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 are reported as other financing sources.

For its business-type activities and enterprise funds, the District applies 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.

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.

Receivables, Unearned Revenue, and Unavailable Revenue: Receivables consist mostly of property taxes, developer reimbursements, and utility billings. Amounts in the Statement of Fund Net Position for the Proprietary Funds are aggregated into a single accounts receivable. Below is the detail of the receivable for the proprietary funds:

	Water	Wastewater	Stormwater	Developer Projects	Total
Receivable	\$ 424,829	\$ 350,863	\$ 158,235	\$ 836,393	\$ 1,770,320
Less: Allowance for uncollectibles	(28,447)	(20,482)	(54,586)		(103,515)
Ending balance	<u>\$ 396,382</u>	<u>\$ 330,381</u>	<u>\$ 103,649</u>	<u>\$ 836,393</u>	<u>\$ 1,666,805</u>

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

Restricted Assets: Certain resources set aside for repayment of revenue bonds and pledged notes payable are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants and the Master Acquisition and Reimbursement Agreement. The amounts reported as restricted cash consist of debt service reserves as well as accumulated pledged revenue restricted accounts containing the portion of the utility bills that are pledged for repayment of the revenue bonds and the pledged notes payable.

The capital improvement fee portion of the District’s utility bill collections from its customers is pledged to pay debt service on the bonds and to reimburse the developers for the cost of the construction of the utility infrastructure. The cash and receivables not yet disbursed to the developer or to the bond trustee are reported as restricted assets. This cash is held at Wells Fargo Bank to pay related debt service on the revenue bonds issued, with the remainder being used to pay the pledged notes payable to the developers.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 roads, tract improvements, right of ways, and utility facilities.

Costs of assets sold or retired (and related amounts of accumulated depreciation) are eliminated from the accounts in the year of sale or retirement and the resulting gain or loss is included in the operating statement of the related fund. In governmental funds, the sale of general capital assets is included in the statement of revenues, expenditures, and changes in fund balances as proceeds from sale.

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

Compensated Absences: Compensated absences are comprised of unpaid vacation and certain compensated time off, which are accrued as earned. A liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the government and its employees is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the government and its employees are accounted for in the period in which such services are rendered or such events take place. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The District's liability for compensated absences is recorded in the General Fund. Unused sick leave benefits generally do not vest with the employee upon separation and have not been accrued. Compensated absences are liquidated by the General Fund.

Long-term Obligations: In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, net of any related discounts. Issuance costs are reported as deferred outflows and are amortized over the life of the related debt.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures.

Pledged Notes Payable: The District acquired various infrastructure facilities from developers through various Project Acquisition Agreements. In accordance with the Master Acquisition and Reimbursement Agreement and various Project Reimbursement Agreements, the District is obligated to reimburse for the accepted infrastructure based on agreed-upon amounts. In accordance with the agreements, financing charges are applied to the outstanding balance using the percentage increase in the Engineering News Record (ENR), a construction cost index. The rate for the year ended June 30, 2014 was 2.412%. Repayment of the governmental activities pledged notes payable are made as impact fees are collected. If fees collected are insufficient to completely reimburse the developers at the time of build-out, the District will not have further obligation for reimbursement. Repayment of the business-type activities pledged notes are made from the capital improvement fee included in the utility billings received from the customers. When the developers have been fully reimbursed, the capital improvement fee will be used by the District to refurbish or replace the infrastructure.

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 districts each fiscal year. Any subsequent delinquent payments, penalties and interest during a fiscal year will revert to the County.

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 operating 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.

Net Position/Fund Balances: The government-wide and business-type activities financial statements utilize a net position presentation. Net position are categorized as net investment in capital assets, restricted and unrestricted. These categories are described on the following page:

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Net Investment in Capital Assets — This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- Restricted Net Position — This category represents net position 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.
- Unrestricted Net Position — This category represents net position of the District, not restricted for any project or other purpose.

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

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. The District's committed, assigned, or unassigned amounts are considered to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

New Pronouncements: The District implemented GASB issued Statement No. 65, *Items Previously Reporting as Assets and Liabilities* as of July 1, 2013. This Statement requires debt issuance costs to be expensed as incurred. The District eliminated debt issuance costs from the balance sheet due to the implementation of this Statement, resulting in a decrease in total assets and deferred outflows of resources and net position as of July 1, 2013 of \$446,573 in the Enterprise Funds.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement requires governments providing defined benefit pension plans to recognize their long-term obligation for pension benefits as a liability on the statement of net position and to more comprehensively and comparably measure the annual costs of pension benefits. This Statement will require the District to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the PERS plan. This Statement requires the use of the entry age normal method to be used with each period's service cost determined as a level percentage of pay and requires certain other changes to compute the pension liability and expense. This Statement also requires revised and new note disclosures and required supplementary information (RSI) to be reported by employers. The provisions of this Statement are effective for the District's June 30, 2015 financial statements. The District is currently evaluating the effect of this new pronouncement.

NOTE B – CASH AND INVESTMENTS

Cash and investments at June 30, 2014 are classified in the accompanying financial statements as follows:

	Governmental Activities	Business-type Activities	Total
Cash and investments	\$ 14,945,911	\$ 1,075,123	\$ 16,021,034
Restricted cash		4,559,400	4,559,400
	\$ 14,945,911	\$ 5,634,523	\$ 20,580,434

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014

NOTE B – CASH AND INVESTMENTS (Continued)

At June 30, 2014, the District’s total cash and investments at fair value were as follows:

Cash:	
Cash on hand	\$ 5,300
Deposits in financial institutions	2,278,114
Total cash	2,283,414
Investments:	
Pooled in County Treasury	15,555,844
Restricted with fiscal agent	2,741,176
Total investments	18,297,020
Total cash and investments	\$ 20,580,434

Except for amounts held by fiscal agents in accordance with bond ordinances and the Master Acquisition and Reimbursement Agreement, 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. 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. The San Joaquin County Treasury Oversight Committee (Committee) has oversight responsibility for San Joaquin County’s cash and investment pool. The Committee consists of ten members as required by state law. The value of the pooled shares in San Joaquin County that may be withdrawn is determined on an amortized cost basis, which is different than the fair value of the District’s position in the pool.

The District’s cash and investments are required to be stated at fair value at June 30, 2014, 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.

Investment Policy: 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. California statutes authorize special district to invest idle or surplus funds in a variety of credit instruments as provided for in the California Government Code, Section 53600, Chapter 4 – Financial Affairs.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014

NOTE B – CASH AND INVESTMENTS (Continued)

The table below identifies the investment types that are authorized for the District by the California Government Code that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment In One Issue
Local agency bonds	5 years	None	None
U.S. Treasury obligations	5 years	100%	None
U.S. Agency securities	5 years	None	None
California Local Agency debt	5 years	None	None
Bankers acceptances	180 days	40%	30%
High grade commercial paper	270 days	30%	10%
Negotiable certificates of deposit	5 years	30%	None
Medium term corporate notes	5 years	30%	None
Mutual funds	N/A	20%	10%
Money market mutual funds	N/A	20%	10%
Mortgage pass-through securities	5 years	20%	None
Collateralized negotiable investments	5 years	None	None
Repurchase agreements	92 days	100%	None
LAIF	N/A	50mil	None
Local government investment pools	N/A	None	None

The District complied with the provisions of California Government Code pertaining to the types of investments held, institutions in which deposits were made and security requirements. The District will continue to monitor compliance with applicable statutes pertaining to public deposits and investments.

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, 2014, the carrying amount of the District's deposits was \$2,278,114 and the bank balance was \$2,289,249. The District had balances of \$2,039,249 above the federally insured limit of \$250,000.

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, paying down the pledged notes payable and to establish a reserve for the bond issues. The fair value of investments is determined monthly based upon quoted market prices.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014

NOTE B – CASH AND INVESTMENTS (Continued)

Interest Rate Risk: Interest rate risk is the risk that changed in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Information about the sensitivity of the fair values of the District’s investments to market fluctuations is provided by the following table that shows the distribution of its investments by maturity as of June 30, 2014:

	Fair Value	Weighted Average Maturity
Money Market Mutual Funds	\$ 2,741,176	39 days
	\$ 2,741,176	

Credit Risk: Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the instrument. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, and the actual rating as of year-end for each investment type as of June 30, 2014:

	Minimum Legal Rating	Rating	Amount
Money Market Mutual Funds	N/A	N/A	\$ 2,741,176
			\$ 2,741,176

Concentration of Credit Risk: The District had no investment policy limiting the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. At June 30, 2014, the District had no investments in one issuer (other than mutual funds and the San Joaquin Pooled Investment Fund) that represented 5% or more of total District investments.

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

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014

NOTE C – INTERFUND TRANSACTIONS

Interfund receivables and payables represent borrowing between funds at year-end. The composition of interfund balances as of June 30, 2014, 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.

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Developer Projects Fund	\$ 642,842
	Water Fund	29,335
	Wastewater Fund	122,773
		<u>\$ 794,950</u>

Advances to/from other funds:

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Water Fund	\$ 2,425,921
	Wastewater Fund	3,029,019
	Stormwater Fund	250,392
		<u>\$ 5,705,332</u>

Transfer in/out:

Interfund transfers, which is to reimburse the General Fund for administrative costs, for the year ended June 30, 2014 were as follows:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General Fund	Impact Fee Fund	<u>\$ 114,373</u>

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014

NOTE D – CAPITAL ASSETS

Capital assets at June 30, 2014 consisted of the following:

	Balance at June 30, 2013	Additions	Deletions	Balance at June 30, 2014
<u>Governmental Activities</u>				
Capital assets, not being depreciated:				
Land	\$ 28,041,500			\$ 28,041,500
Total capital assets, not being depreciated	28,041,500	-	-	28,041,500
Capital assets, being depreciated:				
Equipment	664,013			664,013
Infrastructure	194,107,540			194,107,540
Total capital assets, being depreciated	194,771,553	-	-	194,771,553
Less accumulated depreciation for:				
Equipment	(552,128)	\$ (47,987)		(600,115)
Infrastructure	(58,504,934)	(7,764,301)		(66,269,235)
Total accumulated depreciation	(59,057,062)	(7,812,288)	-	(66,869,350)
Capital assets being depreciated, net	135,714,491	(7,812,288)	-	127,902,203
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	<u>\$163,755,991</u>	<u>\$ (7,812,288)</u>	<u>\$ -</u>	<u>\$ 155,943,703</u>
	Balance at June 30, 2013	Additions	Deletions	Balance at June 30, 2014
<u>Business-Type Activities</u>				
Capital assets, not being depreciated:				
Land	\$ 2,604,300			\$ 2,604,300
Total capital assets, not being depreciated	2,604,300	-	-	2,604,300
Capital assets, being depreciated:				
Equipment	914,443	\$ 50,000		964,443
Other property	224,267,451			224,267,451
Total capital assets, being depreciated	225,181,894	50,000	-	225,231,894
Less accumulated depreciation for:				
Equipment	(869,796)	(44,647)		(914,443)
Other property	(32,068,330)	(4,485,348)		(36,553,678)
Total accumulated depreciation	(32,938,126)	(4,529,995)	-	(37,468,121)
Capital assets being depreciated, net	192,243,768	(4,479,995)	-	187,763,773
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	<u>\$194,848,068</u>	<u>\$ (4,479,995)</u>	<u>\$ -</u>	<u>\$ 190,368,073</u>

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014

NOTE D – CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental functions as follows:

General government	\$ 30,001
Public ways	6,841,069
Culture and recreation	<u>941,218</u>
Total Governmental Activities	<u><u>\$ 7,812,288</u></u>

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

Water	\$ 2,525,075
Wastewater	1,401,652
Stormwater	<u>603,268</u>
Total Business-type Activities	<u><u>\$ 4,529,995</u></u>

NOTE E – LONG-TERM LIABILITIES

The following is a summary of long-term liabilities of the District for the year ended June 30, 2014:

	<u>Maturity</u>	<u>Interest Rates</u>	<u>Principal Installments</u>	<u>Date of Issue</u>	<u>Amount Authorized</u>	<u>Outstanding June 30, 2014</u>
<u>Governmental Activities Debt</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>\$ 107,469,024</u>
<u>Business-type Activities Debt</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	\$ 21,115,000
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	8,885,000
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>179,204,802</u>
Total Business-type Activities					<u><u>\$ 219,450,788</u></u>	<u><u>\$ 209,204,802</u></u>

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014

NOTE E – LONG-TERM LIABILITIES (Continued)

The following is a summary of long-term liabilities transactions for the year ended June 30, 2014:

	Balance	Additions	Retirements	Balance June 30, 2014	Amounts Due Within One Year
<u>Governmental Activities</u>					
Pledged notes payable	\$ 106,653,237	\$ 2,531,103	\$ (1,715,316)	\$ 107,469,024	\$ 3,224,071
Compensated absences	144,763	127,651	(142,381)	130,033	106,230
Total governmental activities long-term liabilities	<u>\$ 106,798,000</u>	<u>\$ 2,658,754</u>	<u>\$ (1,857,697)</u>	<u>\$ 107,599,057</u>	<u>\$ 3,330,301</u>
<u>Business-type Activities</u>					
Revenue bonds	\$ 30,760,000		\$ (760,000)	\$ 30,000,000	\$ 790,000
Less discount	(426,179)		19,604	(406,575)	
Pledged notes payable	<u>175,728,937</u>	<u>\$ 4,220,618</u>	<u>(744,753)</u>	<u>179,204,802</u>	<u>1,971,900</u>
Total business-type activities long-term liabilities	<u>\$ 206,062,758</u>	<u>\$ 4,220,618</u>	<u>\$ (1,485,149)</u>	<u>\$ 208,798,227</u>	<u>\$ 2,761,900</u>

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, 2014, annual debt service requirements of the revenue bonds to maturity are as follows:

Year Ending June 30:	Business-type Activities		
	Principal	Interest	Total
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	905,000	1,405,736	2,310,736
2019	945,000	1,363,491	2,308,491
2020-2024	5,460,000	6,051,018	11,511,018
2025-2029	6,975,000	4,494,275	11,469,275
2030-2034	8,940,000	2,473,978	11,413,978
2035-2039	<u>4,290,000</u>	<u>249,694</u>	<u>4,539,694</u>
Totals	<u>\$ 30,000,000</u>	<u>\$ 20,479,585</u>	<u>\$ 50,479,585</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 bonds and other agreements. Total principal and interest remaining on the revenue bonds is \$50,479,586, payable through December 2035. Total principal and finance charges accrued through June 30, 2014 on the pledged notes payable is \$179,204,802. For the current year ended, principal and interest paid on the revenue bonds was \$760,000 and \$1,553,321, respectively.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014

NOTE E – LONG-TERM LIABILITIES (Continued)

Payments totaling \$744,753 were made during the year on the pledged notes payable. Total pledged utility revenues for the fiscal year ended June 30, 2014 was \$3,546,403, which represents 100% of the revenue pledged for repayment of the revenue bonds and the pledged notes payable.

In addition, the District has pledged impact fees to secure repayment of the pledged notes payable in accordance with the terms of the Master Acquisition and Reimbursement Agreement. Total principal and finance charges accrued through June 30, 2014 on these pledged notes payable is \$107,469,024. Payments totaling \$1,715,316 were made during the year on the pledged notes payable. Total pledged revenue for the fiscal year end June 30, 2014 was \$1,715,316, which represents 100% of the revenue pledged for this use.

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, 2014, does not expect to incur a liability.

NOTE F – OPERATING LEASES

The District has two operating leases to rent space for the administration and library buildings. The administration building lease expires in December, 2019. The library lease expires in January, 2019. The minimum future lease obligations are listed below:

Year Ended June 30:	Governmental Activities
2015	\$ 369,128
2016	353,516
2017	365,670
2018	378,038
2019	384,630
Thereafter	193,119
Total minimum lease payments	\$ 2,044,101

Total rent expenditures for the year ended June 30, 2014 were \$579,194.

NOTE G – EMPLOYEES’ RETIREMENT PLAN DESCRIPTION

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

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014

NOTE G – EMPLOYEES’ RETIREMENT PLAN DESCRIPTION (Continued)

The records of the System are the responsibility of the SJCERA and are maintained on a calendar year basis. The calendar year 2013 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 January 2013. Active plan members are required to contribute 1.14% to 8.82% of their annual covered salary. The District is required to contribute at an actuarially determined rate. The current rates as of January 1, 2014 are 25.74% to 33.90% of the annual covered payroll. Employer’s contributions are payable over each employee’s future working lifetime.

Annual Pension Cost: The District’s annual pension cost for the past three fiscal years were as follows and are equal to the District’s required and actual contributions.

Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06/30/12	\$ 372,248	100%	\$ -
06/30/13	334,302	100%	-
06/30/14	398,301	100%	-

NOTE H – 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 County coverage or the commercial insurance coverage in any of the past three fiscal years.

NOTE I – FUND BALANCE/NET POSITION DEFICIT

The following funds had deficit net position at June 30, 2014:

	Deficit Amount
Water	\$ (13,164,666)
Wastewater	(10,570,962)

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

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014

NOTE J – COMMITMENTS

On September 13, 2013, the District provided written notice to Tracy Rural Fire Protection District that pursuant to Section 10 of the Fire Protection Service Agreement the District plans to terminate this Agreement. Upon termination, the Fire Department shall transfer to the District the existing fire stations, vehicles, fire equipment, furnishings and fire apparatus as provided by the District pursuant to Sections 4 and 5 and in use at the time of the termination of the Agreement. The District shall compensate the Fire District for such transfer in an amount that shall be determined by mutual agreement of both the District and the Fire District.

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REQUIRED SUPPLEMENTARY INFORMATION

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the year ended June 30, 2014

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts	with Final Budget
REVENUES				
Property Taxes	\$ 1,818,400	\$ 2,125,200	\$ 2,125,613	\$ 413
Licenses and permits	161,500	161,500	134,212	(27,288)
Franchise fees	389,800	389,800	720,647	330,847
Charges for services	92,000	92,000	13,199	(78,801)
Investment earnings	4,600	4,600	4,108	(492)
Other			8,853	8,853
TOTAL REVENUES	<u>2,466,300</u>	<u>2,773,100</u>	<u>3,006,632</u>	<u>233,532</u>
EXPENDITURES				
Current:				
General government	2,937,200	2,927,200	2,595,981	331,219
Capital outlay	34,200	34,200	-	34,200
TOTAL EXPENDITURES	<u>2,971,400</u>	<u>2,961,400</u>	<u>2,595,981</u>	<u>365,419</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(505,100)</u>	<u>(188,300)</u>	<u>410,651</u>	<u>598,951</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	149,000	149,000	114,373	34,627
Transfers out	(798,200)	(798,200)		(798,200)
TOTAL OTHER FINANCING SOURCES AND USES	<u>(649,200)</u>	<u>(649,200)</u>	<u>114,373</u>	<u>(763,573)</u>
NET CHANGE IN FUND BALANCES	(1,154,300)	(837,500)	525,024	(1,362,524)
Fund balances, beginning of year	<u>8,120,274</u>	<u>8,120,274</u>	<u>8,120,274</u>	
FUND BALANCES , END OF YEAR	<u>\$ 6,965,974</u>	<u>\$ 7,282,774</u>	<u>\$ 8,645,298</u>	<u>\$ (1,362,524)</u>

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
Special Assessments Fund
For the year ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
REVENUES				
Special assessments	\$ 6,708,800	\$ 6,844,387	\$ 6,844,451	\$ 64
Developer and impact fees	2,000	2,000	4,183	2,183
Investment earnings	6,600	6,600	6,876	276
Other			333	333
TOTAL REVENUES	<u>6,717,400</u>	<u>6,852,987</u>	<u>6,855,843</u>	<u>2,856</u>
EXPENDITURES				
Current:				
Public safety	3,672,800	3,717,945	3,682,494	35,451
Public works	1,291,700	1,327,700	977,114	350,586
Culture and recreation	646,500	679,900	609,128	70,772
Capital outlay	11,000	11,000	-	11,000
TOTAL EXPENDITURES	<u>5,622,000</u>	<u>5,736,545</u>	<u>5,268,736</u>	<u>467,809</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,095,400	1,116,442	1,587,107	470,665
Fund balances, beginning of year	<u>3,497,121</u>	<u>3,497,121</u>	<u>3,497,121</u>	
FUND BALANCES, END OF YEAR	<u>\$ 4,592,521</u>	<u>\$ 4,613,563</u>	<u>\$ 5,084,228</u>	<u>\$ (470,665)</u>

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
Impact Fees Fund
For the year ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>with Final</u>
				<u>Budget</u>
REVENUES				
Charges for services	\$ 5,122,000	\$ 5,122,000	\$ 3,864,880	\$ (1,257,120)
Investment earnings	11,300	11,300	9,555	(1,745)
TOTAL REVENUES	<u>5,133,300</u>	<u>5,133,300</u>	<u>3,874,435</u>	<u>(1,258,865)</u>
EXPENDITURES				
Current:				
Public works	190,000	190,000	155,848	34,152
Debt service:				
Principal	4,099,000	4,099,000	1,715,316	2,383,684
TOTAL EXPENDITURES	<u>4,289,000</u>	<u>4,289,000</u>	<u>1,871,164</u>	<u>2,417,836</u>
EXCESS (DEFICIENCY) OF				
REVENUES OVER EXPENDITURES	<u>844,300</u>	<u>844,300</u>	<u>2,003,271</u>	<u>1,158,971</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(149,000)	(149,000)	(114,373)	(34,627)
TOTAL OTHER FINANCING				
SOURCES AND USES	<u>(149,000)</u>	<u>(149,000)</u>	<u>(114,373)</u>	<u>(34,627)</u>
NET CHANGE IN FUND BALANCES	695,300	695,300	1,888,898	(1,193,598)
Fund balances, beginning of year	<u>4,883,066</u>	<u>4,883,066</u>	<u>4,883,066</u>	<u>-</u>
FUND BALANCES , END OF YEAR	<u>\$ 5,578,366</u>	<u>\$ 5,578,366</u>	<u>\$ 6,771,964</u>	<u>\$ (1,193,598)</u>

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2014

BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

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

OTHER REPORT

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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, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Mountain House Community Services District (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 30, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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 a 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. We consider the following items to be significant deficiencies:

District Closing Procedures: Due to turnover in financial management, the District's closing procedures were delayed resulting in 24 adjustments made during the audit process to properly close the District's general ledger. We propose that the District develop accounting procedures to ensure that the District is able to identify all closing entries prior to the audit field work in the event there is turnover in personnel.

To the Board of Directors
Mountain House Community Services District

Management Response: With the departure of the two senior members of the Finance Department, it took some effort to develop an understanding of the District's finances. Now that current staff has worked on year-end closing, we will be able to apply what has been learned in order to complete the closing entries more timely and accurately.

Utility Billing Rates: The District used fiscal year 2013 rates for the billing period from April 19, 2013 to August 18, 2013; although the new fiscal year rates were effective beginning July 19, 2013. We recommend controls be put in place to ensure revised rates are accurately reflected in the utility bills for the correct period.

Management Response: Utility rates adjustments are effective on July 1 of the fiscal year and applied on the first billing period ending after July 1. During the period April 19, 2013 through August 18, 2013, we were in the process of changing to a new third party billing company. There were many difficulties encountered in the transfer, which may explain why the rates were not updated timely. For fiscal year 2013-2014, rates were adjusted effective July 1, 2014 and applied on the billing period June 19, 2014 through July 18, 2014.

Journal Entries: Currently, the District does not have in place an individual who has the ability to review general ledger journal entries performed by the business manager. We recommend the District implement controls to ensure that all adjusting journal entries are subsequently reviewed and approved by a separate individual.

Management Response: As noted above, two senior members of the Finance Department have left the District. These staff members were replaced with a new business manager and accountant. The newly appointed accountant needs time to develop the expertise to review and approve journal entries prepared by the business manager. As those skills are being developed by means of education and work experience, we will mitigate the limitation by establishing templates for routine transactions, preparing listings of tasks to be performed weekly, monthly, quarterly and annually, and developing desk manuals explaining how, why and when tasks are to be performed. This will improve the skills and knowledge of staff and help to ensure that critical tasks are not overlooked. In addition, we will review monthly financial reports to investigate balances that are unusual, unsupported or unexpected.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Richardson & Company, LLP

March 30, 2015