MOUNTAIN HOUSE
COMMUNITY SERVICES DISTRICT

Audited Financial Statements

June 30, 2016

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MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Audited Financial Statements

For the Year Ended June 30, 2016

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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, 2016, 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.

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

To the Board of Directors
Mountain House, California

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, 2016 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, budgetary comparison information, Schedule of Proportionate Share of the Net Pension Liability, and Schedule of Contributions 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 February 6, 2018 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

February 6, 2018

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, 2016.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by $30.09 million.
- The government's total net position decreased by $6.20 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 $29.78 million. Approximately $5.35 million or 18% of total fund balances are reported as Assigned ($.1 million) or Unassigned ($5.25 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 $5.35 million, or 277% of the total General Fund expenditures.
- The District's total debt increased by $1.79 million (.6%) during the current fiscal year. The key factors in this increase was the financing charges applied to the outstanding balance of the pledged notes payable and the addition of $.55 million in net pension obligations.

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 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 13 - 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 ten individual governmental funds aggregated and grouped into four 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 and the Capital Projects Fund, which is a non-major fund. 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 43-45 to demonstrate compliance with this budget.

Proprietary funds

The District maintains four proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The District uses enterprise funds to account for its water, wastewater 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.

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 – 42 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 and trend information on the District's pension plan. Required supplementary information can be found on pages 43–47 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 $30.09 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	
	2016	2015	2016	2015	2016	2015	Dollar Change	Percent Change
Assets:								
Current and other assets	$31.70	$27.47	$2.13	$1.28	$33.83	$28.75	$5.09	-15%
Capital assets	143.48	148.18	181.35	185.84	324.83	334.02	(9.19)	3%
Total assets	175.18	175.65	183.48	187.12	358.66	362.77	(4.10)	1%
Deferred outflow s:								
Pension contributions susequent to measurement date and unamortized losses on pension investments	0.77	0.28	0.13	0.07	0.90	0.35	0.55	-62%
Total deferred outflow of resources	0.77	0.28	0.13	0.07	0.90	0.35	0.55	-62%
Liabilities:								
Long-term liabilities outstanding	112.14	111.69	213.28	211.21	325.42	322.90	2.52	-1%
Other liabilities	1.91	1.57	1.86	2.15	3.76	3.72	0.05	-1%
Total liabilities	114.05	113.26	215.14	213.36	329.18	326.62	2.57	-1%
Deferred inflow s:								
Unamortized gains on pension investments	0.24	0.17	0.06	0.04	0.29	0.21	0.08	-29%
Total deferred outflow of resources	0.24	0.17	0.06	0.04	0.29	0.21	0.08	-29%
Net position:								
Net investment in capital assets	72.17	74.50	14.02	15.74	86.19	90.25	(4.05)	5%
Restricted	17.50	15.91	5.41	4.70	22.91	20.61	2.31	-10%
Unrestricted	(28.02)	(27.92)	(51.01)	(46.66)	(79.03)	(74.58)	(4.46)	-6%
Total net position	$61.65	$62.50	$(31.58)	$(26.22)	$30.07	$36.28	$(6.20)	21%

By far the largest portion of the District's net position (287%) 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.

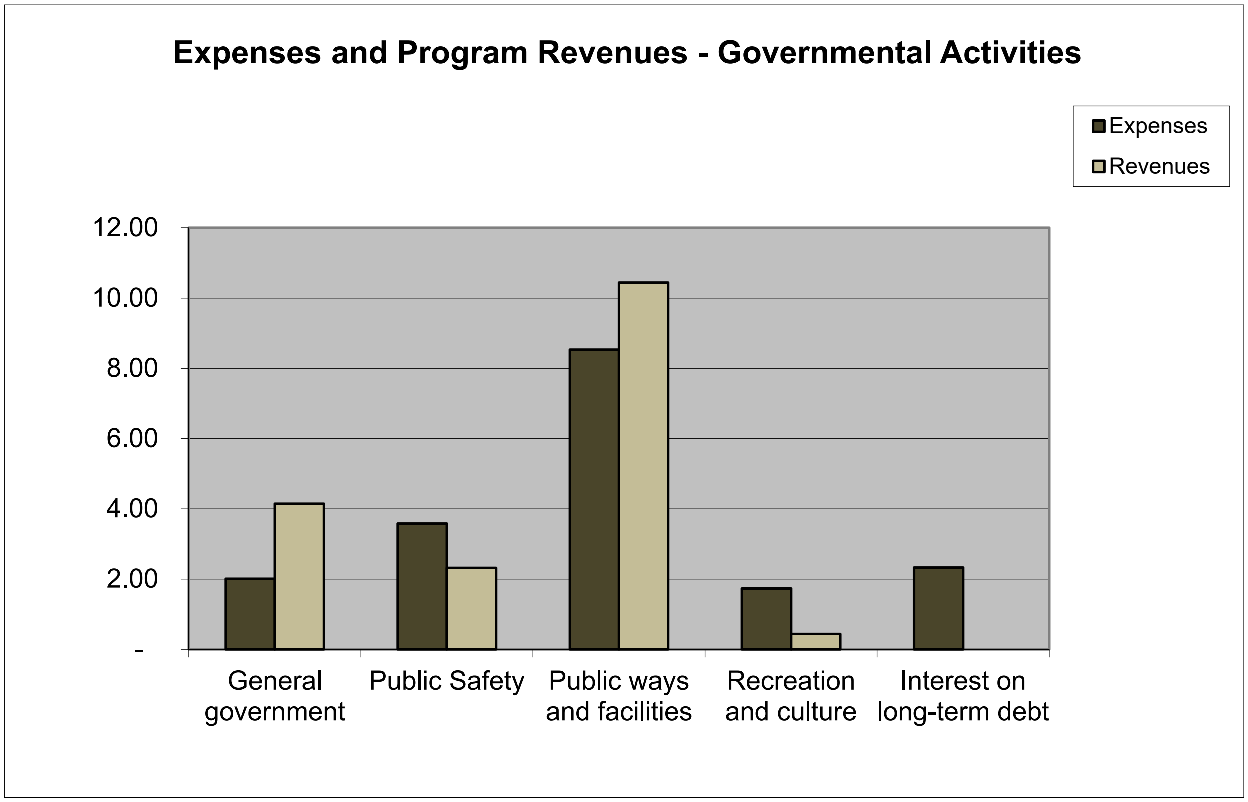
The restricted portion of District's net position, $22.91 million, is subject to constraints by bond financing agreements and enabling legislation.

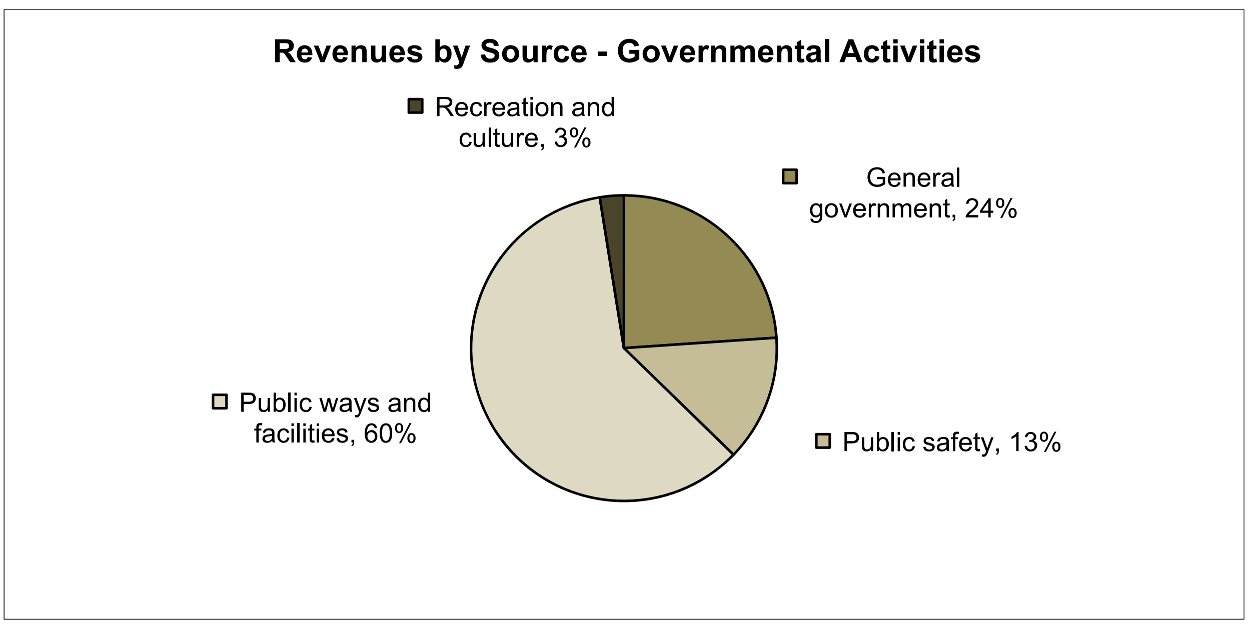
The District's unrestricted net position were deficit by $79.03 million generally because of financing charges accruing on pledged notes payable to developers for contributed infrastructure. Financing charges accumulated on the pledged notes payable totaled $79.06 million as of June 30, 2016. In addition, with the implementation of GASB 68, the District is reporting net pension obligations at June 30, 2016 in the amount of $4.41 million.

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

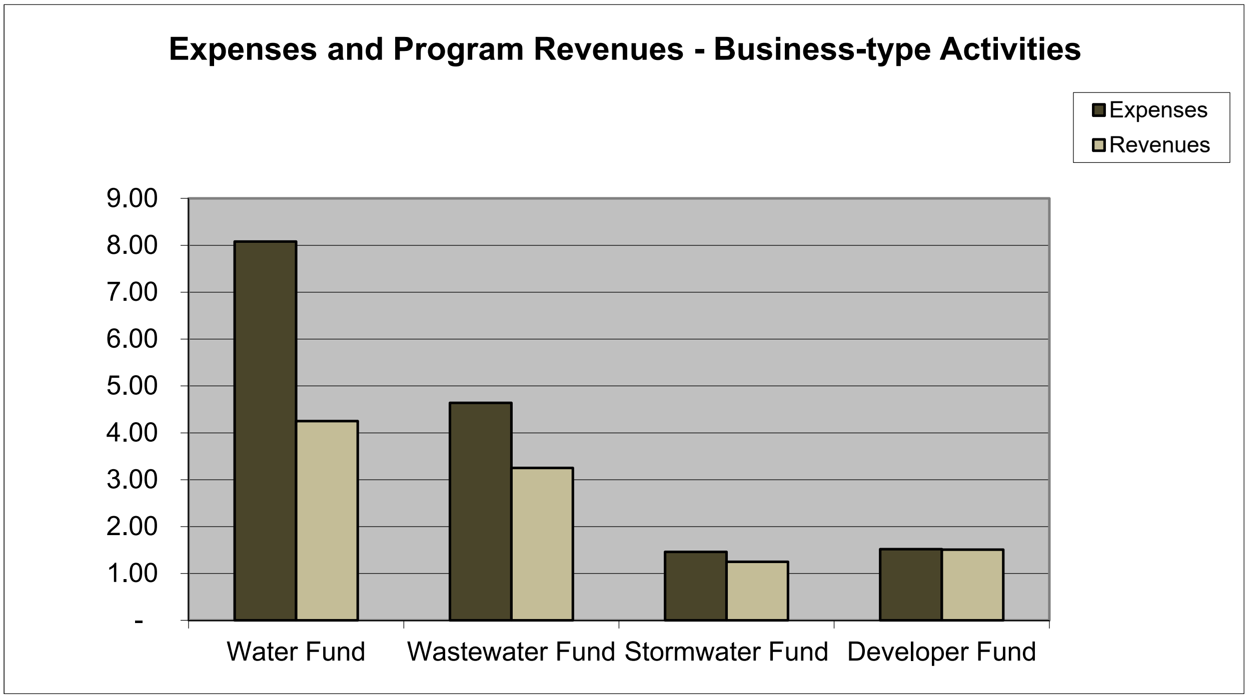
	Government Activities		Business-Type Activities		Total		Total	
	2016	2015	2016	2015	2016	2015	Dollar Change	Percent Change
Revenues:								
Program revenues:								
Fees, fines and charges for services	$5.49	$4.79	$10.28	$9.55	$15.78	$14.35	$1.43	9%
Special assessments	7.75	7.24			7.75	7.24	0.50	6%
General revenue:								
Property taxes	3.10	3.06			3.10	3.06	0.04	1%
Miscellaneous revenues	1.01	0.76			1.01	0.76	0.25	25%
Total revenues	17.35	15.85	10.28	9.55	27.63	25.41	2.22	8%
Expenses:								
General government	2.01	2.75			2.01	2.75	(0.73)	-36%
Public safety	3.58	3.80			3.58	3.80	(0.22)	-6%
Public w ays and facilities	8.53	8.04			8.53	8.04	0.49	6%
Recreation and culture	1.73	1.70			1.73	1.70	0.03	2%
Interest on long-term debt	2.33	3.06			2.33	3.06	(0.73)	-31%
Water system			8.08	8.31	8.08	8.31	(0.23)	-3%
Wastew ater system			4.64	5.00	4.64	5.00	(0.36)	-8%
Stormw ater system			1.46	1.70	1.46	1.70	(0.24)	-16%
Developer projects			1.52	1.43	1.52	1.43	0.09	6%
Total expenses	18.19	19.36	15.69	16.44	33.88	35.79	(1.91)	-6%
Decrease in net position	(0.84)	(3.50)	(5.41)	(6.88)	(6.25)	(10.39)	4.14	-66%
Net position, beginning	62.50	68.85	(26.22)	(18.62)	36.28	50.23	(13.95)	-38%
Restatement due to implementation of GASB 68		(2.85)		(0.67)	0.00	(3.51)	3.51	
Reclassification of fixed asset purchases				(0.05)		(0.05)	0.05	
Restatement of beginning balance of accounts receivable			0.05		0.05	0.00	0.05	100%
Net assets, beginning of year, as restated	62.50	66.00	(26.17)	(19.34)	36.32	46.66	(10.34)	-28%
Net assets, end of year	$61.65	$62.50	$(31.58)	$(26.22)	$30.07	$36.28	$(6.20)	-21%

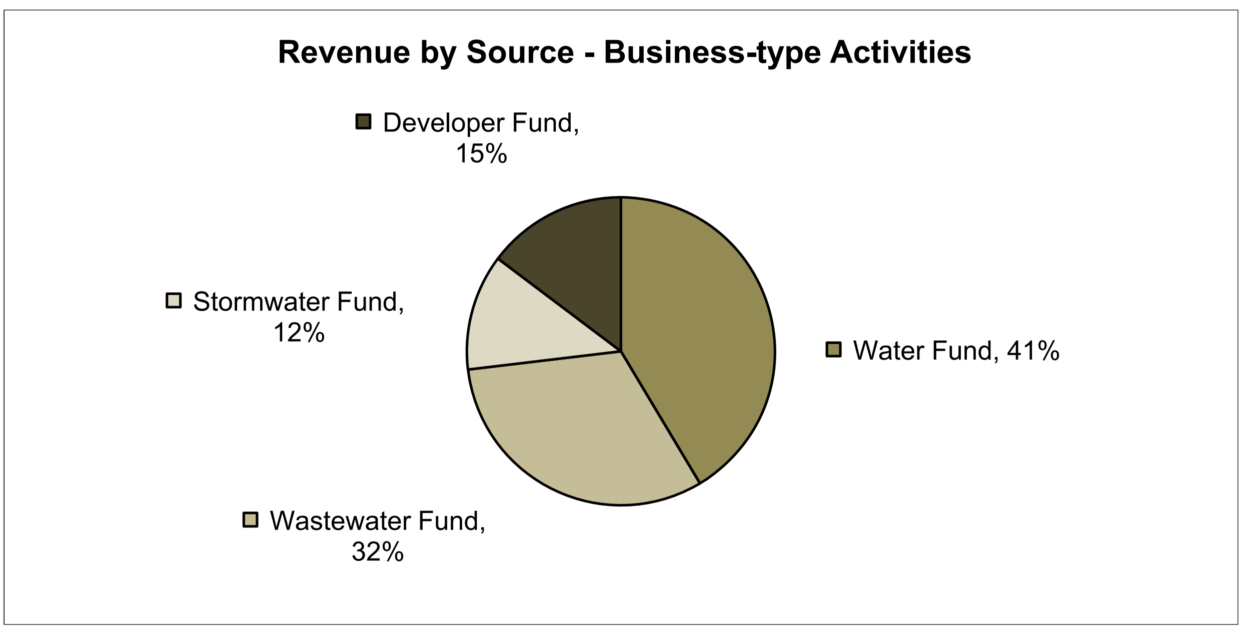
Governmental Activities: Governmental activities decreased District's net position by $.84 million. This reduction is primarily due to interest on pledged notes payable to developers and depreciation on infrastructure assets.





Business-Type Activities: Business-type activities decreased District's net position by $5.41 million. This is primarily due to financing charges accruing on pledged notes payable to developers and depreciation on water, wastewater and stormwater utility infrastructure.





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, 2016, the District's governmental funds reported total fund balances of $29.8 million, an increase of $3.88 million over the prior year.

The District reports the following components of fund balance:

- **Nonspendable fund balance** - $9.59 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** - $14.83 million (externally enforceable limitation on use) include amounts subject to limitation imposed by creditors, contributors, or laws and regulations of other government.
- **Assigned fund balance** - $.10 million (intended use of resources) consists of amounts where the intended use is established by the highest level of decision making.
- **Unassigned fund balance** - $5.25 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, 2016, the fund balance components were reported as nonspendable $6.92 million, assigned $.10 million and unassigned $5.25 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, 2016, the restricted fund balance of $3.28 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, 2016, the fund balance components were reported as nonspendable, $2.67 million, and restricted, $9.55 million.

The Capital Project Fund is used to account for implementation of the District's capital improvement program. At June 30, 2016, the restricted fund balance was $2.00 million.

Proprietary funds

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

GENERAL FUND BUDGETARY HIGHLIGHTS

Original Budget to Final Budget (in millions)

	Original Budget	Final Budget	Increase (Decrease)
Estimated revenue	$ 4.04	$ 4.13	$ .09
Appropriations	2.30	2.30	.00

Final Budget to Actual (in millions)

	Final Budget	Actual	Increase (Decrease)
Estimated revenue	$ 4.13	$ 4.01	$ (.12)
Appropriations	2.30	1.93	(.37)

During the year, actual revenues were slightly less budgetary estimates. The decrease 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. Capital asset acquisitions for fiscal year ending June 30, 2016 included the purchase of the fire station ($2.98 million) and fire equipment ($.21 million). 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	
	2016	2015	2016	2015	2016	2015	Dollar Change	Percent Change
Land	$28.04	$28.04	$2.60	$2.60	$30.65	$30.65	$0.00	0%
Infrastructure	112.32	120.09	178.74	183.23	291.06	303.31	(12.25)	-4%
Buildings	2.89	0.00	0.00	0.00	2.89	0.00	2.89	100%
Machinery and equipment	0.22	0.05	0.01	0.01	0.23	0.06	0.17	74%
Total	$143.48	$148.18	$181.35	$185.84	$324.83	$334.02	$(9.19)	-3%

Long-term debt

The District's outstanding debt is shown below. Net increases to outstanding debt were $1.19 million. The outstanding debt was increased by financing charges of $6.31 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 $5.12 million in payments

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

	Government Activities		Business-Type Activities		Total		Total	
	2016	2015	2016	2015	2016	2015	Dollar Change	Percent Change
Pledged Notes Payable	$108.41	$108.45	$184.43	$182.39	$292.84	$290.83	$2.00	1%
Revenue Bonds			28.01	28.82	28.01	28.82	(0.81)	-3%
Total	$108.41	$108.45	$212.44	$211.21	$320.85	$319.66	$1.19	0%

In addition to the long-term debt, the District also has a liability to pay future compensated absences in the amount of $.16 million. For additional information related to long-term liabilities, see Note E in the Notes to the Basic Financial Statements.

Implementation of Governmental Accounting Standards Board (GASB) Statement 68, "Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27."

Effective beginning the year ended June 30, 2015, the District reported pension expense and liabilities In accordance with GASB 68. For the purposes of this implementation, the District recorded $.75 million in pension expense for the year and a net pension liability of $4.41 million.

For additional information related to pension plans, see Note G 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 by $1.42 million to $5.25 million. The District has nonspendable funds of $6.92 million for advances to other funds. The special assessment rates increased by 0% for the 2016/2017 and 2017/2018 budget years. The water, wastewater, and stormwater operations and maintenance rates remained at current levels pending a rate study which was adopted in June, 2017, and effective for years beginning in fiscal year 2017/2018. Resulting rate increases are 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 Administrative Services Director, 230 S. Sterling Dr. Suite 100, Mountain House, CA 95391.

BASIC FINANCIAL STATEMENTS

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
Statement of Net Position
June 30, 2016

	Government Activities	Business-Type Activities	Total
ASSETS			
Cash and investments	$ 23,137,498	$ 2,725,155	$ 25,862,653
Restricted cash		5,411,033	5,411,033
Accounts receivable, net	311,264	2,238,382	2,549,646
Prepaid exense	2,918		2,918
Internal balances	8,245,298	(8,245,298)	-
Other receivables		176	176
Capital assets:			
Nondepreciable	28,041,500	2,604,300	30,645,800
Depreciable, net of accumulated depreciation	115,434,674	178,748,710	294,183,384
Total capital assets	143,476,174	181,353,010	324,829,184
TOTAL ASSETS	175,173,152	183,482,458	358,655,610
DEFERRED OUTFLOWS			
Pension contributions subsequent to measurement date and unamortized losses on pension investments	767,504	134,732	902,236
	767,504	134,732	902,236
LIABILITIES			
Accounts payable	1,774,021	459,875	2,233,896
Accrued interest payable	10,506	120,274	130,780
Unearned revenues	129,916	1,062,834	1,192,750
Deposits from others		214,400	214,400
Long-term liabilities			
Due within one year			
Bonds, capital leases and contracts	3,252,176	3,168,302	6,420,478
Compensated absences	80,575		80,575
Due in more than one year			
Bonds, capital leases and contracts	105,153,682	209,276,333	314,430,015
Compensated absences	75,052		75,052
Net pension obligations	3,574,933	838,566	4,413,499
TOTAL LIABILITIES	114,050,861	215,140,584	329,191,445
DEFERRED INFLOWS			
Unamortized gains on pension investments	236,668	55,521	292,189
NET POSITION			
Net investment in capital assets	72,172,012	14,020,884	86,192,896
Restricted for:			
Capital projects			
Roads, transportation and community services	16,308,836		16,308,836
Debt service		5,411,210	5,411,210
Public works	879,262		879,262
Lighting and landscaping	315,214		315,214
Unrestricted	(28,022,197)	(51,011,009)	(79,033,205.82)
Total net position	$ 61,653,127	$ (31,578,915)	$ 30,074,212

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, 2016

		Program Revenues	Net (Expense) Revenue and Changes in Net Assets		
			Primary Government		
Functions/Programs	Expenses	Fees, Fines and Charges for Services	Governmental Activities	Business-Type Activities	Total
Primary Government:					
Governmental Activities					
General government	$ 2,013,876	$ 40,459	$ (1,973,417)		$ (1,973,417)
Public safety	3,579,024	2,318,311	(1,260,713)		(1,260,713)
Public ways and facilities	8,529,010	10,435,975	1,906,965		1,906,965
Recreation and culture	1,732,013	444,413	(1,287,600)		(1,287,600)
Interest on long-term debt	2,334,136		(2,334,136)		(2,334,136)
Total governmental activities	18,188,059	13,239,158	(4,948,901)	-	(4,948,901)
Business-Type Activities					
Water Fund	8,083,278	4,251,147		$ (3,832,131)	(3,832,131)
Wastewater Fund	4,635,738	3,251,615		(1,384,123)	(1,384,123)
Storm Fund	1,457,272	1,254,773		(202,499)	(202,499)
Developer Fund	1,516,447	1,511,418		(5,029)	(5,029)
Total business-type activities	15,692,735	10,268,953	-	(5,423,782)	(5,423,782)
Total primary government	$ 33,880,794	$ 23,508,111	(4,948,901)	(5,423,782)	(10,372,683)
General Revenues:					
Taxes:					
Property taxes			3,100,699		3,100,699
Franchise and miscellaneous taxes			701,898		701,898
Unrestricted interest and investment earnings			119,607	15,489	135,096
Other			183,820		183,820
Total general revenues			4,106,024	15,489	4,121,513
Change in net assets			(842,877)	(5,408,293)	(6,251,170)
Net position, beginning of year, as originally stated			62,496,004	(26,216,984)	36,279,020
Prior period adjustment			-	46,362	46,362
Net position, beginning of year, as restated			62,496,004	(26,170,622)	36,325,382
Net position, end of year			$ 61,653,127	$ (31,578,915)	$ 30,074,212

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

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
Balance Sheet
Governmental Fund
June 30, 2016

		Major Funds		Non-major Fund	
	General Fund	Special Assessments Fund	Impact Fees Fund	Capital Projects Fund	Total Governmental Funds
ASSETS					
Cash and investments	$ 4,395,942	$ 6,205,952	$ 10,394,260	$ 2,141,344	$ 23,137,498
Accounts receivable, net	272,469	20,774	18,021		311,264
Prepaid expense	2,918				2,918
Due from other funds	1,328,820				1,328,820
Advances to other funds	6,916,478		2,673,000		9,589,478
TOTAL ASSETS	$ 12,916,627	$ 6,226,726	$ 13,085,281	$ 2,141,344	$ 34,369,978
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	$ 554,404	$ 229,331	$ 863,473	$ 136,294	$ 1,783,502
Interest payable		816		209	1,025
Performance deposit	83,000	46,916			129,916
Advances from other funds		2,673,000			2,673,000
TOTAL LIABILITIES	637,404	2,950,063	863,473	136,503	4,587,443
Deferred inflows					
Unavailable revenue	7,012				7,012
Fund balances:					
Nonspendable	6,919,396		2,673,000		9,592,396
Restricted for:					
Roads, transportation and community services, operational and administrative functions		2,082,187	9,548,808	2,004,841	13,635,836
Public works		879,262			879,262
Lighting and landscaping		315,214			315,214
Assigned					
Capital impovement projects					
Park monument	100,000				100,000
Unassigned	5,252,815				5,252,815
Total fund balances	12,272,211	3,276,663	12,221,808	2,004,841	29,775,523
TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES	$ 12,916,627	$ 6,226,726	$ 13,085,281	$ 2,141,344	$ 34,369,978

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
For the Year Ended June 30, 2016

Fund Balance - total governmental funds	$ 29,775,523
Amounts reported for governmental activities in the statement of net position are different because:	
Unavailable revenue reported as revenue in the government-wide statements	7,012
Pension-related deferred outlow - net effect of employer contributions and investment earnings	767,504
Pension-related deferred inflow - net effect of changes of share of net pension liability	(236,668)
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the governmental activities of the Statement of Net Assets.	143,476,174
Long-term assets and liabilities are not due and payable in the current period and are not included in the fund financial statements, but are included in the governmental activities of the Statement of Net Position:	
Net pension liability	(3,574,933)
Long-term debt	(108,405,858)
Compensated absences	(155,627)
NET POSITION OF GOVERNMENTAL ACTIVIIES IN THE STATEMENT OF NET POSITION	$ 61,653,127

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

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
Statement of Revenues, Expenditures and Charges in Fund Balances
Governmental Funds
For the Year Ended June 30, 2016

		Major Funds		Non-major Fund	
	General Fund	**Special Assessments Fund**	**Impact Fees Fund**	**Capital Projects Fund**	**Total Governmental Funds**
Revenues					
Taxes	$ 3,102,872				$ 3,102,872
Special assessments		$ 7,745,965			7,745,965
Licenses and permits	14,300				14,300
Franchise fees	701,898				701,898
Developer and impact fees	19,147		$ 5,412,144		5,431,291
Investment earnings	14,758	31,528	73,321		119,607
Other	157,565	66,845			224,410
TOTAL REVENUES	4,010,540	7,844,338	5,485,465	-	17,340,343
Expenditures					
Current:					
General government	1,930,112				1,930,112
Public safety		3,475,095			3,475,095
Public ways and facilities		1,501,599	5,000	159,290	1,665,889
Recreation and culture		800,119		20,876	820,995
Debt service					
Principal			2,374,551		2,374,551
Capital outlay	3,837	3,187,498			3,191,335
TOTAL EXPENDITURES	1,933,949	8,964,311	2,379,551	180,166	13,457,977
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	2,076,591	(1,119,973)	3,105,914	(180,166)	3,882,366
OTHER FINANCING SOURCES (USES)					
Transfer in	157,493			2,185,299	2,342,792
Interest expense				(292)	(292)
Transfer out		(2,185,299)	(157,493)		(2,342,792)
Total other financing sources (uses)	157,493	(2,185,299)	(157,493)	2,185,007	(292)
NET CHANGE IN FUND BALANCE	2,234,084	(3,305,272)	2,948,421	2,004,841	3,882,074
Fund balance, beginning of year	10,038,127	6,581,935	9,273,387		25,893,449
FUND BALANCES, END OF YEAR	$ 12,272,211	$ 3,276,663	$ 12,221,808	$ 2,004,841	$ 29,775,523

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

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
Reconciliation of the Statement of Revenues, Expenditures and Charges in Fund Balances to the Government-Wide Statement of Activities - Governmental Activities
For the Year Ended June 30, 2016

Net change in fund balance - total governmental funds	$ 3,882,074
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report revenues received more than sixty days after year-end as deferred inflows. The Statement of Activities includes those amounts as revenues. Amounts reported as deferred revenues at the end of the prior year were included as revenues in this current year.	5,010
Governmental funds report capital outlay 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.	
Purchase of capital assets	3,191,335
Depreciation expense	(7,895,002)
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.	2,374,551
Interest expenses reported in the Government-wide Statement of Activities does not require the use of current financial resources and therefore are not shown as expenditures in the governmental funds.	(2,334,136)
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 the governmental funds:	
Change in compensated absences	(39,772)
Change in deferred outflow/inflow of resources and net pension obligation	(26,937)
Change in net position of governmental activities	$ (842,877)

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

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
Statement of Fund Net Positions
Proprietary Funds
June 30, 2016

	Major Funds				
	Water	Wastewater	Stormwater	Developer	Total
ASSETS					
Current assets:					
Cash and investments	$ 1,366,335	$ 324,878	$ 1,014,645	$ 19,297	$ 2,725,155
Accounts receivable	496,109	423,192	131,088	1,187,993	2,238,382
Total current assets	1,862,444	748,070	1,145,733	1,207,290	4,963,537
Non-current assets					
Restricted cash	2,567,617	2,153,076	690,340		5,411,033
Restricted interest receivable	91	71	14		176
Capital assets					-
Non-depreciable	984,200	1,620,100			2,604,300
Depreciable, net of accumulated depreciation	102,939,323	52,198,371	23,611,016		178,748,710
Total non-current assets	106,491,231	55,971,618	24,301,369	-	186,764,219
TOTAL ASSETS	108,353,675	56,719,688	25,447,103	1,207,290	191,727,756
DEFERRED OUTFLOWS					
Pension contributions subsequent to measurement date and unamortized losses on pension investments	63,820	56,729	14,183		134,732
LIABILITIES					
Current liabilities:					
Accounts payable	164,725	69,781	18,738	206,631	459,875
Accrued interest payable	59,534	45,871	14,802	67	120,274
Due to other funds	886,971	432,101		9,748	1,328,820
Deposits from others	214,400				214,400
Unearned revenue		71,970		990,864	1,062,834
Bonds, notes and loans payable, current portion	1,561,307	1,195,980	411,015		3,168,302
Total current liabilities	2,886,937	1,815,703	444,555	1,207,310	6,354,505
Long-term liabilities					
Advances from other funds	3,298,691	3,367,395	250,392		6,916,478
Net pension obligation	394,512	344,972	99,082		838,566
Bonds, notes and loans payable	123,392,008	65,484,849	20,399,476		209,276,333
Total long-term liabilities	127,085,211	69,197,216	20,748,950	-	217,031,377
TOTAL LIABILITIES	129,972,148	71,012,919	21,193,505	1,207,310	223,385,882
DEFERRED INFLOWS					
Unamortized gains on pension investments	26,255	23,262	6,004		55,521
NET POSITION					
Net investment in capital assets	1,019,011	4,733,783	8,268,089		14,020,883
Restricted for:					
Debt service	2,567,709	2,153,147	690,354		5,411,210
Unrestricted	(25,167,628)	(21,146,694)	(4,696,666)	(20)	(51,011,008)
TOTAL NET POSITION	$ (21,580,908)	$ (14,259,764)	$ 4,261,777	$ (20)	$ (31,578,915)

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

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
Statement of Revenues, Expenditures and Charges in Fund Balances
Proprietary Funds
For the Year Ended June 30, 2016

	Major Funds				
	Water	Wastewater	Stormwater	Developer	Total
OPERATING REVENUES					
Charges for services	$ 1,352,921	$ 1,471,664	$ 419,461	$ 1,511,418	$ 4,755,464
Charges for services - pledged	2,521,251	1,779,951	589,422		4,890,624
Penalty charges and other	376,975		245,890		622,865
TOTAL OPERATING REVENUES	4,251,147	3,251,615	1,254,773	1,511,418	10,268,953
OPERATING EXPENSES					
Professional and special services	1,586,116	983,615	244,674	1,516,447	4,330,852
Utilities	681,991	215,297			897,288
Chemicals	91,172	60,168			151,340
Maintenance	66,048	233,694	52,668		352,410
Depreciation	2,525,272	1,367,012	594,475		4,486,759
TOTAL OPERATING EXPENSES	4,950,599	2,859,786	891,817	1,516,447	10,218,649
OPERATING INCOME (LOSS)	(699,452)	391,829	362,956	(5,029)	50,304
NON-OPERATING REVENUES (EXPENSES)					
Interest and investment revenue	3,077	1,496	5,907	5,009	15,489
Interest expense	(3,132,679)	(1,775,952)	(565,455)		(5,474,086)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(3,129,602)	(1,774,456)	(559,548)	5,009	(5,458,597)
CHANGE IN NET ASSETS	(3,829,054)	(1,382,627)	(196,592)	(20)	(5,408,293)
Net position, beginning of year					
As originally stated	(17,798,216)	(12,877,137)	4,458,369		(26,216,984)
Prior period adjustment	46,362				46,362
As restated	(17,751,854)	(12,877,137)	4,458,369	-	(26,170,622)
TOTAL NET POSITION, END OF YEAR	$ (21,580,908)	$ (14,259,764)	$ 4,261,777	$ (20)	$ (31,578,915)

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, 2016

	Business-type Activities - Enterprise Funds				
	Water	Wastewater	Stormwater	Developer	Total
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from customers	$ 4,146,797	$ 3,351,251	$ 1,271,985	$ 758,112	$ 9,528,145
Cash paid for interfund services provided	(155,954)	(136,044)	(39,817)	(358,735)	(690,550)
Cash paid to suppliers	(2,232,192)	(1,351,150)	(235,027)	(1,062,513)	(4,880,882)
CASH PROVIDED BY OPERATING ACTIVITIES	1,758,651	1,864,057	997,141	(663,136)	3,956,713
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Due to other funds	833,915	179,666		(3,992)	1,009,589
Advances received	642,026	225,736			867,762
CASH PROVIDED BY NONCAPITAL AND RELATED FINANCING ACTIVITIES	1,475,941	405,402	-	(3,992)	1,877,351
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Payment for acquisition of capital assets					-
Principal paid on long term debt	(1,374,264)	(1,031,117)	(357,750)		(2,763,131)
Interest paid on long term debt	(732,656)	(565,110)	(182,301)	40	(1,480,027)
CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(2,106,920)	(1,596,227)	(540,051)	40	(4,243,158)
CASH FLOWS FROM INVESTING ACTIVIITES:					
Interest received	3,077	1,496	5,907	5,009	15,489
INCREASE (DECREASE) IN CASH AND INVESTMENTS	1,130,749	674,728	462,997	(662,079)	1,606,395
Cash and investments, beginning of year	2,803,203	1,803,226	1,241,988	681,376	6,529,793
CASH AND INVESTMENTS, END OF YEAR	$ 3,933,952	$ 2,477,954	$ 1,704,985	$ 19,297	$ 8,136,188
RECONCILIATION OF CASH AND INVESTMENTS TO THE STATEMENT OF NET ASSETS:					
Cash and investments	$ 1,366,335	$ 324,878	$ 1,014,645	$ 19,297	$ 2,725,155
Restricted cash and investments	2,567,617	2,153,076	690,340		5,411,033
CASH AND INVESTMENTS	$ 3,933,952	$ 2,477,954	$ 1,704,985	$ 19,297	$ 8,136,188
RECONCILIATION OF CASH AND INVESTMENTS TO THE STATEMENT OF ASSETS					
Operating income (loss)	$ (699,452)	$ 391,829	$ 362,956	$ (5,029)	$ 50,304
Adjustments to reconcile operating income (loss) to cash provided by operating activities:					
Depreciation	2,525,272	1,367,012	594,475		4,486,759
Bad debt expense					-
(Increase) decrease in customer receivables	(113,751)	27,666	17,212	(1,004,588)	(1,073,461)
(Increase) decrease in deferred outflow	(32,879)	(29,738)	(6,283)		(68,900)
Increase (decrease) in accounts payable - supplier	12,646	(15,947)	16,466	95,199	108,364
Increase (decrease) in deposits from others	9,401				9,401
Increase (decrease) in deferred inflows	7,741	7,112	1,277		16,130
Increase (decrease) in unearned revenue		71,970		251,282	323,252
Increase (decrease) in pension liability	49,673	44,153	11,038		104,864
CASH PROVIDED BY OPERATING ACTIVITIES	$ 1,758,651	$ 1,864,057	$ 997,141	$ (663,136)	$ 3,956,713
SUPPLEMENTAL DISCLOSURE ON NON-CASH ACTIVITIES					
Finance charge added to loan balance	$ 2,401,544	$ 1,212,061	$ 383,534		$ 3,997,139

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

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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 position 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, the Capital Projects Fund.

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 nonmajor governmental fund:

- The Capital Project Fund is used to account for financial resources used for the acquisition and construction of major capital facilities.

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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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.

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	$ 514,129	$ 446,967	$ 137,075	$1,187,993	$ 2,286,164
Less: Allowance for uncollectibles	(18,020)	(23,775)	(5,987)		(47,782)
Ending balance	$ 496,109	$ 423,192	$ 131,088	$1,187,993	$ 2,238,382

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 consistent 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.

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.

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, 2016 was 2.20%. 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:

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.

<u>Excess Expenditures Over Appropriations</u>: Expenditures for the Water Fund, not including depreciation expense, exceeded appropriations by $653,505.

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: In June 2015, the GASB issued Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (Other Postemployment Benefits or OPEB)", replaces the requirements of GASB Statement No. 45 and requires governments that are responsible only for OPEB liabilities related to their own employees and that provide OPEB through a defined benefit OPEB plan administered through a trust that meets specified criteria to report a net OPEB liability, which is the difference between the total OPEB liability and assets accumulated in the trust and restricted to making benefit payments, on the face of the financial statements. Governments that participate in a cost-sharing OPEB plan that is administered through a trust that meets the specified criteria will report a liability equal to their proportionate share of the collective OPEB liability for all entities participating in the cost-sharing plan. Governments that do not provide OPEB through a trust that meets specified criteria will report the total OPEB liability related to their employees. This Statement also requires governments to present more extensive note disclosures and required supplementary information about their OPEB liabilities. This Statement is effective beginning after fiscal years ended June 15, 2017.

In March 2016, the GASB issued Statement No. 82, *Pension Issues, an Amendment of GASB Statements No. 67, No. 68, and No. 73*. This Statement clarifies certain accounting and reporting issues related to pension plans, including the presentation of payroll related measures in required supplementary information to be covered payroll or the payroll on which contributions are based, clarifies the use of the term deviation for the selection of assumptions, and clarifies the classification of employer-paid member contributions as employee contributions classified like other employee contributions within salaries and the period in which they should be recognized. The requirements of this Statement are effective for reporting periods with plan measurement dates used for computing the pension liability that are on after June 15, 2017, and should be applied retroactively.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)). Topics that may be applicable include criteria for an enterprise fund to blend a component unit, measuring certain money market investments at amortized cost, timing of pension and OPEB liabilities and expenditures under the current financial resources measurement focus, presenting payroll related measures in RSI for OPEB plans, classifying employer paid member contributions for OPEB plans, accounting and financial reporting for multiple-employer defined benefit OPEB Plans. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

The District is currently analyzing the impact of the required implementation of these new statements.

NOTE B – CASH AND INVESTMENTS

Cash and investments at June 30, 2016 are classified in the accompanying financial statements as follows:

	Governmental Activities	Business-type Activities	Total
Cash and investments	$ 23,137,498	$ 2,725,155	$ 25,862,653
Restricted cash		5,411,033	5,411,033
	$ 23,137,498	$ 8,136,188	$ 31,273,686

At June 30, 2016, the District's total cash and investments at fair value were as follows:

Cash:	
Cash on hand	$ 5,300
Deposits in financial institutions	2,877,046
Total cash	2,882,346
Investments:	
Pooled in County Treasury	25,612,544
Money market fund	2,778,796
Total investments	28,391,340
Total cash and investments	$ 31,273,686

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

NOTE B – CASH AND INVESTMENTS (Continued)

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 that the fair value of the District's position in the pool. Deposits held in the County investment pool are subject to withdrawal restrictions that may require thirty days' notice of the intent to withdrawal funds.

The District's cash and investments are required to be stated at fair value at June 30, 2016, 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.

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.

NOTE B – CASH AND INVESTMENTS (Continued)

Custodial Credit Risk of Cash Deposits: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code requires that a financial institution secure the District's cash deposits by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of pledged securities in the collateral pool must equal at least 110% of the District's cash deposits. California law also allows institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the District's total cash deposits.

At June 30, 2016, the carrying amount of the District's deposits was $2,877,046 and the bank balance was $2,877,046. The District had balances of $2,627,046 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.

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, 2016:

	Fair Value	Weighted Average Maturity
Money Market Mutual Funds	$ 2,778,796	31 days
	$ 2,778,796	

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, 2016:

	Minimum Legal Rating	Rating	Amount
Money Market Mutual Funds	N/A	N/A	$ 2,778,796
			$ 2,778,796

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, 2016, 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.

NOTE B – CASH AND INVESTMENTS (Continued)

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.

Fair Value Measurement: The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs, Level 3 inputs are significant unobservable inputs.

The District has money market funds totaling $2,778,796 at June 30, 2016. Because the money market funds are reported at cost, they are considered to be level 2 inputs.

NOTE C – INTERFUND TRANSACTIONS

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

Receivable Fund	Payable Fund	Amount
General Fund	Water Fund	$ 886,971
	Wastewater Fund	432,101
	Developer Projects Fund	9,748
		$ 1,328,820

Advances to/from other funds: Advances to and from other funds at June 30, 2016 consist of the following:

Receivable Fund	Payable Fund	Amount	
General Fund	Water Fund	$ 3,298,691	(a)
	Wastewater Fund	3,367,395	(a)
	Stormwater Fund	250,392	(a)
Impact Fees Fund	Special Assessment Fund	2,673,000	(b)
		$ 9,589,478	

(a) 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.

NOTE C – INTERFUND TRANSACTIONS (Continued)

(b) Impact Fees Fund advanced funds to the Special Assessment Fund to purchase Fire Station 98. Total amount advanced was $2,970,000 on August 11, 2015 and the outstanding balance is to be repaid by June 30, 2026. Principal payments of $297,000 are due annually starting fiscal year 2016/17. Interest accrues annually on June 30 on the outstanding loan balance at the variable rates based on the Local Agency Investment Fund. Interest of $11,758 was paid during the year ended June 30, 2016.

Transfer in/out: Interfund transfers for the year ended June 30, 2016 were as follows:

Transfer In	Transfer Out	Amount
General Fund	Impact Fee Fund	$ 157,493
Capital Projects Fund	Special Assessment Fund	2,185,299
		$ 2,342,792

The transfer to the General Fund is for administrative costs. The transfer to the Capital Projects Fund is for future construction projects under the 5 year CIP plan.

NOTE D – CAPITAL ASSETS

Capital assets at June 30, 2016 consisted of the following:

	Balance at June 30, 2015	Additions	Deletions	Balance at June 30, 2016
Governmental Activities				
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 and furnishings	680,886	$ 211,237		892,123
Buildings		2,980,098		2,980,098
Infrastructure	194,119,205			194,119,205
Total capital assets, being depreciated	194,800,091	3,191,335	-	197,991,426
Less accumulated depreciation for:				
Equipment and furnishings	(627,726)	(40,131)		(667,857)
Buildings		(89,403)		(89,403)
Infrastructure	(74,034,024)	(7,765,468)		(81,799,492)
Total accumulated depreciation	(74,661,750)	(7,895,002)	-	(82,556,752)
Capital assets being depreciated, net	120,138,341	(4,703,667)	-	115,434,674
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	$148,179,841	$ (4,703,667)	$ -	$ 143,476,174

NOTE D – CAPITAL ASSETS (Continued)

	Balance at June 30, 2015	Additions	Deletions	Balance at June 30, 2016
Business-Type Activities				
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	921,488			921,488
Other property	224,267,451			224,267,451
Total capital assets, being depreciated	225,188,939	-	-	225,188,939
Less accumulated depreciation for:				
Equipment	(914,443)	$ (1,410)		(915,853)
Other property	(41,039,027)	(4,485,349)		(45,524,376)
Total accumulated depreciation	(41,953,470)	(4,486,759)	-	(46,440,229)
Capital assets being depreciated, net	183,235,469	(4,486,759)	-	178,748,710
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	$185,839,769	$ (4,486,759)	$ -	$ 181,353,010

Depreciation expense was charged to governmental functions as follows:

General government	$ 16,933
Public safety	103,929
Public ways	6,842,479
Culture and recreation	931,661
Total Governmental Activities	$ 7,895,002

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

Water	$ 2,525,272
Wastewater	1,367,012
Stormwater	594,475
Total Business-type Activities	$ 4,486,759

NOTE E – LONG-TERM LIABILITIES

The following is a summary of long-term debt of the District for the year ended June 30, 2016:

	Maturity	Interest Rates	Principal Installments	Date of Issue	Amount Authorized	Outstanding June 30, 2016
Governmental Activities Debt						
Pledged notes payable *(to acquire infrastructure from developers)*	None	Agreement based	Based on impact fee receipts	Various	$ 132,401,349	$ 108,405,858
Business-type Activities Debt						
Revenue bonds, Series 2007 *(to refinance the acquisition and construction of water, wastewater, and storm drain improvements)*	2033	4.0% - 5.2%	$430,000-$1,680,000	2007	$ 24,365,000	$ 19,700,000
Revenue bonds, Series 2011 *(to refinance the acquisition and construction of water, wastewater, and storm drain improvements)*	2036	2.00% - 5.75%	$100,000 - $2,200,000	2011	10,000,000	8,680,000
Pledged notes payable *(to acquire water, wastewater, and storm drain infrastructure and utilities)*	None	Agreement based	Based on utility revenue receipts	Various	185,085,788	184,432,002
Total Business-type Activities					$ 219,450,788	$ 212,812,002

The following is a summary of long-term liabilities transactions for the year ended June 30, 2016:

	Balance June 30, 2015	Additions	Retirements	Balance June 30, 2016	Amounts Due Within One Year
Governmental Activities					
Pledged notes payable	$ 108,446,273	$ 2,334,136	$ (2,374,551)	$ 108,405,858	$ 3,252,176
Compensated absences	115,855	241,658	(201,886)	155,627	80,575
Pension liability	3,127,879	603,480	(156,426)	3,574,933	
Total governmental activities long-term liabilties	$ 111,690,007	$ 3,179,274	$ (2,732,863)	$ 112,136,418	$ 3,332,751
Business-type Activities					
Revenue bonds	$ 29,210,000		$ (830,000)	$ 28,380,000	$ 865,000
Less discount	(386,971)		19,604	(367,367)	
Pledged notes payable	182,387,423	$ 3,977,710	(1,933,131)	184,432,002	2,303,302
Pension liability	733,702	141,557	(36,693)	838,566	
Total business-type activities long-term liabilities	$ 211,944,154	$ 4,119,267	$ (2,780,220)	$ 213,283,201	$ 3,168,302

NOTE E – LONG-TERM LIABILITIES (Continued)

Payment Requirements for Debt Service: Due to the unknown amount and timing of future debt payments on the pledged notes payable, the future maturity schedules for these payables are not available. As of June 30, 2016, annual debt service requirements of the revenue bonds to maturity are as follows:

Year Ending	Business-type Activities		
June 30:	Principal	Interest	Total
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	990,000	1,315,921	2,305,921
20201	1,035,000	1,265,933	2,300,933
2022-2026	6,020,000	5,476,704	11,496,704
2027-2031	7,705,000	3,749,816	11,454,816
2032-2036	9,915,000	1,460,591	11,375,591
Totals	$ 28,380,000	$ 17,480,663	$ 45,860,663

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 $45,860,663, payable through December 2036. Total principal and finance charges accrued through June 30, 2016 on the pledged notes payable is $184,432,002. For the current year ended, principal and interest paid on the revenue bonds was $830,000 and $1,480,071 respectively.

Payments totaling $1,933,131 were made during the year on the pledged notes payable. Total pledged utility revenues for the fiscal year ended June 30, 2016 was $4,890,624, 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, 2016 on these pledged notes payable is $108,405,858. Payments totaling $2,374,551 were made during the year on the pledged notes payable. Total pledged revenue for the fiscal year end June 30, 2016 was $2,374,551, 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, 2016, 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:

	Govermental Activities
Year Ended June 30:	
2017	$ 363,997
2018	377,775
2019	384,354
Thereafter	192,350
Total minimum lease payments	$ 1,318,476

Total rent expenditures for the year ended June 30, 2016 were $356,895.

NOTE G –PENSION PLANS

Plan Descriptions: All qualified permanent and probationary employees are eligible to participate in the District's cost-sharing multiple employer defined benefit pension plans administered by the San Joaquin County Employees' Retirement Association (SJCEA).

The County Employee's Retirement Act of 1937 is the statutory basis for the SJCERA. The Board of Retirement has the authority to establish and amend benefit provisions. The SJCERA issues a publicly available financial report that includes financial statements and required supplementary information for the SJCERA. A copy of the financial report may be obtained by writing to the Board of Retirement, San Joaquin County Employees' Retirement Association, 6 South El Dorado, Suite 400, Stockton, California 95202.

Benefits Provided: SJCERA provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 (52 for Tier 2) with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is the following: the 1957 Survivor Benefit or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

NOTE G –PENSION PLANS (Continued)

The Plans' provisions and benefits in effect at June 30, 2016, are summarized as follows:

Hire date	Tier 1 (Prior to January 1, 2013)	Tier 2 (On or after January 1, 2013)
Benefit formula (at full retirement)	2.0% @ 55 1/2	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 62	52 - 67
Monthly benefits, as a % of eligible compensation	1.48% to 2.61%	1.0% to 2.5%
Required employee contribution rates - 2016	4.16% - 7.84%	9.15%
Required employer contribution rates - 2016	36.89%	30.01%

The Tier 1 Plan is closed to new members that are not already SJCERA eligible participants.

Contributions: Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plans are determined annually on an actuarial basis as of December 31 by SJCERA. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2016, the contributions recognized as part of pension expense for the Plans were as follows:

	Tier 1	Tier 2
Contributions - employer	$ 252,715	$ 219,104

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions: As of June 30, 2016, the District reported a net pension liability for its proportionate share of the net pension liability in the amount of $4,413,499.

The net pension liability as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014 rolled forward to December 31, 2015 using standard update procedures. The District's proportionate share of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, as actuarially determined. The District's proportionate share of the net pension liability for the Plans as of December 31, 2014 and 2015 was as follows:

Proportion - December 31, 2014	0.2931%
Proportion - December 31, 2015	0.2869%
Change - Increase (Decrease)	0.0062%

NOTE G – PENSION PLANS (Continued)

For the year ended June 30, 2016, the District recorded pension expense of $606,809. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to all Plans combined from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 256,924	
Change in employer's proportion		$ (196,750)
Differences between the employer's contribution and the employer's proportionate share of contributions		(36,331)
Net differences between projected and actual earnings on plan investments	645,312	
Differences between actual and expected experience		(59,108)
Total	$ 902,236	$ (292,189)

The $256,924 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as net deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ended June 30	
2017	$ 82,356
2018	82,356
2019	89,874
2020	98,537
	$ 353,123

NOTE G – PENSION PLANS (Continued)

Actuarial Assumptions: The total pension liabilities in the December 31, 2015 actuarial valuations for each of the Plans were determined using the following actuarial assumptions:

Valuation Date	December 31, 2014
Measurement Date	December 31, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Inflation	3.00%
Amortization Growth Rate	3.25%
Salary Increases	3.25% plus merit component
Cost of Living Salary Increase	2.60%
Investment Rate of Return	7.5% (1)
Mortality	RP-2000 Combined Mortality, projected with generational improvements using Scale BB

(1) Net of pension plan investment expenses, including inflation

Discount Rate: The discount rate used to measure the total pension liability was 7.50% as of December 31, 2015. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's plan net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of December 31, 2015.

The table below reflects the long-term expected real rate of return by asset class for each of the Plans. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	Target Allocation	Real Return (a)
Fixed Income	24.00%	3.55%
U.S. Equity	16.25%	9.00%
Non U.S. Equity	16.25%	9.75%
Global Equity	1.50%	9.35%
Real Estate	10.00%	11.15%
Real Assets	7.00%	7.00%
Global Opportunistic	15.00%	7.40%
Risk Parity	10.00%	8.00%
Total	100.0%	

(a) An expected inflation of 3.0% used.

NOTE G – PENSION PLANS (Continued)

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following presents the District's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

1% Decrease	6.50%
Net Pension Liability	$ 5,928,397
Current Discount Rate	7.50%
Net Pension Liability	$ 4,413,499
1% Increase	8.50%
Net Pension Liability	$ 3,165,713

Pension Plan Fiduciary Net Position: Detailed information about each pension plan's fiduciary net position is available in the separately issued SJCERA financial reports.

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, 2016:

	Deficit Amount
Water	$ (21,580,908)
Wastewater	(14,259,764)

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

NOTE J – COMMITMENTS AND CONTINGENCIES

The District entered into an agreement on June 22, 2015 with Byron-Bethany Irrigation District (Irrigation District) whereby the District, in addition to paying actual costs of water delivered, agrees to indemnify the Irrigation District for any and all costs, including, but not limited to, any fines penalties, legal or other costs associated with any enforcement or other action brought by the State Water Resources Control Board or any other rent related to the Irrigation District's diversion of water to meet the water supply requirements of the District while the State Water Resources Control Board curtailment of the Irrigation District's pre-1914 appropriative water rights is in effect.

The District entered into an agreement with French Camp McKinley Rural Fire Protection District to provide five protection and emergency medical services through September 14, 2020. The annual fee will be negotiated based on the Fire District's proposed budget, or if unable to negotiate, the fee will be the current contract fee increased by 3%. The initial annual fee starting September 15, 2015 was $1,842,000.

The District is party to a legal action that arose in normal operation of business. Management and the District believe that there are no material loss contingencies that would have a material adverse impact on the financial position of the District.

NOTE K – RESTATEMENT

During the fiscal year ended June 30, 2016, the District determined that the utility billing receivables were overstated by $46,362 as a result of overpayments being reflected in receivables.

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REQUIRED SUPPLEMENTARY INFORMATION

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
Statement of Revenues, Expenditures and Charges in Fund Balance
Budget and Actual
General Fund
For the Year Ended June 30, 2016

	Budget Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Taxes	$ 3,095,800	$ 3,095,800	$ 3,102,872	$ 7,072
Licenses and permits	34,000	34,000	14,300	(19,700)
Franchise fees	832,250	832,250	701,898	(130,352)
Developer and impact fees	15,000	15,000	19,147	4,147
Investment earnings	30,400	30,400	14,758	(15,642)
Other revenues	31,500	122,500	157,565	35,065
Total revenues	4,038,950	4,129,950	4,010,540	(119,410)
Expenditures				
Current:				
General government	2,267,961	2,267,961	1,930,112	337,849
Capital outlay	28,500	28,500	3,837	24,663
Total expenditures	2,296,461	2,296,461	1,933,949	362,512
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,742,489	1,833,489	2,076,591	243,102
Other Financing Sources (Uses)				
Transfer in	392,968	392,968	157,493	(235,475)
Transfers out	(1,468,103)	(1,638,103)		1,638,103
Total other financing sources (uses)	(1,075,135)	(1,245,135)	157,493	1,402,628
Net change in fund balances	667,354	588,354	2,234,084	1,645,730
Fund balance, beginning of year	10,038,127	10,038,127	10,038,127	-
Fund balances, end of year	$ 10,705,481	$ 10,626,481	$ 12,272,211	$ 1,645,730

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
Statement of Revenues, Expenditures and Charges in Fund Balance
Budget and Actual
Special Assessment Funds
For the Year Ended June 30, 2016

	Budget Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Special Assessment	$ 7,329,190	$ 7,728,190	$ 7,745,965	$ 17,775
Investment earnings	9,300	9,300	31,528	22,228
Other revenues	15,000	15,000	66,845	51,845
Total revenues	7,353,490	7,752,490	7,844,338	91,848
Expenditures				
Current:				
Public safety	3,670,640	3,682,261	3,475,095	207,166
Public ways and facilities	1,842,822	1,873,022	1,501,599	371,423
Recreation and culture	1,013,747	1,015,277	800,119	215,158
Capital outlay		3,220,000	3,187,498	32,502
Total expenditures	6,527,209	9,790,560	8,964,311	826,249
Excess (Deficiency) of Revenues Over (Under) Expenditures	826,281	(2,038,070)	(1,119,973)	918,097
Other Financing Sources (Uses)				
Transfer in		2,970,000		(2,970,000)
Transfer out	(1,955,299)	(2,185,299)	(2,185,299)	-
Total other financing sources (uses)	(1,955,299)	784,701	(2,185,299)	(2,970,000)
Net change in fund balances	(1,129,018)	(1,253,369)	(3,305,272)	(2,051,903)
Fund balance, beginning of year	6,581,935	6,581,935	6,581,935	-
Fund balances, end of year	$ 5,452,917	$ 5,328,566	$ 3,276,663	$ (2,051,903)

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
Statement of Revenues, Expenditures and Charges in Fund Balance
Budget and Actual
Impact Fees Funds
For the Year Ended June 30, 2016

	Budget Amounts Original	Budget Amounts Final	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues				
Developer and impact fees	$ 3,872,000	$ 3,872,000	$ 5,412,144	$ 1,540,144
Investment earnings	10,500	10,500	73,321	62,821
Total revenues	3,882,500	3,882,500	5,485,465	1,602,965
Expenditures				
Current:				
Public ways and facilities			5,000	(5,000)
Capital outlay				
Debt service				
Principal	1,740,077	1,740,077	2,374,551	(634,474)
Total expenditures	1,740,077	1,740,077	2,379,551	(639,474)
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,142,423	2,142,423	3,105,914	963,491
Other Financing Sources (Uses)				
Transfer in		308,578		(308,578)
Transfer out	(116,160)	(3,086,160)	(157,493)	2,928,667
Total other financing sources (uses)	(116,160)	(2,777,582)	(157,493)	2,620,089
Net change in fund balances	2,026,263	(635,159)	2,948,421	3,583,580
Fund balance, beginning of year	9,273,387	9,273,387	9,273,387	-
Fund balances, end of year	$ 11,299,650	$ 8,638,228	$ 12,221,808	$ 3,583,580

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.

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (UNAUDITED)
Last 10 Years

	June 30, 2016	June 30, 2015
Proportion of the net pension liability	0.2869%	0.2931%
Proportionate share of the net pension liability	$ 4,413,499	$ 3,861,581
Covered - employee payroll	$ 1,303,509	$ 1,273,202
Proportionate share of the net pension liability as a percentage of covered payroll	338.58%	303.30%
Plan fiduciary net position as a percentage of the total pension liability	61.07%	65.18%

Notes to Schedule:
Change in Benefit Terms: The figures above do not include any liability impact that may have resulted from plan changes which occurred after December 31, 2014 as they have minimal cost impact.

Changes in assumptions: None.

Omitted years: GASB Statement No. 68 was implemented during the year ended June 30, 2015. No information was available prior to this date.

SCHEDULE OF CONTRIBUTIONS TO THE PENSION PLAN (UNAUDITED)
Last 10 Years

	2016	2015
Contractually required contribution (actuarially determined)	$ 410,518	$ 367,300
Contributions in relation to the actuarially determined contributions	(410,518)	(367,300)
Contribution deficiency (excess)	$ -	$ -
Covered - employee payroll	$ 1,303,509	$ 1,273,202
Contributions as a percentage of covered - employee payroll	31.49%	28.85%

Notes to Schedule:

Valuation date:	January 1, 2013	January 1, 2014

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Asset valuation method	Excess earnings smoothed over 5 years, 80%/120% corridor around market value
Amortization method	Level percentage of payroll, closed
Discount rate	7.50%
Amortization growth rate	3.25%
Price inflation	3.00%
Salary increases	3.25%, plus merit component based on employee classification and years of service
Mortality	Healthy: RP2000 Combined Healthy Table with Generational Projection using Projection Scale BB Disabled: RP2000 Combined Healthy Table with Generational Projection using Projection Scale BB, Set-forward 8 Years for males and females

Omitted years: GASB Statement No. 68 was implemented during the year ended June 30, 2015. No information was available prior to this date.

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, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 6, 2018.

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: The District's closing procedures were delayed resulting in a number of adjustments made during the audit process to properly close the District's general ledger. We propose that the District continue with the proposal of developing accounting procedures to ensure that the District is able to identify all closing entries prior to the audit field work.

Management Response: We agree that the closing process can be improved. As noted by the auditor, we implemented procedures, checklists and templates to ensure that routine tasks are performed in a consistent and timely manner. We will develop a formal closing procedure for year-end closing, taking into account the issues that were identified during the audit process.

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 Administrative Services Director. We recommend the District implement controls to ensure that all adjusting journal entries are subsequently reviewed and approved by a separate individual.

Management Response: The accountant reviews and updates journal entries prepared by the administrative services director. The accountant has gained knowledge and experience with the general ledger during the time of her appointment. The accountant had previously processed accounts payable and cash receipting and, as a result, was familiar with the general ledger accounts and transaction processing. We will continue to emphasize training in the management of the general ledger.

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

February 6, 2018