

**MOUNTAIN HOUSE
COMMUNITY SERVICES DISTRICT**

Audited Financial Statements

June 30, 2019

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MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Audited Financial Statements

For the Year Ended June 30, 2019

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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, 2019, and the related notes to the financial statements, which collectively comprise the District's basic 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, 2019 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.

Correction of Errors

As described in Note L to the financial statements, the Authority corrected certain errors in the June 30, 2018 financial statements. Our opinion is not modified with respect to that matter.

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 to the Pension Plan 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 January 14, 2020 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

January 14, 2020

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
Management's Discussion and Analysis
June 30, 2019

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, 2019.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$34.54 million.
- The District's total net position increased by \$17.6 million. This is attributable to a decrease in bonds payable and an increase in cash and investments.
- As of the close of the current fiscal year, the District's governmental funds reported combined fund balances of \$65.9 million. Approximately \$14.91 million or 23% of total fund balances is reported as Unassigned fund balance making it 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 Unassigned (GASB No. 54) fund balance for the General Fund was \$14.91 million, or 921% of the total General Fund expenditures.
- The District's total liabilities decreased by \$6.0 million (2%) during the current fiscal year. The key factors in this decrease were payments made on bonds payable.

Using This Financial Report

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies. The Statement of Net Position includes all of the District's investments in resources (assets), deferred outflows of resources, the obligations to creditors (liabilities) and deferred inflows of resources. 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, deferred outflows of resources, liabilities and deferred inflows of resources, with the net amount 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 District'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).

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Management's Discussion and Analysis

June 30, 2019

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, public ways and facilities, and recreation and culture. The business-type activities of the District include water, wastewater and storm system operations and developer activity.

The government-wide financial statements can be found on pages 12 - 13 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 District'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, the impact fees fund, and the capital projects fund all of which are considered to be major funds. The governmental fund financial statements can be found on pages 14 - 17 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 44 - 46 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 18 - 20 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 21 – 43 of this report.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
Management's Discussion and Analysis
June 30, 2019

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* consisting of the budgetary schedules described above under Notes to the Required Supplementary Information and Required Disclosures related to the District's Pension Plan. Required supplementary information can be found on pages 44 – 48 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 \$34.54 million at the close of the most recent fiscal year.

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

	Governmental Activities		Business-Type Activities		Total		Total	
	2019	2018	2019	2018	2019	2018	Dollar Change	Percent Change
Assets:								
Current and other assets	\$72.08	\$53.72	\$10.21	\$6.01	\$82.29	\$59.73	\$22.56	38%
Capital assets	120.66	128.24	167.91	172.42	288.57	300.66	(12.09)	-4%
Total assets	<u>192.74</u>	<u>181.96</u>	<u>178.12</u>	<u>178.43</u>	<u>370.86</u>	<u>360.39</u>	<u>10.47</u>	<u>3%</u>
Deferred outflow s:								
Pension plan								
Deferred outflow	1.79	0.84	0.79	0.41	2.58	1.25	1.33	106%
Total deferred outflow	<u>1.79</u>	<u>0.84</u>	<u>0.79</u>	<u>0.41</u>	<u>2.58</u>	<u>1.25</u>	<u>1.33</u>	<u>106%</u>
Liabilities:								
Long-term liabilities outstanding	104.50	113.46	221.94	220.16	326.44	333.62	(7.18)	-2%
Other liabilities	6.13	6.59	6.03	4.38	12.16	10.97	1.19	11%
Total liabilities	<u>110.63</u>	<u>120.05</u>	<u>227.97</u>	<u>224.54</u>	<u>338.60</u>	<u>344.59</u>	<u>(6.09)</u>	<u>-2%</u>
Deferred inflow s:								
Pension plan								
Deferred inflow	0.21	0.08	0.09	0.04	0.30	0.12	0.18	150%
Total deferred inflow	<u>0.21</u>	<u>0.08</u>	<u>0.09</u>	<u>0.04</u>	<u>0.30</u>	<u>0.12</u>	<u>0.18</u>	<u>150%</u>
Net position:								
Net investment in capital assets	69.07	63.55	6.36	12.15	75.43	75.70	(0.27)	0%
Restricted	37.72	28.01	7.20	6.00	44.92	34.01	10.91	32%
Unrestricted	(23.10)	(28.89)	(62.71)	(63.88)	(85.81)	(92.77)	6.96	-8%
Total net position	<u>\$83.69</u>	<u>\$62.67</u>	<u>\$(49.15)</u>	<u>\$(45.73)</u>	<u>\$34.54</u>	<u>\$16.94</u>	<u>\$17.60</u>	<u>104%</u>

By far the largest portion of the District's net position (234%) 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, \$44.92 million, is subject to constraints by bond financing agreements and enabling legislation.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
Management's Discussion and Analysis
June 30, 2019

The District's unrestricted net position was at a deficit of \$85.81 million generally because of financing charges accruing on pledged notes payable to developers for contributed infrastructure. In addition, the District is reporting net pension obligations at June 30, 2019 in the amount of \$7.47 million.

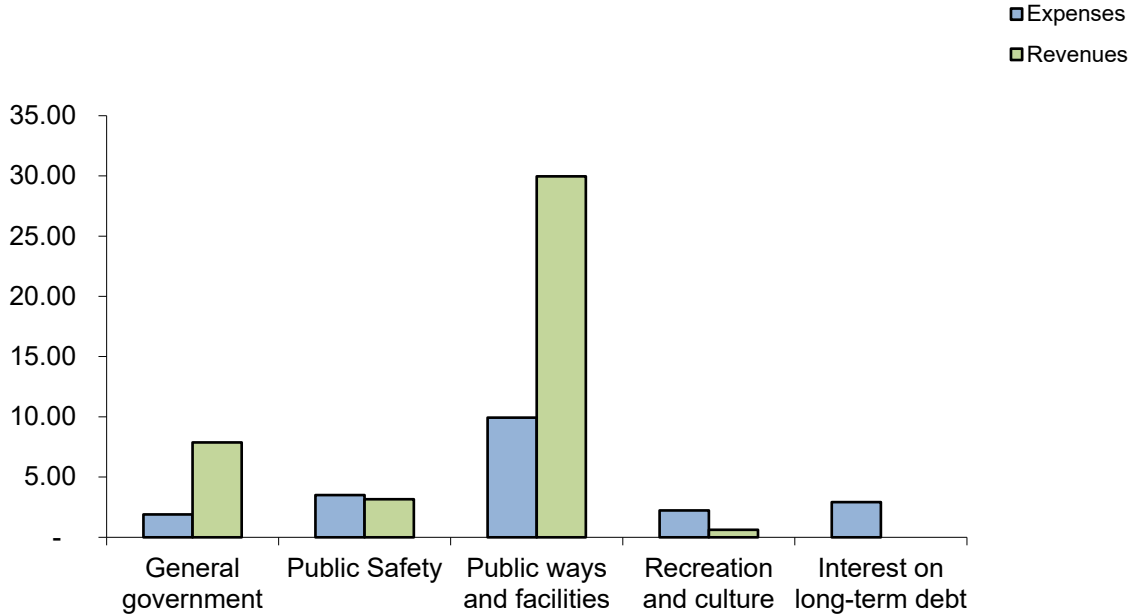
Mountain House Community Services District's Change in Net Position (in millions)

	Government Activities		Business-Type Activities		Total		Total	
	2019	2018	2019	2018	2019	2018	Dollar Change	Percent Change
Revenues:								
Program revenues:								
Fees, fines and charges for services	\$24.07	\$12.12	\$18.10	\$15.32	\$42.17	\$27.44	\$14.73	54%
Special assessments	10.56	9.02			10.56	9.02	1.54	17%
General revenue:								
Property taxes	4.58	3.75			4.58	3.75	0.83	22%
Miscellaneous revenues	2.39	1.17	0.11	0.07	2.50	1.24	1.26	102%
Total revenues	41.60	26.06	18.21	15.39	59.81	41.45	18.36	44%
Expenses:								
General government	1.89	1.87			1.89	1.87	0.02	1%
Public safety	3.50	4.06			3.50	4.06	(0.56)	-14%
Public ways and facilities	9.93	9.41			9.93	9.41	0.52	6%
Recreation and culture	2.22	2.18			2.22	2.18	0.04	2%
Interest on long-term debt	2.91	3.32			2.91	3.32	(0.41)	-12%
Water system			9.85	9.81	9.85	9.81	0.04	0%
Wastewater system			5.80	5.95	5.80	5.95	(0.15)	-3%
Stormwater system			1.72	1.70	1.72	1.70	0.02	1%
Developer projects			4.39	3.38	4.39	3.38	1.01	30%
Total expenses	20.45	20.84	21.76	20.84	42.21	41.68	0.53	1%
Increase in net position	21.15	5.22	(3.55)	(5.45)	17.60	(0.23)	17.83	-7752%
Net position, beginning of year	62.67	57.45	(45.73)	(40.28)	16.94	17.17	(0.23)	-1%
Restatement	(0.13)	0.00	0.13	0.00	0.00	0.00	0.00	
Net assets, beginning of year	62.54	57.45	(45.60)	(40.28)	16.94	17.17	(0.23)	-1%
Net assets, end of year	<u>\$83.69</u>	<u>\$62.67</u>	<u>\$(49.15)</u>	<u>\$(45.73)</u>	<u>\$34.54</u>	<u>\$16.94</u>	<u>\$17.60</u>	<u>104%</u>

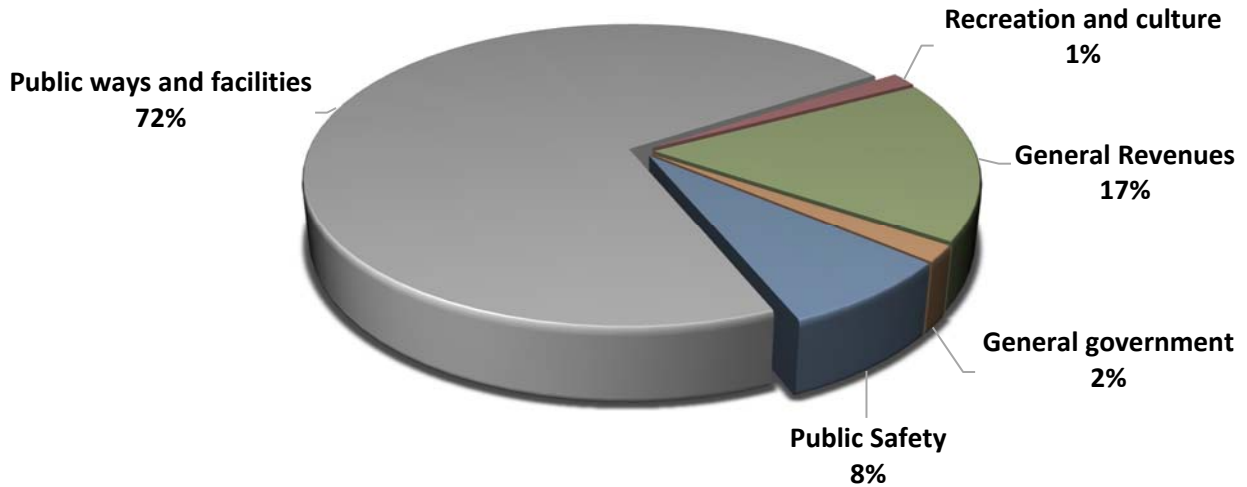
Governmental Activities: Governmental activities increased District's net position by \$21.13 million. This increase is primarily due to the increase in special taxes and impact fees.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
 Management's Discussion and Analysis
 June 30, 2019

Expenses and Program Revenues - Governmental Activities



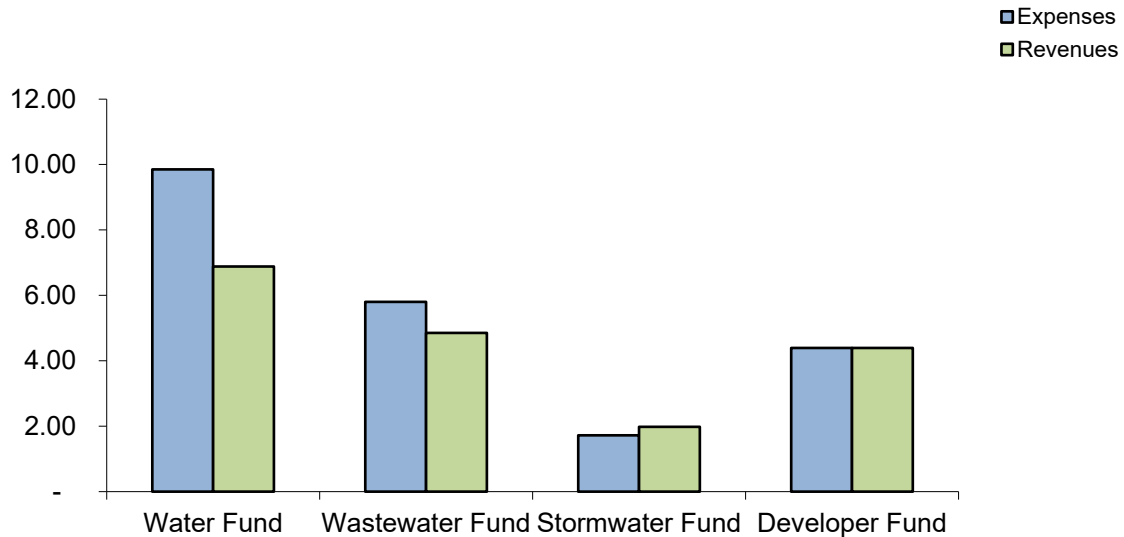
TOTAL REVENUES BY SOURCE - GOVERNMENTAL ACTIVITIES



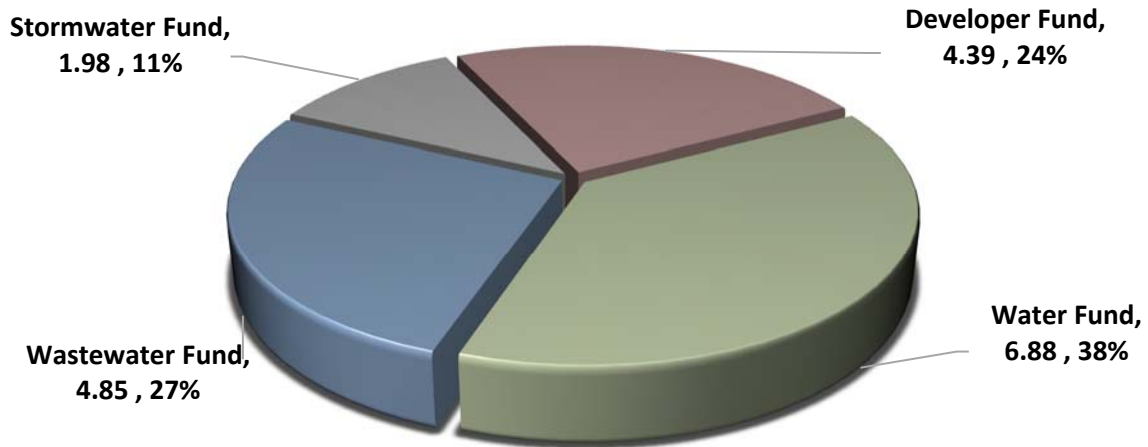
Business-Type Activities: Business-type activities decreased the District's net position by \$3.55 million. This is primarily due to financing charges accruing on pledged notes payable to developers and depreciation on water, wastewater and stormwater utility infrastructure.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
 Management's Discussion and Analysis
 June 30, 2019

Expenses and Program Revenues - Business-type Activities



REVENUE BY SOURCE - BUSINESS-TYPE ACTIVITIES



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 the District's net resources available for spending at the end of the fiscal year.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
Management's Discussion and Analysis
June 30, 2019

At June 30, 2019, the District's governmental funds reported total fund balances of \$65.90 million, an increase of \$18.79 million over the prior year.

The District reports the following components of fund balance:

- **Nonspendable fund balance** - \$13.13 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** - \$35.75 million (externally enforceable limitation on use) include amounts subject to limitation imposed by creditors, contributors, or laws and regulations of other government.
- **Unassigned fund balance** - \$17.01 million (residual net resources) is the total fund balance in the general fund in excess of nonspendable and restricted fund balance.

The General Fund is the main operational fund of the District. At June 30, 2019, the fund balance components were reported as nonspendable \$11.30 million and unassigned \$14.91 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, and landscaping and lighting district activity. Therefore, fund balance must be used for these designated services. At June 30, 2019, the restricted fund balance of \$5.35 million was available to finance future appropriations.

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. At June 30, 2019, the fund balance components were reported as nonspendable, \$1.83 million, and restricted, \$26.62 million.

The Capital Projects Fund is used to account for implementation of the District's capital improvement program. At June 30, 2019, the restricted fund balance was \$3.78 million.

Proprietary funds

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

GENERAL FUND BUDGETARY HIGHLIGHTS

Original Budget to Final Budget (in millions)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Increase (Decrease)</u>
Estimated revenue	\$ 5.42	\$ 5.42	\$.00
Appropriations	3.40	3.40	.00

Final Budget to Actual (in millions)

	<u>Final Budget</u>	<u>Actual</u>	<u>Increase (Decrease)</u>
Estimated revenue	\$ 5.42	\$ 10.94	\$ 5.52
Appropriations	3.40	1.62	(1.78)

During the year, actual revenues were slightly more than budgetary estimates, which was mainly due to the receipt of a \$4.0 million unrestricted developer contribution and an aggregation of various increases and decreases of revenue sources.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
Management's Discussion and Analysis
June 30, 2019

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. Changes are due to equipment purchases and depreciation. 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	
	2019	2018	2019	2018	2019	2018	Dollar Change	Percent Change
	Land	\$28.04	\$28.04	\$2.60	\$2.60	\$30.64	\$30.64	\$(0.00)
Infrastructure	89.07	96.83	165.24	169.72	254.31	266.55	(12.24)	-5%
Buildings	2.56	2.68	0.00	0.00	2.56	2.68	(0.12)	-4%
Machinery and equipment	0.99	0.69	0.07	0.10	1.06	0.79	0.27	35%
Total	\$120.66	\$128.24	\$167.91	\$172.42	\$288.57	\$300.66	\$(12.09)	-4%

Long-term debt

The District's outstanding debt is shown below. Net decreases to outstanding debt were \$8.99 million. The outstanding debt was increased by financing charges of \$8.48 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 \$17.46 million in payments.

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

	Government Activities		Business-Type Activities		Total		Total	
	2019	2018	2019	2018	2019	2018	Dollar Change	Percent Change
	Pledged Notes Payable	\$99.13	\$109.37	\$194.27	\$192.07	\$293.39	\$301.44	\$(8.04)
Revenue Bonds			25.66	26.61	25.66	26.61	(0.95)	-4%
Total	\$99.13	\$109.37	\$219.93	\$218.67	\$319.05	\$328.04	\$(8.99)	-3%

In addition to the long-term debt, the District also has a liability to pay future compensated absences in the amount of \$.22 million. For additional information related to long-term liabilities, see Note E in the Notes to the Basic Financial Statements.

Economic Factors and Next Year's Budgets and Rates

During the current fiscal year, unassigned fund balance in the General Fund increased by \$6.97 million to \$14.91 million. The District has nonspendable funds of \$11.30 million for advances to other funds and prepaid costs. The special assessment rates did not increase for the 2019/2020 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 started 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.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

Management's Discussion and Analysis

June 30, 2019

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.

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BASIC FINANCIAL STATEMENTS

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MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
Statement of Net Position
June 30, 2019

	Government Activities	Business-Type Activities	Total
ASSETS			
Cash and investments	\$ 58,597,717	\$ 11,662,091	\$ 70,259,808
Restricted cash and investments		7,196,871	7,196,871
Accounts receivable, net	121,137	4,214,042	4,335,179
Taxes receivable	51,573		51,573
Interest receivable	322,170	20,402	342,572
Prepaid expense	93,710	7,185	100,895
Internal balances	12,893,455	(12,893,455)	
Restricted interest receivable		4,484	4,484
Capital assets:			
Nondepreciable	28,041,500	2,604,300	30,645,800
Depreciable, net of accumulated depreciation	92,614,930	165,308,125	257,923,055
Total capital assets	<u>120,656,430</u>	<u>167,912,425</u>	<u>288,568,855</u>
TOTAL ASSETS	<u>192,736,192</u>	<u>178,124,045</u>	<u>370,860,237</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension plan	1,789,287	785,218	2,574,505
	<u>1,789,287</u>	<u>785,218</u>	<u>2,574,505</u>
LIABILITIES			
Accounts payable	2,631,537	1,069,857	3,701,394
Accrued interest payable		110,335	110,335
Unearned revenues	2,860,249	4,551,484	7,411,733
Deposits from others	636,732	300,327	937,059
Long-term liabilities			
Due within one year			
Bonds, capital leases and contracts	4,381,960	5,341,352	9,723,312
Compensated absences	190,076		190,076
Due in more than one year			
Bonds, capital leases and contracts	94,743,560	214,278,571	309,022,131
Compensated absences	33,501		33,501
Net pension liability	5,148,793	2,320,745	7,469,538
TOTAL LIABILITIES	<u>110,626,408</u>	<u>227,972,671</u>	<u>338,599,079</u>
DEFERRED INFLOWS OF RESOURCES			
Pension plan	209,448	89,205	298,653
NET POSITION			
Net investment in capital assets	69,069,002	11,970,183	81,039,185
Restricted for:			
Roads, transportation and community services	36,167,976		36,167,976
Debt service		7,201,355	7,201,355
Public works	1,069,094		1,069,094
Lighting and landscaping	483,981		483,981
Unrestricted	(23,100,430)	(68,324,151)	(91,424,581)
Total net position	<u>\$ 83,689,623</u>	<u>\$ (49,152,613)</u>	<u>\$ 34,537,010</u>

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

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
Statement of Activities
For the Year Ended June 30, 2019

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Indirect Expense Allocation	Fees, Fines and Charges for Services	Primary Government		Total
				Governmental Activities	Business-Type Activities	
Primary Government:						
Governmental Activities						
General government	\$ 1,886,117	\$ 1,348,252	\$ 899,374	\$ (986,743)		\$ (986,743)
Public safety	3,495,091	(722,015)	3,154,205	(340,886)		(340,886)
Public ways and facilities	9,932,929	(566,604)	29,959,109	20,026,180		20,026,180
Recreation and culture	2,220,398	(59,633)	615,278	(1,605,120)		(1,605,120)
Interest on long-term debt	2,910,827			(2,910,827)		(2,910,827)
Total governmental activities	<u>20,445,362</u>		<u>34,627,966</u>	<u>14,182,604</u>		<u>14,182,604</u>
Business-Type Activities						
Water Fund	9,846,232		6,879,604		\$ (2,966,628)	(2,966,628)
Wastewater Fund	5,802,012		4,846,667		(955,345)	(955,345)
Stormwater Fund	1,724,368		1,979,853		255,485	255,485
Developer Fund	4,392,076		4,390,829		(1,247)	(1,247)
Total business-type activities	<u>21,764,688</u>		<u>18,096,953</u>		<u>(3,667,735)</u>	<u>(3,667,735)</u>
Total primary government	<u>\$ 42,210,050</u>	<u>\$ -</u>	<u>\$ 52,724,919</u>	<u>14,182,604</u>	<u>(3,667,735)</u>	<u>10,514,869</u>
General Revenues:						
Taxes:						
Property taxes				4,576,597		4,576,597
Franchise and miscellaneous taxes				1,024,749		1,024,749
Unrestricted interest and investment earnings				1,225,989	111,224	1,337,213
Other				142,224		142,224
Total general revenues				<u>6,969,559</u>	<u>111,224</u>	<u>7,080,783</u>
Change in net position				21,152,163	(3,556,511)	17,595,652
Net position, beginning of year				62,670,544	(45,729,186)	16,941,358
Restatement				(133,084)	133,084	
Net position, beginning of year, as restated				<u>62,537,460</u>	<u>(45,596,102)</u>	<u>16,941,358</u>
Net position, end of year				<u>\$ 83,689,623</u>	<u>\$ (49,152,613)</u>	<u>\$ 34,537,010</u>

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

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
Balance Sheets
Governmental Funds
June 30, 2019

	<u>Major Funds</u>				Total Governmental Funds
	General Fund	Special Assessments Special Revenue Fund	Impact Fees Special Revenue Fund	Capital Projects Fund	
ASSETS					
Cash and investments	\$ 16,241,085	\$ 7,304,178	\$ 31,273,884	\$ 3,778,570	\$ 58,597,717
Accounts receivable, net	117,528	3,609			121,137
Taxes receivable	50,157	1,416			51,573
Interest receivable	67,384	48,507	206,279		322,170
Prepaid costs	42,656		51,054		93,710
Due from other funds	1,637,412				1,637,412
Advances to other funds	11,256,043		1,782,000		13,038,043
TOTAL ASSETS	<u>\$ 29,412,265</u>	<u>\$ 7,357,710</u>	<u>\$ 33,313,217</u>	<u>\$ 3,778,570</u>	<u>\$ 73,861,762</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 406,367	\$ 178,512	\$ 2,046,658		\$ 2,631,537
Unearned revenues	1,845	46,916	2,811,488		2,860,249
Deposits from others	636,732				636,732
Advances from other funds		1,782,000			1,782,000
TOTAL LIABILITIES	<u>1,044,944</u>	<u>2,007,428</u>	<u>4,858,146</u>		<u>7,910,518</u>
Deferred inflows of resources					
Unavailable revenue	55,778				55,778
Fund balances:					
Nonspendable	11,298,699		1,833,054		13,131,753
Restricted for:					
Roads, transportation and community services, operational and administrative functions		3,797,207	26,622,017	\$ 3,778,570	34,197,794
Public works		1,069,094			1,069,094
Lighting and landscaping		483,981			483,981
Committed	2,099,160				2,099,160
Unassigned	14,913,684				14,913,684
Total fund balances	<u>28,311,543</u>	<u>5,350,282</u>	<u>28,455,071</u>	<u>3,778,570</u>	<u>65,895,466</u>
TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES	<u>\$ 29,412,265</u>	<u>\$ 7,357,710</u>	<u>\$ 33,313,217</u>	<u>\$ 3,778,570</u>	<u>\$ 73,861,762</u>

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

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
Reconciliation of the Governmental Funds Balance Sheets to the Statement of Net Position
For the Year Ended June 30, 2019

Fund Balance - total governmental funds	\$ 65,895,466
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the governmental activities of the Statement of Net Position.	120,656,430
Unavailable revenues are reported as revenues in the government-wide statements	55,778
Long-term assets and liabilities and related deferred inflows and outflows of resources 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:	
Deferred outflows of resources - pension plan	1,789,287
Long-term debt	(99,125,520)
Compensated absences	(223,577)
Net pension liability	(5,148,793)
Deferred outflows of resources - pension plan	(209,448)
NET POSITION OF GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET POSITION	<u>\$ 83,689,623</u>

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

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
Statements of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2019

	<u>Major Funds</u>				Total Governmental Funds
	General Fund	Special Assessments Special Revenue Fund	Impact Fees Special Revenue Fund	Capital Projects Fund	
Revenues					
Taxes	\$ 4,576,597				\$ 4,576,597
Special assessments		\$ 10,555,005			10,555,005
Licenses and permits	7,685				7,685
Franchise fees	1,024,749				1,024,749
Contributions from developers	4,000,000				4,000,000
Developer and impact fees	584,081		\$ 19,102,956		19,687,037
Investment earnings	345,317	158,694	721,978		1,225,989
Other revenues	402,238	75,166		\$ 8,162	485,566
TOTAL REVENUES	<u>10,940,667</u>	<u>10,788,865</u>	<u>19,824,934</u>	<u>8,162</u>	<u>41,562,628</u>
Expenditures					
Current:					
General government	286,548				286,548
Public safety		3,994,712			3,994,712
Public ways and facilities	1,324,022	2,029,310		71,059	3,424,391
Recreation and culture		1,350,166			1,350,166
Debt service					
Principal			13,105,932		13,105,932
Interest and fiscal charges		47,110			47,110
Capital outlay	8,630	11,980		413,762	434,372
TOTAL EXPENDITURES	<u>1,619,200</u>	<u>7,433,278</u>	<u>13,105,932</u>	<u>484,821</u>	<u>22,643,231</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>9,321,467</u>	<u>3,355,587</u>	<u>6,719,002</u>	<u>(476,659)</u>	<u>18,919,397</u>
OTHER FINANCING SOURCES (USES)					
Transfer in	25,000	1,708,547		1,674,000	3,407,547
Transfer out		(1,674,000)		(1,733,547)	(3,407,547)
Total other financing sources (uses)	<u>25,000</u>	<u>34,547</u>		<u>(59,547)</u>	
NET CHANGE IN FUND BALANCE	9,346,467	3,390,134	6,719,002	(536,206)	18,919,397
Fund balance, beginning of year - as previously reported					
	19,098,160	1,960,148	21,736,069	4,314,776	47,109,153
Restatement	(133,084)				(133,084)
Fund balance, beginning of year as restated	<u>18,965,076</u>	<u>1,960,148</u>	<u>21,736,069</u>	<u>4,314,776</u>	<u>46,976,069</u>
FUND BALANCE, END OF YEAR	<u>\$ 28,311,543</u>	<u>\$ 5,350,282</u>	<u>\$ 28,455,071</u>	<u>\$ 3,778,570</u>	<u>\$ 65,895,466</u>

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

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
Reconciliation of the Statements of Revenues, Expenditures and Charges in Fund Balances to the Government-Wide
Statement of Activities - Governmental Activities
For the Year Ended June 30, 2019

Net change in fund balance - total governmental funds	\$ 18,919,397
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 inflows at the end of the prior year were included as revenues in the Statement of Activities.	34,887
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.	
Purchase of capital assets	434,372
Depreciation expense	(8,021,925)
Governmental funds report bond proceeds as current financial resources. In contrast, the Statement of Activities reports 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 reports such repayments as a reduction in long-term liabilities. This is the amount by which proceeds exceeded repayments.	13,105,932
Interest expenses reported in the Government-wide Statement of Activities do not require the use of current financial resources and therefore are not shown as expenditures in the governmental funds. This amount represents capitalized interest.	(2,863,717)
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 net pension liability	(1,291,486)
Change in compensated absences	16,119
Change in deferred outflows/inflows of resources	818,584
Change in net position of governmental activities	\$ 21,152,163

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

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
Statements of Net Position
Proprietary Funds
June 30, 2019

	Major Funds				
	Water	Wastewater	Stormwater	Developer	Total
ASSETS					
Current assets:					
Cash and investments	\$ 3,568,715	\$ 3,913,900	\$ 2,677,575	\$ 1,501,901	\$ 11,662,091
Accounts receivable	807,010	544,390	159,872	2,702,770	4,214,042
Prepaid expenses				7,185	7,185
Interest receivable	6,955		13,447		20,402
Total current assets	<u>4,382,680</u>	<u>4,458,290</u>	<u>2,850,894</u>	<u>4,211,856</u>	<u>15,903,720</u>
Non-current assets:					
Restricted cash and investments	2,607,744	3,363,939	1,225,188		7,196,871
Restricted interest receivable	2,323	1,798	363		4,484
Capital assets					
Non-depreciable	984,200	1,620,100			2,604,300
Depreciable, net of accumulated depreciation	<u>95,360,578</u>	<u>48,119,954</u>	<u>21,827,593</u>		<u>165,308,125</u>
Total capital assets, net	<u>96,344,778</u>	<u>49,740,054</u>	<u>21,827,593</u>		<u>167,912,425</u>
Total non-current assets	<u>98,954,845</u>	<u>53,105,791</u>	<u>23,053,144</u>		<u>175,113,780</u>
TOTAL ASSETS	<u>103,337,525</u>	<u>57,564,081</u>	<u>25,904,038</u>	<u>4,211,856</u>	<u>191,017,500</u>
DEFERRED OUTFLOWS					
Pension plan	<u>370,894</u>	<u>316,781</u>	<u>97,543</u>		<u>785,218</u>
LIABILITIES					
Current liabilities:					
Accounts payable	116,469	284,708	19,163	649,517	1,069,857
Accrued interest payable	54,361	42,471	13,503		110,335
Due to other funds	24,872			1,612,540	1,637,412
Unearned revenue		2,604,508		1,946,976	4,551,484
Deposits from others	300,327				300,327
Bonds, notes and loans payable, current portion	2,607,288	2,067,074	666,990		5,341,352
Total current liabilities	<u>3,103,317</u>	<u>4,998,761</u>	<u>699,656</u>	<u>4,209,033</u>	<u>13,010,767</u>
Long-term liabilities:					
Advances from other funds	5,500,113	5,408,323	347,607		11,256,043
Bonds, notes and loans payable	127,935,114	65,921,871	20,421,586		214,278,571
Net pension liability	1,092,930	938,817	288,998		2,320,745
Total long-term liabilities	<u>134,528,157</u>	<u>72,269,011</u>	<u>21,058,191</u>		<u>227,855,359</u>
TOTAL LIABILITIES	<u>137,631,474</u>	<u>77,267,772</u>	<u>21,757,847</u>	<u>4,209,033</u>	<u>240,866,126</u>
DEFERRED INFLOWS					
Pension plan	<u>42,280</u>	<u>35,875</u>	<u>11,050</u>		<u>89,205</u>
NET POSITION					
Net investment in capital assets	(937,399)	4,964,195	7,943,387		11,970,183
Restricted for:					
Debt service	2,610,067	3,365,737	1,225,551		7,201,355
Unrestricted	<u>(35,638,003)</u>	<u>(27,752,717)</u>	<u>(4,936,254)</u>	<u>2,823</u>	<u>(68,324,151)</u>
TOTAL NET POSITION	<u>\$ (33,965,335)</u>	<u>\$ (19,422,785)</u>	<u>\$ 4,232,684</u>	<u>\$ 2,823</u>	<u>\$ (49,152,613)</u>

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

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
Statements of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2019

	Major Funds				
	Water	Wastewater	Stormwater	Developer	Total
OPERATING REVENUES					
Charges for services	\$ 3,016,114	\$ 2,278,499	\$ 621,579	\$ 4,390,829	\$ 10,307,021
Charges for services - pledged	3,585,549	2,568,168	898,716		7,052,433
Penalty charges and other	277,941		459,558		737,499
TOTAL OPERATING REVENUES	<u>6,879,604</u>	<u>4,846,667</u>	<u>1,979,853</u>	<u>4,390,829</u>	<u>18,096,953</u>
OPERATING EXPENSES					
Salaries and benefits	563,946	464,246	145,892	649,209	1,823,293
Professional and special services	1,247,464	881,065	221,315	3,742,867	6,092,711
Utilities	992,260	269,441			1,261,701
Chemicals	143,793	103,359			247,152
Maintenance	260,004	504,353	74,000		838,357
Depreciation	2,546,364	1,369,905	594,475		4,510,744
TOTAL OPERATING EXPENSES	<u>5,753,831</u>	<u>3,592,369</u>	<u>1,035,682</u>	<u>4,392,076</u>	<u>14,773,958</u>
OPERATING INCOME (LOSS)	<u>1,125,773</u>	<u>1,254,298</u>	<u>944,171</u>	<u>(1,247)</u>	<u>3,322,995</u>
NON-OPERATING REVENUES (EXPENSES)					
Interest and investment revenue	46,809	16,413	47,757	245	111,224
Interest expense	(4,092,401)	(2,209,643)	(688,686)		(6,990,730)
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(4,045,592)</u>	<u>(2,193,230)</u>	<u>(640,929)</u>	<u>245</u>	<u>(6,879,506)</u>
CHANGE IN NET POSITION	<u>(2,919,819)</u>	<u>(938,932)</u>	<u>303,242</u>	<u>(1,002)</u>	<u>(3,556,511)</u>
Net position, beginning of year					
as previously reported	(30,789,892)	(18,779,990)	3,836,871	3,825	(45,729,186)
Restatement	(255,624)	296,137	92,571		133,084
Net position, beginning of year as restated	<u>(31,045,516)</u>	<u>(18,483,853)</u>	<u>3,929,442</u>	<u>3,825</u>	<u>(45,596,102)</u>
TOTAL NET POSITION, END OF YEAR	<u>\$ (33,965,335)</u>	<u>\$ (19,422,785)</u>	<u>\$ 4,232,684</u>	<u>\$ 2,823</u>	<u>\$ (49,152,613)</u>

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

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
Statements of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2019

	Business-type Activities - Enterprise Funds				
	Water	Wastewater	Stormwater	Developer	Total
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from customers	\$ 6,854,750	\$ 6,582,445	\$ 1,976,544	\$ 5,032,281	\$ 20,446,020
Cash paid to suppliers	(4,064,487)	(2,619,049)	(615,752)	(4,948,600)	(12,247,888)
Cash paid to employees	652,805	538,229	168,704	649,209	2,008,947
CASH PROVIDED BY OPERATING ACTIVITIES	<u>3,443,068</u>	<u>4,501,625</u>	<u>1,529,496</u>	<u>732,890</u>	<u>10,207,079</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Due to other funds	24,872			(286,757)	(261,885)
Advances received	72,613	63,355			135,968
CASH PROVIDED (USED) BY NONCAPITAL AND RELATED FINANCING ACTIVITIES	<u>97,485</u>	<u>63,355</u>		<u>(286,757)</u>	<u>(125,917)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Principal paid on long term debt	(2,147,478)	(1,657,085)	(548,747)		(4,353,310)
Interest paid on long term debt	(675,671)	(519,274)	(167,871)		(1,362,816)
CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(2,823,149)</u>	<u>(2,176,359)</u>	<u>(716,618)</u>		<u>(5,716,126)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest received	41,160	18,653	40,733	2,281	102,827
INCREASE IN CASH AND CASH EQUIVALENTS	<u>758,564</u>	<u>2,407,274</u>	<u>853,611</u>	<u>448,414</u>	<u>4,467,863</u>
Cash and cash equivalents, beginning of year (as restated)	5,417,895	4,870,565	3,049,152	1,053,487	14,391,099
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 6,176,459</u>	<u>\$ 7,277,839</u>	<u>\$ 3,902,763</u>	<u>\$ 1,501,901</u>	<u>\$ 18,858,962</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION:					
Cash and investments	\$ 3,568,715	\$ 3,913,900	\$ 2,677,575	\$ 1,501,901	\$ 11,662,091
Restricted cash and investments	2,607,744	3,363,939	1,225,188		7,196,871
CASH AND INVESTMENTS	<u>\$ 6,176,459</u>	<u>\$ 7,277,839</u>	<u>\$ 3,902,763</u>	<u>\$ 1,501,901</u>	<u>\$ 18,858,962</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:					
Operating income (loss)	\$ 1,125,773	\$ 1,254,298	\$ 944,171	\$ (1,247)	\$ 3,322,995
Adjustments to reconcile operating income (loss) to cash provided by operating activities:					
Depreciation	2,546,364	1,369,905	594,475		4,510,744
(Increase) decrease in accounts receivable	(86,631)	(12,659)	(3,309)	641,452	538,853
(Increase) decrease in prepaid expenses				(7,185)	(7,185)
(Increase) decrease in deferred outflows	(177,840)	(148,070)	(45,654)		(371,564)
Increase (decrease) in accounts payable	(293,074)	67,661	(28,653)	189,149	(64,917)
Increase (decrease) in unearned revenue		1,748,437		(89,279)	1,659,158
Increase (decrease) in deposits from others	61,777				61,777
Increase (decrease) in net pension liability	242,673	202,049	62,298		507,020
Increase (decrease) in deferred inflows	24,026	20,004	6,168		50,198
CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 3,443,068</u>	<u>\$ 4,501,625</u>	<u>\$ 1,529,496</u>	<u>\$ 732,890</u>	<u>\$ 10,207,079</u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES					
Finance charge added to pledged notes payable balance	\$ 3,408,280	\$ 1,684,270	\$ 519,049	\$ -	\$ 5,611,599

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS

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MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

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 under Section 61000-61850 of the Government Code of 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.

The District provides general government, public safety, public ways and facilities, recreation and culture, water, wastewater, and storm drain services. Police services are provided through contracts with the County of San Joaquin and a private security company. Fire services are provided through contract with French Camp McKinley Rural Fire Protection District. Development inspections and plan checks are provided by the County of San Joaquin.

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. 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.

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

June 30, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. All of the District’s funds are considered major funds.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund’s principal ongoing operations. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities. All revenues and expenses not meeting the definition of operating revenues and expenses are reported as nonoperating.

The District reports the following major governmental funds:

- The General Fund is the general operating fund of the District. It is used to account for all financial resources and transactions except those required to be accounted for in another fund. It includes certain special accounts that are used to accumulate resources for designated purposes.
- The Special Assessments Special Revenue 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 and assessments from two landscaping and lighting districts as follows:
 - Ordinance No. 96-1 – Transportation, Operations and Administration: Provides funding for capital and operating costs, including administrative costs, of providing public transportation, including, but not limited to, construction and maintenance of streets and roads rights of way, bus service and equipment and facilities, train station facilities, and programs for the provision of public transportation, including, but not limited to, such items as programs for transportation demand management and alternative transportation programs. Funding is also available for operational and administrative functions of the District to the extent these latter functions are not funded from other sources.
 - Ordinance No. 96-2 – Public Safety Services: Provides funding for capital and operating costs, including administrative costs, of providing public safety services, including, but not limited to, fire protection, weed and pest abatement, police, ambulance services, security services, graffiti abatement, and animal control, and other programs for the provision of public safety services.
 - Ordinance No. 96-3 – Parks, Recreation, and Community Facilities Services: Provides funding for capital and operating costs, including administrative costs, of providing parks, recreation and community facilities and services, including, but not limited to, public recreation activities and facilities, landscaping, wildlife habitat and open space, information services, library services, public events, and the administration and enforcement of community covenants, conditions and restrictions.

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

June 30, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Ordinance No. 96-4 – Public Works: Provides funding for capital and operating costs, including administrative costs, of providing public works services, including, but not limited to, flood control and prevention, stormwater and drainage, sewer services, water services, street lighting, utility undergrounding, and telecommunications services.
- Mountain House Community Services District Consolidated Landscape Maintenance Assessment District No. 2016 (District No. 2016): Established under the provisions of the Landscaping and Lighting Act of 1972 to maintain landscaping and lighting improvements in Zone 1, Neighborhood D.
- Mountain House Community Services District Consolidated Landscape Maintenance Assessment District No. 2008-1 (District No. 2008-1): Established under the provisions of the Landscaping and Lighting Act of 1972 to maintain landscaping and lighting improvements in Zone 1, Neighborhood H.
- The Impact Fees Special Revenue 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 Capital Projects 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.
- The Developer Fund is used to account for financial resources used and expended for new developments.

Basis of Accounting: The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, special assessments and franchise fees. On an accrual basis, revenue from property taxes, special assessments and franchise fees is recognized in the fiscal year for which the taxes are levied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available (“susceptible to accrual”). The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after the end of the accounting period so as to be measurable and available. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as

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

June 30, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

expenditures related to compensated absences and claims and judgments are recorded only when payment is due. General capital assets acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

Expenditures in the Special Assessment Special Revenue Fund are categorized consistently with the requirements of the related Ordinance. This results in general government expenditures being categorized with related expenditures rather than being reported separately as in the government-wide statements.

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 original 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 Statements of 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	Total
Receivables	\$ 824,848	\$ 558,885	\$ 163,916	\$ 2,702,770	\$ 4,250,419
Less: Allowance for uncollectible accounts	(17,838)	(14,495)	(4,044)		(36,377)
Ending balance	<u>\$ 807,010</u>	<u>\$ 544,390</u>	<u>\$ 159,872</u>	<u>\$ 2,702,770</u>	<u>\$ 4,214,042</u>

The District reports unearned revenue on its financial statements. Unearned revenues arise when the District receives resources before it has a legal claim to them, including developer deposits for plan checks and inspections, a police station, roads and a water treatment plant extension that are not considered earned until the permit is pulled. 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 and investments consist of debt service reserves as well as accumulated pledged revenue restricted accounts containing the portion of the utility bills that are pledged for repayment of the revenue bonds and the pledged notes payable.

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

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

June 30, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets: Capital assets (including infrastructure) are recorded at historical cost 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. Donated capital assets are recorded at the acquisition value, which is the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date. 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 capital 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. 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 expensed when incurred.

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

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

June 30, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2019 was 3.127%. 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 rates are 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 report net position. Net position are categorized as the net investment in capital assets, restricted and unrestricted. These categories are described on the following page:

- 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. The net investment in capital assets in the Water Enterprise Fund is negative due to the principal on pledged notes payable being paid slower than the capital assets are depreciated.

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

June 30, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- 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 a resolution 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. The District's committed fund balance in the General Fund represents an amount committed for the construction of an aquatic center.
- 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.

Excess Expenditures Over Appropriations: Expenditures for the Impact Fees Special Revenue Fund exceeded appropriations by \$7,155,932. The expenditures exceeded the budget due to impact fees collected exceeding the budget, which resulted in additional expenditures being required under the related agreements. The budget was not amended for these additional required expenditures.

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

June 30, 2019

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 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.

In June 2017, the GASB issued Statement No. 87, *Leases*. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this Statement. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. This Statement improves the information that is disclosed in the notes to government financial statements and clarifies which liabilities governments should include when disclosing information related to debt. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences and significant subjective acceleration clauses. For notes to the financial statement there is a requirement that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for the reporting periods beginning after June 15, 2018.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This Statement enhances disclosures about capital assets and the cost of

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

June 30, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

borrowing for a reporting period and simplifies the accounting for interest cost incurred before the end of a construction period. Interest cost incurred before the end of a construction period will be recognized as an expense rather than being recorded as part of the cost of capital assets in a business-type activity or enterprise fund and interest cost incurred by a fund using the current financial resources measurement focus before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for the reporting periods beginning after December 15, 2018.

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, 2019 are classified in the accompanying financial statements as follows:

	Governmental Activities	Business-type Activities	Total
Cash and investments	\$ 58,597,717	\$ 11,662,091	\$ 70,259,808
Restricted cash and investments		7,196,871	7,196,871
	\$ 58,597,717	\$ 18,858,962	\$ 77,456,679

At June 30, 2019, the District’s total cash and investments at fair value were as follows:

Cash:	
Cash on hand	\$ 5,300
Deposits in financial institutions	4,101,681
Total cash	4,106,981
Investments:	
Investment in County of San Joaquin Treasury	66,375,768
Money market mutual fund	2,908,935
Certificates of deposit	1,734,539
Medium term corporate notes	2,330,456
Total investments	73,349,698
Total cash and investments	\$ 77,456,679

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 and investments are deposited in the County of San Joaquin 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 County of San Joaquin Treasury Oversight Committee (Committee) has oversight responsibility for the County of San Joaquin’s cash and investment pool. The Committee consists of ten members as required by state law. The value of the pooled shares in the County of San Joaquin that may

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

June 30, 2019

NOTE B – CASH AND INVESTMENTS (Continued)

be withdrawn is determined on an amortized cost basis, which is different than 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 withdraw funds.

The District's cash and investments are stated at fair value at June 30, 2019, 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 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 districts 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	100%	None
California State Warrants on Bonds	5 years	None	None
Bankers acceptances	180 days	40%	30%
High grade commercial paper	270 days	30%	10%
Negotiable certificates of deposit	1 year	30%	None
Medium term corporate notes	3 years	30%	None
Mutual funds	N/A	20%	None
Specific securities	5 years	Per approval	Per approval
LAIF	N/A	None	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.

Interest Rate Risk: Interest rate risk is the risk in the market rate changes that could adversely affect the fair values of an investment. In general, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways the District manages its exposure to interest rate risk is by purchasing a combination of shorter and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

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

June 30, 2019

NOTE B – CASH AND INVESTMENTS (Continued)

	Total	Remaining Investment Maturities			Weighted Average Maturity
		12 Months or Less	12 to 36 Months	36 to 60 Months	
Investment in County of San Joaquin Treasury	\$66,375,768	\$66,375,768			395 days
Money market mutual funds	2,908,935	2,908,935			30 days
Certificates of deposit	1,734,539		\$ 745,899	\$ 988,640	N/A
Medium term corporate notes	2,330,456		1,272,262	1,058,194	N/A
Total	\$73,349,698	\$69,284,703	\$ 2,018,161	\$ 2,046,834	

Credit Risk: Generally, credit risk is the risk that the issuer of an investment will not fulfill its obligation to the holder of the investment. 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, the District’s investment policy, or debt agreements, and the actual rating as of year-end for each investment type as of June 30, 2019.

	Total	Minimum Legal Rating	Minimum Rating				Not Rated
			AAA	A	A-	BBB+	
Investment in County of San Joaquin Treasury	\$66,375,768	N/A					\$66,375,768
Money market mutual fund	2,908,935	A	\$ 2,908,935				
Certificates of deposit	1,734,539	N/A					1,734,539
Medium term corporate notes	2,330,456	A		\$ 499,809	788,039	\$ 1,042,608	
Total	\$73,349,698		\$2,908,935	\$ 499,809	\$ 788,039	\$ 1,042,608	\$68,110,307

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, 2019, the carrying amount and the bank balance of the District’s deposits was \$4,101,681. The District had balances of \$3,851,679 above the federally insured limit of \$250,000, which were secured by a pledge of the financial institution’s securities, but not in the name of the District.

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.

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, 2019, 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.

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

June 30, 2019

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 the following recurring fair value measurements as of June 30, 2019:

	Total	Level		
		1	2	3
Money market mutual fund	\$ 2,908,935		\$ 2,908,935	
Certificates of deposit	1,734,539		1,734,539	
Medium term corporate notes	2,330,456		2,330,456	
	6,973,930	\$ -	\$ 6,973,930	\$ -
Investments not categorized:				
Investment in County of San Joaquin Treasury	66,375,768			
Total	\$ 73,349,698			

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. Due to/from other funds consisted of the following at June 30, 2019:

Receivable Fund	Payable Fund	Amount
General Fund	Water Enterprise Fund	\$ 24,872
General Fund	Developer Enterprise Fund	1,612,540
		\$ 1,637,412

Advances to/from other funds: Advances to and from other funds consisted of the following at June 30, 2019:

Receivable Fund	Payable Fund	Amount
General Fund	Water Enterprise Fund	\$ 5,500,113 (a)
	Wastewater Enterprise Fund	5,408,323 (a)
	Stormwater Enterprise Fund	347,607 (a)
	Special Assessments Special Revenue Fund	1,782,000 (b)
Impact Special Revenue Fees Fund		\$ 13,038,043

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

June 30, 2019

NOTE C – INTERFUND TRANSACTIONS (Continued)

- (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.
- (b) The Impact Fees Special Revenue Fund advanced funds to the Special Assessments Special Revenue Fund to purchase Fire Station 98. The 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 2015/16. Interest accrues annually on June 30 on the outstanding loan balance at the variable rates based on the Local Agency Investment Fund. Interest of \$47,110 was paid during the year ended June 30, 2019.

Transfer in/out: Interfund transfers for the year ended June 30, 2019 were as follows:

Transfer In	Transfer Out	Amount
General Fund	Capital Projects Fund	\$ 25,000 (a)
Special Assessments Special Revenue Fund	Capital Projects Fund	1,708,547 (b)
Capital Projects Fund	Special Assessments Special Revenue Fund	1,674,000 (c)
		\$ 3,407,547

- (a) The transfer to the General Fund is for board room information technology improvements.
- (b) The transfer to the Special Assessment Fund is for monies that were determined to be not needed by the Capital Project Fund due to projects being suspended or cancelled.
- (c) The transfer to the Capital Projects Fund is for future construction projects under the five-year CIP plan.

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

June 30, 2019

NOTE D – CAPITAL ASSETS

Capital assets at June 30, 2019 consisted of the following:

	Balance at June 30, 2018	Additions	Deletions	Balance at June 30, 2019
<u>Governmental Activities</u>				
Capital assets, not being depreciated:				
Land	\$ 28,041,500			\$ 28,041,500
Total capital assets, not being depreciated	28,041,500			28,041,500
Capital assets, being depreciated:				
Equipment and furnishings	1,486,142	\$ 434,372		1,920,514
Buildings	2,980,098			2,980,098
Infrastructure	194,081,518			194,081,518
Total capital assets, being depreciated	198,547,758	434,372		198,982,130
Less accumulated depreciation for:				
Equipment and furnishings	(796,290)	(138,760)		(935,050)
Buildings	(298,010)	(119,204)		(417,214)
Infrastructure	(97,250,975)	(7,763,961)		(105,014,936)
Total accumulated depreciation	(98,345,275)	(8,021,925)		(106,367,200)
Capital assets being depreciated, net	100,202,483	(7,587,553)		92,614,930
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	\$ 128,243,983	\$ (7,587,553)	\$ -	\$ 120,656,430
	Balance at June 30, 2018	Additions	Deletions	Balance at June 30, 2019
<u>Business-Type Activities</u>				
Capital assets, not being depreciated:				
Land	\$ 2,604,300			\$ 2,604,300
Total capital assets, not being depreciated	2,604,300			2,604,300
Capital assets, being depreciated:				
Equipment	1,063,086			1,063,086
Other property	224,195,361			224,195,361
Total capital assets, being depreciated	225,258,447			225,258,447
Less accumulated depreciation for:				
Equipment	(967,156)	\$ (26,835)		(993,991)
Other property	(54,472,422)	(4,483,909)		(58,956,331)
Total accumulated depreciation	(55,439,578)	(4,510,744)		(59,950,322)
Capital assets being depreciated, net	169,818,869	(4,510,744)		165,308,125
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	\$ 172,423,169	\$ (4,510,744)	\$ -	\$ 167,912,425

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

June 30, 2019

NOTE D – CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental functions as follows:

General government	\$ 7,638
Public safety	222,394
Public ways	6,862,028
Culture and recreation	<u>929,865</u>
Total Governmental Activities	<u><u>\$ 8,021,925</u></u>

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

Water	\$ 2,546,364
Wastewater	1,369,905
Stormwater	<u>594,475</u>
Total Business-type Activities	<u><u>\$ 4,510,744</u></u>

NOTE E – LONG-TERM LIABILITIES

The following is a summary of long-term debt of the District for the year ended June 30, 2019:

	<u>Maturity</u>	<u>Interest Rates</u>	<u>Principal Installments</u>	<u>Date of Issue</u>	<u>Amount Authorized</u>	<u>Outstanding June 30, 2019</u>
<u>Governmental Activities Debt</u>						
Pledged notes payable <i>(to acquire infrastructure from developers)</i>	None	Agreement based	Based on impact fee receipts	Various	<u>\$ 132,401,349</u>	<u>\$ 99,125,520</u>
<u>Business-type Activities Debt</u>						
Utility Systems Revenue Bonds, Series 2007 <i>(to refinance the acquisition and construction of water, wastewater, and storm drain improvements)</i>	2033	4.0% - 5.2%	\$430,000-\$1,680,000	2007	\$ 24,365,000	\$ 17,315,000
Utility Systems Revenue Bonds, Series 2011 <i>(to refinance the acquisition and construction of water, wastewater, and storm drain improvements)</i>	2036	2.00% - 5.75%	\$100,000 - \$2,200,000	2011	10,000,000	8,345,000
Pledged notes payable <i>(to acquire water, wastewater, and storm drain infrastructure and utilities)</i>	None	Agreement based	Based on utility revenue receipts	Various	<u>194,268,479</u>	<u>194,268,478</u>
Total Business-type Activities					<u><u>\$ 228,633,479</u></u>	<u><u>\$ 219,928,478</u></u>

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

June 30, 2019

NOTE E – LONG-TERM LIABILITIES (Continued)

The following is a summary of long-term liabilities transactions for the year ended June 30, 2019:

	Balance June 30, 2018	Additions	Retirements	Balance June 30, 2019	Amounts Due Within One Year
<u>Governmental Activities</u>					
Direct borrowing:					
Pledged notes payable	\$ 109,367,735	\$ 2,863,717	\$ (13,105,932)	\$ 99,125,520	\$ 4,381,960
Compensated absences	239,696	364,263	(380,382)	223,577	190,076
Pension liability	3,857,307	2,139,035	(847,549)	5,148,793	
Total governmental activities long-term liabilities	<u>\$ 113,464,738</u>	<u>\$ 5,367,015</u>	<u>\$ (14,333,863)</u>	<u>\$ 104,497,890</u>	<u>\$ 4,572,036</u>
<u>Business-type Activities</u>					
Revenue bonds	\$ 26,605,000		\$ (945,000)	\$ 25,660,000	\$ 990,000
Less discount	(328,158)		19,604	(308,554)	
Direct borrowing:					
Pledged notes payable	192,065,188	\$ 5,611,599	(3,408,310)	194,268,477	4,351,352
Pension liability	1,813,725	839,757	(332,737)	2,320,745	
Total business-type activities long-term liabilities	<u>\$ 220,155,755</u>	<u>\$ 6,451,356</u>	<u>\$ (4,666,443)</u>	<u>\$ 221,940,668</u>	<u>\$ 5,341,352</u>

Payment Requirements for Debt Service: Due to the unknown amount and timing of future debt payments on the pledged notes payable, the future maturity schedules for these payables are not available. As of June 30, 2019, annual debt service requirements of the revenue bonds to maturity are as follows:

Year Ending June 30:	Business-type Activities		
	Principal	Interest	Total
2020	\$ 990,000	\$ 1,315,921	\$ 2,305,921
2021	1,035,000	1,265,933	2,300,933
2022	1,090,000	1,213,244	2,303,244
2023	1,140,000	1,157,485	2,297,485
2024	1,205,000	1,098,435	2,303,435
2025-2029	6,975,000	4,494,275	11,469,275
2030-2034	8,940,000	2,473,978	11,413,978
2035-2036	4,285,000	249,694	4,534,694
Totals	<u>\$ 25,660,000</u>	<u>\$ 13,268,965</u>	<u>\$ 38,928,965</u>

Default Provisions: The revenue bonds contain default provisions that allow the trustee to call the revenue bonds principal and interest immediately due and payable if the bonds remain past due more than 30 days after the District is provided a notice of default by the trustee.

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

June 30, 2019

NOTE E – LONG-TERM LIABILITIES (Continued)

Pledged Revenues: The District has pledged utility revenues in enterprise funds 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. The District has a rate covenant under the agreement to collect revenues from the water, wastewater and stormwater systems at least equal to 110% of annual debt service payments allocated to those systems. Total principal and interest remaining on the revenue bonds was \$38,928,965 at June 30, 2019, which is payable through December 2036. Total principal and finance charges accrued through June 30, 2019 on the pledged notes payable was \$194,268,478 at June 30, 2019. For the year ended June 30, 2019, principal and interest paid on the revenue bonds was \$945,000 and \$1,363,491, respectively.

Payments totaling \$3,408,310 were made during the year on the enterprise fund pledged notes payable. Additions represent finance charges accrued at the ENR index rate as described in Note A. Total pledged utility revenues for the fiscal year ended June 30, 2019 was \$7,052,433, which represents 100% of the revenue pledged for repayment of the revenue bonds and the pledged notes payable.

In addition, the District has pledged governmental activity 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 at the ENR index rate through June 30, 2019 on these pledged notes payable were \$99,125,520. Payments totaling \$13,105,932 were made during the year on the pledged notes payable. Total pledged revenue for the fiscal year end June 30, 2019 was \$19,102,956, 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, 2019, does not expect to incur a liability.

NOTE F – NET POSITION DESIGNATION

Designations of unrestricted net position may be imposed by the Board of Directors to reflect future spending plans or concerns about the availability of future resources. Designations may be modified, amended or removed by Board action. As of June 30, 2019, the Board has designated \$650,000 for contingency funding in the event of the need to make emergency water supply purchases.

NOTE G – 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 June 2020, but the District expects to terminate the library lease as February 2020. The future minimum lease obligations for the year ended June 30, 2020 are \$268,723. Total rent expenditures for the year ended June 30, 2019 were \$391,614.

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

June 30, 2019

NOTE H – PENSION PLAN

Plan Description: All qualified permanent and probationary employees are eligible to participate in the District’s cost-sharing multiple employer defined benefit pension plan 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.

The Plan provisions and benefits in effect at June 30, 2019, 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 - 2019	4.43% - 8.85%	9.21%
Required employer contribution rates - 2019	41.78%	35.39%

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, 2019, the contributions recognized as part of pension expense for the Plan were \$776,891.

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

June 30, 2019

NOTE H – PENSION PLAN (Continued)

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources: As of June 30, 2019, the District reported a net pension liability for its proportionate share of the net pension liability in the amount of \$7,469,538.

The net pension liability as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2018 rolled forward to December 31, 2018 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 plan relative to the projected contributions of all participating employers, as actuarially determined. The District’s proportionate share of the net pension liability for the Plan as of the December 31, 2018 and 2017 measurement date was as follows:

Proportion - December 31, 2017	0.3585%
Proportion - December 31, 2018	0.4017%
Change - Increase (Decrease)	0.0432%

For the year ended June 30, 2019, the District recorded pension expense of \$658,557. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to the Plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 408,259	
Changes in assumptions	403,778	
Change in employer's proportion	943,486	
Differences between the employer's contribution and the employer's proportionate share of contributions		\$ (192,634)
Net differences between projected and actual earnings on plan investments	818,982	
Differences between actual and expected experience		(106,019)
Total	\$ 2,574,505	\$ (298,653)

The amount reported as deferred outflows of resources related to contributions subsequent to the measurement date above will be recognized as a reduction of the net pension liability in the subsequent fiscal year. 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	
2020	\$ 678,162
2021	532,261
2022	317,214
2023	339,956
	\$ 1,867,593

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

June 30, 2019

NOTE H – PENSION PLAN (Continued)

Actuarial Assumptions: The total pension liability in the January 1, 2018 actuarial valuation for the Plan was determined using the following actuarial assumptions:

Valuation Date	January 1, 2018
Measurement Date	December 31, 2018
Actuarial Cost Method	Entry-Age Normal Cost Method
<u>Actuarial Assumptions:</u>	
Inflation	2.90%
Amortization Growth Rate	3.15%
Salary Increases	3.15% plus merit component
Cost of Living Salary Increase	2.60%
Investment Rate of Return	7.25% (1)
Mortality	Post-Retirement mortality: Gender distinct tables from CALPERS' 2013 experience study with generational mortality improvements projected from 2009 using Projection Scale MP-2015.

Discount Rate: The discount rate used to measure the total pension liability was 7.25% as of the December 31, 2018 measurement date. 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, 2018.

Change of Assumption: The discount rate assumption was lowered from 7.40% to 7.25% since the prior valuation. No other assumption changes were made.

The table below reflects the long-term expected real rate of return by asset class for the Plan. 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)
Global Public Equities	30.00%	9.15%
Stable Fixed Income	10.00%	4.45%
Credit	14.00%	7.45%
Risk Parity	14.00%	6.55%
Private Appreciation	12.00%	9.75%
Crisis Risk Offset (CRO)	20.00%	5.50%
Short Term Investments/Cash/Cash Equivalents	0.00%	3.15%
Total	100.0%	

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

June 30, 2019

NOTE H – PENSION PLAN (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	6.25%
Net Pension Liability	\$ 10,027,797
Current Discount Rate	7.25%
Net Pension Liability	\$ 7,469,538
1% Increase	8.25%
Net Pension Liability	\$ 5,368,962

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

Payable to the Pension Plan: As of June 30, 2019, the District reported payables for the outstanding amount of employer contributions to the Plan of \$17,724.

NOTE I – 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; and natural disasters for which the District participates in the Special District Risk Management Authority (SDRMA) Property and Liability Insurance Program for risk of loss. The program provides general liability, property, commercial auto, boiler and machinery, employment practices, employee dishonesty coverage, employment benefits liability, public official errors and omissions and public official personal liability insurance coverage.

SDRMA is composed of California public entities and is organized under a joint powers agreement pursuant to California Government Code Section 6500 et seq. The purpose of SDRMA is to arrange and administer programs for the pooling of self-insured losses, to purchase excess insurance or reinsurance, and to arrange for group-purchased insurance and administrative services.

The District paid no material uninsured losses during the last three fiscal years and had no significant reductions in coverage during the year. Liabilities of the District are reported when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated. The District considers claims incurred and reported, as well as claims incurred but not reported, to be immaterial and has not accrued an estimate of such claims payable.

The District’s maximum coverage as of June 30, 2019 consisted of \$2.5 million for general liability, including bodily injury, property damage, employee benefits, employee/public officials E&O and dishonesty, employment practices liability and auto bodily injury and property damage and \$0.5 million for public officials personal. The District has property coverage of \$1 billion and boiler, machinery coverage of \$100 million as well as \$2 million for pollution. Workers compensation coverage includes \$5,000,000 for employers liability and the statutory limit for workers’ compensation.

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

June 30, 2019

NOTE I – RISK MANAGEMENT (Continued)

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 J – FUND BALANCE/NET POSITION DEFICIT

The following funds had deficit net position at June 30, 2019:

	Deficit Amount
Water	\$ 33,965,335
Wastewater	19,422,785

The deficit in these funds are expected to be eliminated in the future through increased charges for services revenues as the number of water and wastewater connections increase.

NOTE K – 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 fire 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 annual fee for year ended June 30, 2019 was \$2,148,620.

The District is party to legal actions that arose in the normal operation of business. Management of the District believes that the legal actions will not have a material adverse impact on the financial position of the District.

The District had the following unexpended contractual commitments as of June 30, 2019:

Altomont-Bethany Pavement Repair	\$ 1,424,755
Code Compliance Consulting	217,850
Water Master Plan Update	128,600
Recycled Water Permit	103,605
Town Hall: Library Security Consultant	68,575
Playground & Sport Court Design	46,800
	\$ 1,990,185

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

June 30, 2019

NOTE L – RESTATEMENTS

The District discovered certain errors as of July 1, 2018 that were corrected during the year ended June 30 2019 due to utility deposits being recorded solely in the Water Fund, but being partially refunded by other funds as part of the lockbox fee allocation. Changes due to the correction of the error were as follows:

	Governmental Activities	Business-Type Activities
Net position as of July 1, 2018, as previously reported	\$ 62,670,544	\$ (45,729,186)
Restatement	(133,084)	133,084
Net position as of July 1, 2018, restated	\$ 62,537,460	\$ (45,596,102)

	General Fund
Fund balance as of July 1, 2018, as previously reported	\$ 19,098,160
Restatement	(133,084)
Fund balance as of July 1, 2018, restated	\$ 18,965,076

	Water Fund	Wastewater Fund	Stormwater Fund
Net position as of July 1, 2018, as previously reported	\$ (30,789,892)	\$ (18,779,990)	\$ 3,836,871
Restatement	(323,204)	246,440	76,764
Correct lockbox and bank fees not allocated to enterprise funds and accounted for solely in the General Fund	67,580	49,697	15,807
Total adjustments	(255,624)	296,137	92,571
Net position as of July 1, 2018, restated	\$ (31,045,516)	\$ (18,483,853)	\$ 3,929,442

Cash and cash equivalents in the statement of cash flows as of July 1, 2018 changed by the amounts on the total adjustments line in the table above due to the restatements.

NOTE M - SUBSEQUENT EVENT

On December 12, 2019, Stifel Investment Banking priced \$33,690,000 of Mountain House Financing Corporation Utility System Revenue Bonds (the Bonds) in two series, a \$25,185,000 Series 2019A and a \$8,505,000 Taxable Series 2019B. Bond proceeds will be used to fully refund the District's outstanding Utility Systems Revenue Bonds, Series 2007 and advance refund the full amount of the District's outstanding Utility Systems Revenue Bonds, Series 2011, as well as to provide \$10 million in new money to pay down notes payable used to acquire utility infrastructure from the original developer of the District and its successors. It is anticipated that the 2019A Bonds will generate a net present value savings of approximately \$2,034,434 or 12.37% of the refunded principal and the 2019 B Bonds will generate a net present value savings of \$1,618,551 or 19.67% of the refunded principal.

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REQUIRED SUPPLEMENTARY INFORMATION

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MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Year Ended June 30, 2019

	Budget Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 4,183,630	\$ 4,183,630	\$ 4,576,597	\$ 392,967
Licenses and permits	10,000	10,000	7,685	(2,315)
Franchise fees	845,000	845,000	1,024,749	179,749
Contributions from developers			4,000,000	4,000,000
Developer and impact fees	262,800	262,800	584,081	321,281
Investment earnings	65,500	65,500	345,317	279,817
Other revenues	48,960	48,960	402,238	353,278
TOTAL REVENUES	<u>5,415,890</u>	<u>5,415,890</u>	<u>10,940,667</u>	<u>5,524,777</u>
Expenditures				
Current:				
General government	299,791	297,291	286,548	10,743
Public ways and facilities	3,099,257	3,101,757	1,324,022	1,777,735
Capital outlay	2,500	2,500	8,630	(6,130)
TOTAL EXPENDITURES	<u>3,401,548</u>	<u>3,401,548</u>	<u>1,619,200</u>	<u>1,782,348</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>2,014,342</u>	<u>2,014,342</u>	<u>9,321,467</u>	<u>7,307,125</u>
OTHER FINANCING SOURCES (USES)				
Transfer in	1,782,803	1,782,803	25,000	(1,757,803)
Total other financing sources (uses)	<u>1,782,803</u>	<u>1,782,803</u>	<u>25,000</u>	<u>(1,757,803)</u>
NET CHANGE IN FUND BALANCE	3,797,145	3,797,145	9,346,467	5,549,322
Fund balance, beginning of year - as previously reported	19,098,160	19,098,160	19,098,160	
Restatement			(133,084)	(133,084)
Fund balance, beginning of year, as restated	<u>19,098,160</u>	<u>19,098,160</u>	<u>18,965,076</u>	<u>(133,084)</u>
FUND BALANCE, END OF YEAR	<u>\$ 22,895,305</u>	<u>\$ 22,895,305</u>	<u>\$ 28,311,543</u>	<u>\$ 5,416,238</u>

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
Special Assessments Special Revenue Fund
For the Year Ended June 30, 2019

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 9,721,275	\$ 9,721,275	\$ 10,555,005	\$ 833,730
Investment earnings	84,000	84,000	158,694	74,694
Other revenues	36,000	36,000	75,166	39,166
TOTAL REVENUES	<u>9,841,275</u>	<u>9,841,275</u>	<u>10,788,865</u>	<u>947,590</u>
Expenditures				
Current:				
General government	24,540	30,540		30,540
Public safety	4,024,900	4,052,900	3,994,712	58,188
Public ways and facilities	2,652,486	2,646,486	2,029,310	617,176
Recreation and culture	1,666,407	1,663,207	1,350,166	313,041
Debt service				
Interest and fiscal charges			47,110	
Capital outlay	26,000	38,000	11,980	26,020
TOTAL EXPENDITURES	<u>8,394,333</u>	<u>8,431,133</u>	<u>7,433,278</u>	<u>1,044,965</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	<u>1,446,942</u>	<u>1,410,142</u>	<u>3,355,587</u>	<u>1,992,555</u>
OTHER FINANCING SOURCES (USES)				
Transfer in		43,700	1,708,547	1,664,847
Transfer out	(1,674,000)	(1,674,000)	(1,674,000)	
Total other financing sources (uses)	<u>(1,674,000)</u>	<u>(1,630,300)</u>	<u>34,547</u>	<u>1,664,847</u>
NET CHANGE IN FUND BALANCE				
	(227,058)	(220,158)	3,390,134	3,610,292
Fund balance, beginning of year	<u>1,960,148</u>	<u>1,960,148</u>	<u>1,960,148</u>	
FUND BALANCE, END OF YEAR	<u><u>\$ 1,733,090</u></u>	<u><u>\$ 1,739,990</u></u>	<u><u>\$ 5,350,282</u></u>	<u><u>\$ 3,610,292</u></u>

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
Impact Fees Special Revenue Fund
For the Year Ended June 30, 2019

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues				
Developer and impact fees	\$ 8,550,000	\$ 8,550,000	\$ 19,102,956	\$ 10,552,956
Investment earnings	87,500	87,500	721,978	634,478
TOTAL REVENUES	<u>8,637,500</u>	<u>8,637,500</u>	<u>19,824,934</u>	<u>11,187,434</u>
Expenditures				
Debt service				
Principal	5,950,000	5,950,000	13,105,932	(7,155,932)
TOTAL EXPENDITURES	<u>5,950,000</u>	<u>5,950,000</u>	<u>13,105,932</u>	<u>(7,155,932)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>2,687,500</u>	<u>2,687,500</u>	<u>6,719,002</u>	<u>4,031,502</u>
OTHER FINANCING SOURCES (USES)				
Transfer in	346,860	346,860		(346,860)
Total other financing sources (uses)	<u>346,860</u>	<u>346,860</u>		<u>(346,860)</u>
NET CHANGE IN FUND BALANCE	3,034,360	3,034,360	6,719,002	3,684,642
Fund balance, beginning of year	<u>21,736,069</u>	<u>21,736,069</u>	<u>21,736,069</u>	
FUND BALANCE, END OF YEAR	<u>\$ 24,770,429</u>	<u>\$ 24,770,429</u>	<u>\$ 28,455,071</u>	<u>\$ 3,684,642</u>

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2019

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.

MOUNTAIN HOUSE COMMUNITY SERVICES DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2019

**SCHEDULE OF THE PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY (UNAUDITED)**

Last 10 Years

	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Proportion of the net pension liability	0.4017%	0.3585%	0.3385%	0.2869%	0.2931%
Proportionate share of the net pension liability	\$ 7,469,538	\$ 5,671,032	\$ 5,644,644	\$ 4,413,499	\$ 3,861,581
Covered payroll	\$ 1,990,698	\$ 1,757,812	\$ 1,527,861	\$ 1,303,509	\$ 1,273,202
Proportionate share of the net pension liability as a percentage of covered payroll	375.22%	322.62%	369.45%	338.58%	303.30%
Plan fiduciary net position as a percentage of the total pension liability	60.44%	64.54%	60.51%	61.07%	65.18%

Notes to Schedule:

Change in Benefit Terms: None

Changes in assumptions: The discount rate was changed from 7.40% to 7.25% from 2017 to 2018.

SCHEDULE OF CONTRIBUTIONS TO THE PENSION PLAN (UNAUDITED)

Last 10 Years

	2019	2018	2017	2016	2015
Contractually required contribution employer's fiscal year (actuarially determined)	\$ 776,891	\$ 641,658	\$ 505,575	\$ 410,518	\$ 367,300
Contributions in relation to the actuarially determined contributions - employer fiscal year	(776,891)	(641,658)	(505,575)	(410,518)	(367,300)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll - employer's fiscal year	\$ 1,990,698	\$ 1,757,812	\$ 1,527,861	\$ 1,303,509	\$ 1,273,202
Contributions as a percentage of covered - payroll	39.03%	36.50%	33.09%	31.49%	28.85%

Notes to Schedule:

Valuation date:

January 1, 2018

January 1, 2017

January 1, 2016

January 1, 2015

January 1, 2014

Measurement date:

December 31, 2018

December 31, 2017

December 31, 2016

December 31, 2015

December 31, 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

7.25%

7.40%

7.40%

7.40%

7.40%

Amortization growth rate

3.15%

3.15%

3.15%

3.15%

3.15%

Price inflation

2.90%

2.90%

2.90%

2.90%

2.90%

Salary increases

3.15%, plus merit component based on employee classification and years of service

Mortality

Gender distinct tables from CALPERS' 2013 experience study, with generational mortality improvements projected from 2009 using Projection Scale MP-2015.

Covered payroll: Covered payroll above represents covered payroll for the Plan's measurement period because information for the employer's fiscal year was not available.

Omitted years: GASB Statement No. 68 was implemented during the year ended June 30, 2015. No information was available prior to this date. These schedules are intended to present ten years of information and additional years will be added prospectively as they become available.

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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, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 14, 2020.

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.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be a material weaknesses. However, material weaknesses may exist that have not been identified.

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,

To the Board of Directors
Mountain House Community Services District

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

January 14, 2020