



**Phelan Piñon Hills Community Services District
Phelan, California**

Comprehensive Annual Financial Report

For the Fiscal Year Ended

June 30, 2017



4176 Warbler Road | Phelan, CA



**Phelan Piñon Hills Community Services District
Phelan, California**

Comprehensive Annual Financial Report

For the Fiscal Year Ended

June 30, 2017

Prepared by:

Lori Lowrance, Administrative Services Manager

**Phelan Piñon Hills Community Services District
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2017**

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Introductory Section



November 1, 2017

The Board of Directors of the
Phelan Piñon Hills Community Services District
Phelan, California

It is our pleasure to submit the Comprehensive Annual Financial Report (CAFR) for the Phelan Piñon Hills Community Services District (District) for the fiscal year ended June 30, 2017. District staff, following guidelines set forth by the Governmental Accounting Standards Board (GASB), prepared this financial report. The District is ultimately responsible for both the accuracy of the data and the completeness and the fairness of presentation, including all disclosures in this financial report. We believe that the data presented is accurate in all material respects. This report is designed in a manner that we believe necessary to enhance your understanding of the District's financial position and activities.

State Law and Agency by-laws require the District to obtain an annual audit of its financial statements by an independent certified public accountant. The accounting firm of Fedak & Brown LLP has conducted the audit of the District's financial statements. Their unmodified Independent Auditor's Report appears in the Financial Section.

Generally Accepted Accounting Principles (GAAP) requires that management provide a narrative introduction, overview, and analysis to accompany the financial statements in the form of a Management's Discussion and Analysis (MD&A) section. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The District's MD&A can be found immediately following the Independent Auditor's Report.

District Profile

History

In February 2008, the citizens of Phelan and Piñon Hills overwhelmingly voted to separate the Water, Parks and Recreation, and Street Lighting Districts from the County of San Bernardino and create a Community Services District. The Phelan Piñon Hills Community Service District was established through an election on February 5, 2008. With an 81% approval rating, the voters approved the formation of the District as a consolidation of three Special Districts, Zone-L70 Water, CSA-9 Phelan Parks and Street Lighting and CSA56-F1 Piñon Hills Parks. This consolidation enabled the communities to establish a form of self-governance while maintaining their individual rural integrity. The 128 square mile District is the largest Community Service District in San Bernardino County. In March 2008, the Phelan Piñon Hills Community Services District was formed (LAFCO Resolution 2994), with a five-member Board of Directors elected to govern the District.

District Profile, continued

History, continued

Between March 2008 and June 30, 2008, during the early stages of the transition, the District continued to be operated and maintained by County of San Bernardino Special Districts. From July 1, 2008, through October 2008, the Directors outsourced the operations and maintenance of the District and began the recruitment process. In August, a General Manager was hired and in October through November 2008, the majority of the remaining staff was employed.

On November 16, 2011, LAFCO held a hearing on proposal 3167, and adopted resolution 3153 approving the activation of solid waste and recycling function and services for the District. On January 24, 2012, the Certificate of Completion was processed, formalizing the change in organization.

Governance

The District is governed by an elected, five-member Board of Directors. Board members are elected to a four year term, participating in the election process during even years. For the currently seated Board, three Directors were elected in November of 2013 and two Directors were elected in November of 2015. The Directors are elected to set the policies of the District and provide guidance and leadership to the management and staff of the District.

The Board of Directors' regularly scheduled meetings are on the first and third Wednesdays of each month at 6pm in the Phelan Community Center. Additionally, the Directors are assigned to at least two standing committees and some serve on ad hoc committees as needed. The committees have regularly scheduled monthly meetings for Engineering, Finances, Parks & Recreation, Legislative, and Solid Waste and Recycling. These meetings are open to the Public whom are encouraged to attend. Resolution 2014-04, Section 1.1 states: The Board shall govern the District. The Board shall establish policies, direction, procedures and oversight for the operation of the District. The Board shall provide for the implementation of those policies which is the responsibility of the District's General Manager.

The elected Board members delegate management responsibility of the day-to-day operations of the District to an appointed General Manager who, in turn, employs all employees at the District, including department managers and supervisors. As of June 30, 2017, the District employs twenty-two full-time, five part-time employees, and one outside contractor. The District added one full-time position and eliminated one part-time position for the coming year. The District's General Manager, General Counsel, and external Auditor report directly to the Board of Directors.

District Services

As outlined by San Bernardino County LAFCO 3167 Staff Report, the District provides the following within its service area:

Water: Supply water for any beneficial use as outlined in the Municipal Water District law of 1911 (commencing with Section 71000) of the Water Code.

Park and Recreation: Acquire, construct, improve, maintain and operate recreation facilities, including, but not limited to, parks and open space in the same manner as a recreation and park district formed pursuant to the Recreation and Park District Law (commencing with Section 5780) of the Public Resources Code.

Street lighting: Acquire, construct, improve, maintain, and operate street lighting and landscaping on public property, public right-of-way, and public easements.

Solid Waste and Recycling: Collect, transfer, and dispose of solid waste and provide solid waste handling service, including, but not limited to, source reduction, recycling, composting activities, pursuant to Division 30 (commencing with Section 40000), and consistent with Section 41821.2 of the Public Resources Code.

District Profile, continued

Water

The primary component of the District is water service. Being efficient in every aspect is essential and will help in improving fiscal responsibility, as well as system integrity. Developing relationships with neighboring water companies, agencies, and resources will enable the community to be more responsible and efficient.

The District operates and maintains a considerable infrastructure in order to provide safe, good tasting water to over 6,800 service connections within an approximate 128 square mile service area. The water service area is almost entirely single-family residential which comprises approximately 99 percent of total water service connections.

The water infrastructure consists of 11 wells (approximately 1,000 feet deep) in six well fields, 35 reservoirs with a combined capacity of approximately 12,000,000 gallons, 4 de-sanding tanks, 24 booster stations, 63 booster pumps, and 32 pressure reducing stations in 11 pressure zones, with approximately 353 miles of pipeline ranging from 4-inch, to 16-inch, in diameter.

The District obtains its water supply from the local groundwater aquifer which is managed by Mojave Water Agency. If the District produces more than it's allowance of groundwater, the District may purchase replacement water from MWA, who replenishes the aquifer primarily with imported water from the State Water Project. As the District recently purchased additional water rights, it is unlikely the District will need to purchase water from MWA in the foreseeable future.

The District encourages water conservation and offers incentive programs in partnership with AWAC, through the Mojave Water Agency, plus resource material to promote desert landscape. The District is also looking for ways to conserve watershed land that will help in the regeneration of the aquifer. The District is also focused on providing service now, and for future generations.

Parks and Recreation

The District operates and maintains community centers with senior centers and two parks. The District continues to expand and improve these facilities to promote use. The District partners with the seniors at the two facilities and throughout the District to create programs that are beneficial to the community at large. The District also partners with local sports organizations to create sports programs and activities in the community.

Parks and recreation are a vital component to any community. It not only adds beauty but provides safe areas for activities of individuals, families, and groups. As part of the District, there are two community centers. These centers are utilized for a wide range of activities and are available to the community for a small fee. The District currently offers several events and activities and continues to work on various recreation ideas for the community.

Adjacent to the centers are two parks that have picnic tables and playgrounds. They are available from morning until dusk. The District is looking to develop a large park facility that will have athletic fields, as well as standard park integrity. The District owns two vacant parcels for future park and recreation facilities: 55 acres on Johnson Road and 80 acres on Sheep Creek Road.

Street lighting

Street light service is primarily located in the business district of Phelan. The District also has some lights at strategic intersections to help in providing safety to the community. The District considers expansion of the street lighting to other intersections based upon a safety need, but the District does respect the San Bernardino County "Dark Sky" ordinance and encourages residents to do the same.

District Profile, continued

Solid Waste

The District administers solid waste and recycling programs. The District is responsible for compliance with state and federal mandates regarding solid waste and recycling and coordinates various programs and provides a variety of solid waste and recycling events within the community. The District works closely with the contractual hauler, CR&R, to help accomplish these tasks.

Local Economy

The District is located in Phelan, California, an unincorporated community within San Bernardino County. Over the past few years, San Bernardino County had witnessed a decrease in economic activity due to the down turn in property values. Recent activity within the region however, suggests a strengthening in home sale median prices and increased commercial activity.

Financial Planning

Since the District's formation in 2008, the District has continued to look for cost saving measures and efficiencies. In spite of these efforts, over the past eight years, revenues have decreased and the cost of operating the District has continued to rise. Due to the reduction in property tax values within the District, property tax revenue decreased by over 40% between 2008 and 2012, primarily due to the number of vacant properties within the District. Water revenue decreased by 16% between 2009 and 2012. The cost of pumping water out of the ground, the District's only water source, increased by 18% in 2013, increased by another 14% in 2014, increased by 5% in 2015, and is expected to increase by another 5% in 2016 due to the Southern California Edison rate changes. These increases, along with the impacts of the conservation mandates, negated the rate increases that were adopted in 2013 and implemented each year thereafter, thus requiring a water rate study in 2015. The rate study outlined recommended rate changes, which the District adopted in January 2016. The cost of operations continue to rise, including costs of producing and delivering water, and providing clean, safe parks and community centers with programs and activities for the community.

The District continues to look for alternative ways to increase revenue and decrease expenses in an effort to minimize rate changes to customers. In 2012, the District purchased water rights which will result in a savings of reduced water rights fees. Even after repaying the \$7.5 million dollar loan, this purchase is estimated to save the District \$24 million dollars over the next thirty years. In 2016, the District installed a solar project that results in credits against the District's most costly (currently over \$940,000 per year) and uncontrollable expense: electricity. After loan repayment, the estimated savings due to the solar project are \$13 million dollars over thirty years. The combined results of these two measures are savings estimated to exceed \$37 million dollars over the next thirty years.

Current Financial Plans

In 2012, the District contracted to have its first water rate study prepared. The study was completed in 2013 and the Board adopted a multi-year rate change after a lengthy process which exceeded Proposition 218 requirements. In 2015, after state mandated orders were issued to address the drought conditions in the state and water quality mandates necessitated the plan for a \$17 million dollar blending project, the District contracted for a second water rate study and completed another Proposition 218 process, again exceeding the requirements for notification, meetings, and public outreach, concluding with a multi-year rate change. In January 2016, rate changes were approved that include increased charges to recover the lost revenues and additional costs to the District resulting from the State mandated conservation programs as well as a surcharge to cover the costs to blend water to meet the State mandated water quality changes. The approved rate change is reviewed each year to determine if it can be reduced as a result of revenue or the cost saving measures the District has implemented.

Financial Planning, continued

Current Financial Plans, continued

In 2015/2016 the District installed a 1.16 megawatt solar project, which is projected to save the District in excess of \$13 million dollars over a thirty year period. The District will receive credits for electricity produced from the solar project to help offset its considerable electric costs, currently almost \$700,000 per year. The savings noted are after loan payment and expenses associated with the solar project are considered.

Long-Term Financial Plans

The District has developed a 10-year plan for facility repair, replacement, and additions. The additional facilities are projected based on the District's Water Master Plan. The repairs and replacements are based on estimated useful life of District facilities. This plan is a work in progress that is updated and reviewed by the Board of Directors each year.

Relevant Financial Policies and Controls

Phelan Piñon Hills Community Services District financial policies include many of the District's financial management practices that are used by District staff as guidelines for operational and strategic decision making related to current and future financial matters. The purpose of establishing these policies is to set parameters in which the District can operate to best serve its constituents. Some policies are flexible when they are utilized by District staff as management tools to monitor the District's finances, while others are restrictive to emphasize accountability.

These policies are drafted as living documents to maintain their effectiveness in order to accommodate changes. District staff and Board Members review these policies periodically to accommodate minor changes to the existing policy or major changes in financial priorities as approved by the Board of Directors at its sole discretion.

The District's primary financial policies encompass the following areas:

- Budget Policy
- Purchasing Policy
- Reserves Policy
- Investment Policy
- Revenue Policy

Budget Policy - Resolution 2017-05

The first budget policy was approved April 5, 2017. The Board's goal was to formally document the budget goals and practices. The budget policy addresses legal requirements, balanced budget definition and goals, periodic reporting requirements, and revenue, expense and capital expenditure assumption guidelines.

Relevant Financial Policies and Controls, continued

Purchasing Policy (2015-22)

The purpose of the policy is to standardize the purchasing procedures of the District, thereby securing advantages of a uniform purchasing policy, saving the taxpayers money and increasing public confidence in the procedures for District purchasing; to promote the fair and equitable treatment of all customers and suppliers, and to set forth the duties and responsibilities of the General Manager and District staff. The purchasing policy is reviewed periodically and updated as deemed appropriate by the Board of Directors.

- Less than \$5,000 Managed by rules of procedures established by the General Manager
- \$5,000 – \$15,000 Requires three quotations and approval of the General Manager
- \$15,000 – \$25,000 Requires price quotations and informal or formal bids and approval of the General Manager
- Exceeding \$25,000 Requires Board approval

Reserves Policy (Resolution 2016-04)

The District reserves policy was established to protect the District's customers, taxpayers, investments in various assets and commitments under numerous financial, regulatory, and contractual obligations. The efficient management of these reserves, when combined with their appropriate fortification, add additional assurance that current levels of safety, service reliability, and quality will continue into the future.

Reserves are broken down into three areas, Operations, Property Plant and Equipment Replacement, and Disaster Response.

- Operating reserves has a goal of six months and no less than three months of operating expenses, based on the current budget, and includes a debt service reserve, as required by debt covenants.
- Property, Plant and Equipment (PPE) reserves have a goal of 25% to 50% of accumulated depreciation. This is to assure there is adequate funding available to make major repairs (extending the useful life of the asset), and replace PPE as is necessary.
- Disaster Response reserves has a goal of 10% to 20% of total assets (excluding Land and Water Rights). This is to help ensure that, in the event of disaster, the District will have the funds necessary to repair and/or replace assets that are damaged.

Investment Policy (Resolution 2015-24)

The investment policy provides guidelines for ensuring the safety of funds invested while maximizing investment interest income to the District. The policy and procedures are written to be in accordance with California Government Code Sections 53600 et seq. and 53635 et seq. The three principle investment factors of safety, liquidity, and yield are to be taken into consideration, in the specific order listed when making any and all investment decisions.

Revenue Policy (Resolution 2016-07)

The purpose of this policy is to establish the District's basic policies and procedures concerning revenues received by the District. The Policy shall include guidelines to design, maintain, and administer a revenue system that will assure a reliable, equitable, diversified, and sufficient revenue stream to support District services, in accordance with GAAP, and State and Federal laws.

Revenues received by the District shall be utilized in accordance with this policy. Revenue received for specific funds within the District shall be utilized for expenses and obligations incurred by that fund. Revenue received into the Governmental Fund will be distributed in accordance with the Budget and the policies and approved by the Board of Directors.

Relevant Financial Policies and Controls, continued

Government Fund Balance Policy

The District adopted fund balance policy based on the published Governmental Accounting Standards Board (GASB) Statement No. 54, which established accounting and financial reporting standards for all governments that report governmental funds. This statement divides the fund balance into five classifications: (1) non-spendable, (2) restricted, (3) committed, (4) assigned, and (5) unassigned.

Internal Control

District management is responsible for the establishment and maintenance of the internal control structure that ensures that the assets of the District are protected from loss, theft, or misuse. The internal control structure also ensures that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The District's internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budgetary Control

The Board of Directors adopts the Phelan Piñon Hills Community Services District (District) annual budget, after public hearing(s), by June 30 of each year. The budget is in effect from July 1 of the current year to June 30 of the following year. The Board may modify the budget at any time with majority approval.

The General Manager is authorized to implement the programs as approved in the adopted budget. It is the responsibility of the General Manager to establish adequate controls to ensure expenditures do not exceed the approved budget. The Purchasing Policy provides the standards and approval levels by which purchases can be made. Additionally, rules of the procedures are established by the General Manager to ensure against abuse of public interest.

The Board reviews the budget verses actual revenues and expenses at committee level and financials are also presented to the Board on a monthly basis for consideration. Budget adjustments may be authorized by the Board of Directors.

Accounting and Financial Practices

The Districts accounting and budgetary records are maintained using an accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, such as unbilled but utilized utility services recorded at year end.

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity with a self-balancing set of accounts established for the purpose of carrying out specific activities or attaining certain objectives in accordance with specific regulations, restrictions or limitations.

Funds are organized into two major categories: Governmental and Enterprise (or proprietary) categories:

Governmental Funds – Parks and Recreation, Street Lighting, and Solid Waste.

Enterprise Funds – Water

Major Initiatives by Department

Administration and Finance

Administration and Finance is responsible for general administration and fiscal support to the Board, Management, Supervisors, and all departments within the District. These duties include complete financial and accounting support for all departments, providing great service to customers and staff, administrative duties to the Board, risk management, Human Resources, document management, public relations, facilities reservations, accounting, accounts payable, accounts receivable, payroll, debt service, water billing, and revenue collection.

Projects in Progress and/or Completed in 2016/2017:

- Received CAFR Award from GFOA (Government Finance Officers Association)
- Received Budget Award from GFOA and CSMFO
- Maintained Transparency Certification from California Special District Association (CSDA)
- Provided outstanding customer service
- Completed 85% of scanning of customer service files into Tyler system
- Began processes to implement mobile computing for service orders
- Updated policies and procedures
- Completed District Rules and Regulations
- Developed water conservation programs
- Developed and implemented active leak detection program
- Implemented Tyler Employee Self Service System (Timesheets)
- Continued cross-training program
- Implemented mobile computing for service orders
- Identified and applied for Grants for Chromium-6 mitigation project
- Identified and applied for low interest loans for Chromium-6 mitigation project
- Updated budget process and budget format

Engineering

The Engineering Department provides professional planning and engineering services to our customers (both internal and external). Further, it is charged with overseeing, planning, designing, and implementing numerous projects outlined by the District's adopted Water Master Plan and integrating and coordinating those projects in conjunction with outside programs and agencies. Additionally, it provides for quality development through customer service and timely and effective management of development and compliance processes.

Projects in Progress and/or Completed in 2016/2017:

- Expand GIS application and field data to include links to as-built, easements, etc. – ongoing
- GIS water meter data – updated May 2017 (6824 total meters)
- GIS Mobile Application (SEDARU) –completion May 2017
- Chromium-6 well infrastructure and connection to distribution system – design, engineer coordination – ongoing
- FY 2016/2017 standby charge engineer's report update – completion May 2016
- Air Vacuum/Air Release Program (mapping and GIS) – ongoing
- Booster 2A upgrade – deferred

Major Initiatives by Department, continued

Water Operations

Water Operations is responsible for the production, treatment, and distribution of reliable high-quality groundwater to the District's customers in an efficient manner. Water Operations personnel focus on reliability and accountability in the operation and maintenance of a vast array of production, conveyance, and distribution facilities, processes and systems to protect public health and to maintain high quality water consistent with all regulations. Water Operations personnel also perform monitoring, implement processes, and conduct analysis to ensure the water delivered to the customers meets and exceeds all regulatory requirements.

Projects in Progress and/or Completed in 2016/2017:

- Complete valve maintenance and exercising program – 30% complete
- Complete hydrant maintenance and flushing program – 30% complete
- Flush 50% of the districts 'Dead End' Main Lines – 25% complete
- Implement and exercise emergency response and notification plan exercise – complete
- Cross Connection Control survey – 30% complete
- Achieve Cross Connection Control and Backflow compliance District wide – complete
- Well rehabilitation for Well No.5 – complete
- Increase training and education "Certification" for staff – ongoing
- Systematic tank cleaning program - complete
- Perform a Sanitary survey District wide-wells, tanks, facilities, etc. – complete
- Improve customer outreach such as leak detection and drought awareness – complete
- Provide further training to staff on SCADA system - ongoing
- Develop and implement Air Vac maintenance and flushing program – ongoing
- Aquifer sampling of Meadowbrook dairy property wells – ongoing
- Continue Tank Inspections and overflow program – ongoing
- Monthly PRV inspections – ongoing
- Covert District chlorination facilities from tablet to sodium hypochlorite – complete

Parks and Recreation

Parks and Recreation manages and maintains District owned parks and recreation facilities to provide quality, safe, facilities to meet the needs of the community. It provides planning for facility development and improvement projects. Additionally, it provides development of projects and events for recreation, programs and activities of the District.

Projects in Progress and/or Completed in 2016/2017:

- Provide safe clean parks and facilities for public use – ongoing
- Provide education and training for park staff – ongoing
- Pursue additional programs in partnership with businesses, clubs and local sports associations – added several classes – ongoing
- Develop additional recreational programs to meet community needs – ongoing
- Repair or replace budgeted items on 10-year maintenance schedule – ongoing

Street Lighting

Street light service is primarily located in the business district of Phelan; there are some at strategic intersections to help in providing safety to the community. The District considers expansion of the street lighting to other intersections based upon a safety need, but the District does respect the San Bernardino County “Dark Sky” ordinance and encourages residents to do the same.

Major Initiatives by Department, continued

Street Lighting, continued

Projects in Progress and/or Completed in 2016/2017:

There were no requests for street lights in 2016/2017.

Solid Waste

The District administers solid waste and recycling programs. The solid waste and recycling services are contracted with CR&R. The District works closely with CR&R to coordinate various programs and provide a variety of recycling events within the community.

Projects in progress and/or completed in 2016/2017:

Two Community Clean Up Days – completed – ongoing
Tire Recycling Program – completed – ongoing
Implement Uniform Commercial Trash and Recycling Program – in progress
Develop Household Hazardous Waste Facility – abandoned
Composting Workshop – completed – ongoing
School Recycling Outreach Program – completed – ongoing
Art Contest – completed – ongoing
Continue Office Recycling Program – completed – ongoing
Apply for Tire Amnesty Grant – completed
Expand Voluntary Residential Collection Participation – completed – ongoing
Develop New Programs - ongoing

Other References

More information is contained in the Management’s Discussion and Analysis and the Notes to the Basic Financial Statements found in the Financial Section of the report.

Acknowledgements

Preparation of this report was accomplished by the combined efforts of District staff. We appreciate the dedicated efforts and professionalism that our staff members bring to the District. We would also like to thank the members of the Board of Directors for their continued support in the planning and implementation of the Phelan Piñon Hills Community Services District’s fiscal policies.

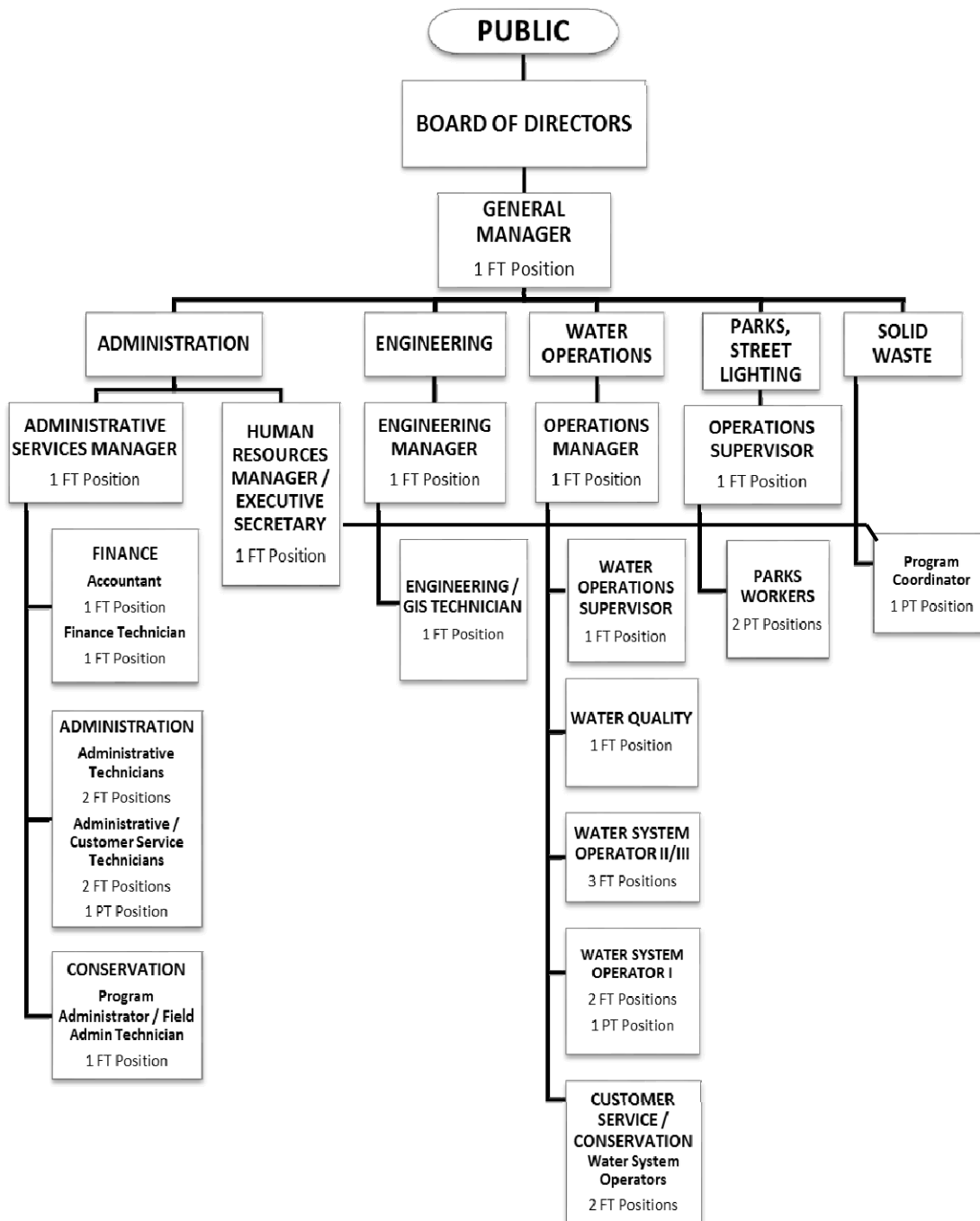
Respectfully submitted,



Don Bartz, General Manager

Organizational Chart

As of June 30, 2017



Phelan Piñon Hills Community Services District

Our Mission Statement

“The Mission of the Phelan Piñon Hills Community Services District is to provide all authorized services reliably and economically for the promotion of community development and to utilize all resources for maximum beneficial use.”

<u>Name</u>	<u>Title</u>	<u>Elected/ Appointed</u>	<u>Term Expires</u>
Cathy Pace	President	Elected	2018
Mark Roberts	Vice President	Elected	2020
Alex Brandon	Director	Elected	2020
Al Morrissette	Director	Elected	2018
Dan Whalen	Director	Elected	2018

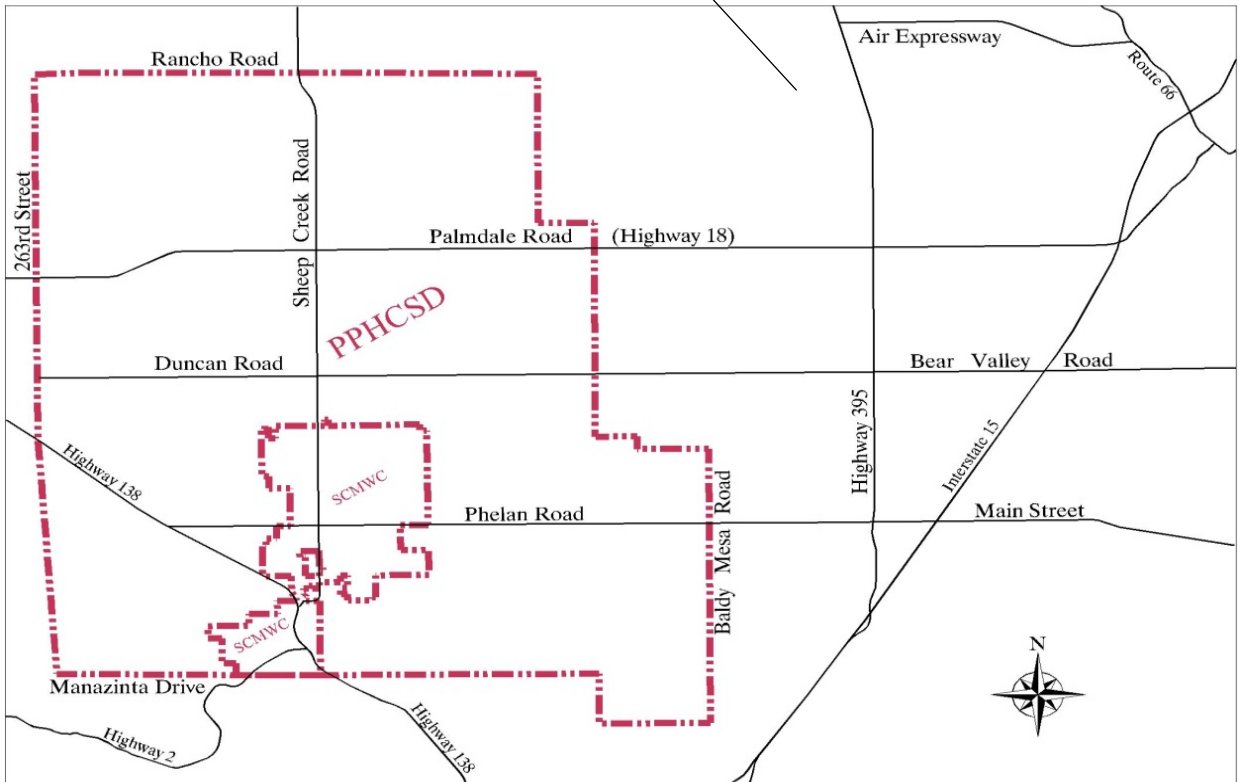
Note: Effective May 23, 2017, the election dates (and Directors terms) changed from odd years to even years as a result of SB415. County of San Bernardino Board of Supervisors voted to approve the change of election years in compliance with SB415 and in response to the District's Resolution #2016-15

District Management

Donald Bartz	General Manager
Lori Lowrance	Administrative Services Manager
Kim Ward	Human Resources Manager/Executive Secretary
George Cardenas	Engineering Manager
Sean Wright	Water Operations Manager

**Phelan Piñon Hills Community Services District
4176 Warbler Road
Phelan, CA 92371
(760) 868-1212**

District Service Area





Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Phelan Pinon Hills Community
Services District, California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

Executive Director/CEO

Financial Section



Charles Z. Fedak, CPA, MBA
Christopher J. Brown, CPA, CGMA
Jonathan P. Abadesco, CPA
Andy Beck, CPA

Fedak & Brown LLP

Certified Public Accountants

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Independent Auditor's Report

Board of Directors
Phelan Piñon Hills Community Services District
Phelan, 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 Phelan Piñon Hills Community Services District (District) as of and for the year ended June 30, 2017, 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 opinion 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 from 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2017, 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.

Independent Auditor's Report, continued

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 17 through 21 and the required supplementary information on pages 57 through 63 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section on pages 1 through 14 and statistical section on pages 64 through 79 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 1, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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. That report can be found on page 80 and 81.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
November 1, 2017

**Phelan Piñon Hills Community Services District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2017**

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Phelan Piñon Hills Community Services District (District) provides an introduction to the financial statements of the District for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented here with additional information that we have furnished in the accompanying basic financial statements and related notes, which follow this section.

Financial Highlights

- In 2017, the District's net position increased by 4.04% or \$1,707,831 to \$43,959,303 as a result of ongoing operations.
- In 2017, the District's total revenues increased 13.44% or \$922,356 to \$7,785,249, due primarily to increases of \$383,982 in charges for services, and \$794,579 for the Chromium 6 surcharge that is designated to pay for Chromium 6 costs, \$57,224 in general revenues related to property tax revenue, from an increase in property values, and \$21,029 in interest earnings, which were offset by decreases of \$310,590 in capital grants and contributions, and \$23,868 in other revenues.
- In 2017, the District's total expenses increased by 3.86% or \$225,601 to \$6,077,418, due primarily to increases of \$152,314 in water fund expenses and \$44,848 in parks and recreation fund expenses, and \$25,076 in solid waste fund expenses.

Using This Financial Report

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provides information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

The Statement of Net Position includes all of the District's investments in resources (assets) and deferred outflows of resources, 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. All of the current year's revenue and expenses are accounted for in the Statement of Activities. 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.

Government-wide Financial Statements

Statement of Net Position and Statement of Activities

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Activities report information about the District in a way that helps answer this question. These statements include all assets, deferred outflows of resources, liabilities and deferred inflows of resources using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's *net position* and changes in it. Think of the District's net position – the difference between assets plus deferred outflows of resources, less liabilities, and deferred inflows of resources – as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position is one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in the District's property tax base and the types of grants the District applies for to assess the *overall financial health* of the District.

**Phelan Piñon Hills Community Services District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2017**

Fund Financial Statements

Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Notes to the Basic 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 basic financial statements can be found on pages 30 through 56.

Government-wide Financial Analysis

Statements of Net Position

The following table is a summary of the statement of net position at June 30, 2017.

	Condensed Statements of Net Position					
	Governmental Activities		Business-type Activities		Total District	
	2017	2016	2017	2016	2017	2016
Assets:						
Current assets	\$ 4,654,236	4,224,258	7,785,033	5,808,054	12,439,269	10,032,312
Non-current assets	3,528,938	3,583,955	42,358,110	43,379,846	45,887,048	46,963,801
Total assets	8,183,174	7,808,213	50,143,143	49,187,900	58,326,317	56,996,113
Deferred outflows of resources	46,010	26,337	414,072	237,034	460,082	263,371
Liabilities:						
Current liabilities	28,886	21,381	1,479,084	1,114,173	1,507,970	1,135,554
Non-current liabilities	7,430	3,359	13,272,057	13,764,011	13,279,487	13,767,370
Total liabilities	36,316	24,740	14,751,141	14,878,184	14,787,457	14,902,924
Deferred inflows of resources	3,965	10,509	35,674	94,579	39,639	105,088
Net position:						
Net investment in capital assets	3,528,938	3,579,586	28,643,010	29,120,934	32,171,948	32,700,520
Unrestricted	4,659,965	4,219,715	7,127,390	5,331,237	11,787,355	9,550,952
Total net position	\$ 8,188,903	7,799,301	35,770,400	34,452,171	43,959,303	42,251,472

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 plus deferred outflows of resources of the District exceeded liabilities and deferred inflows of resources by \$43,959,303 as of June 30, 2017. The District's total net position is made-up of two components: (1) net investment in capital assets and (2) unrestricted net position.

**Phelan Piñon Hills Community Services District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2017**

Government-wide Financial Analysis, continued

Statements of Activities

The following table is a summary of the statement of activities for the year ended June 30, 2017.

	Condensed Statements of Activities					
	Governmental Activities		Business-type Activities		Total District	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	\$ 24,220	21,488	6,006,720	4,830,891	6,030,940	4,852,379
Capital grants and contributions	-	-	125,902	436,492	125,902	436,492
General revenues:						
Property taxes	1,062,550	1,003,264	19,845	21,907	1,082,395	1,025,171
Interest earnings	33,106	15,827	27,612	23,862	60,718	39,689
Other	248,130	197,710	237,164	311,452	485,294	509,162
Total revenues	1,368,006	1,238,289	6,417,243	5,624,604	7,785,249	6,862,893
Expenses:						
General	57,367	53,281	-	-	57,367	53,281
Parks and recreation	424,872	380,024	-	-	424,872	380,024
Street lighting	12,956	13,679	-	-	12,956	13,679
Solid waste	35,209	10,133	-	-	35,209	10,133
Water	-	-	5,547,014	5,394,700	5,547,014	5,394,700
Total expenses	530,404	457,117	5,547,014	5,394,700	6,077,418	5,851,817
Transfers from(to) other funds	(448,000)	(768,951)	448,000	768,951	-	-
Change in net position	389,602	12,221	1,318,229	998,855	1,707,831	1,011,076
Net position,						
beginning of period,						
as previously stated	7,799,301	7,787,080	34,452,171	33,453,316	42,251,472	41,240,396
Net position, end of period	\$ 8,188,903	7,799,301	35,770,400	34,452,171	43,959,303	42,251,472

Compared to prior year, net position of the District increased 4.04% or \$1,707,831 as a result of ongoing operations.

Total revenues increased 13.44% or \$922,356 to \$7,785,249, due primarily to increases of \$383,982 in charges for services, and \$794,579 for the Chromium 6 surcharge that is designated to pay for Chromium 6 costs, \$57,224 in general revenues related to property tax revenue, from an increase in property values, and \$21,029 in interest earnings, which were offset by decreases of \$310,590 in capital grants and contributions, and \$23,868 in other revenues.

Total expenses increased by 3.86% or \$225,601 to \$6,077,418, due primarily to increases of \$152,314 in water fund expenses and \$44,848 in parks and recreation fund expenses, and \$25,076 in solid waste fund expenses.

**Phelan Piñon Hills Community Services District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2017**

Government-wide Financial Analysis, continued

Changes in fund balance – Governmental funds

The following table is a summary of the changes in fund balance for all governmental funds for the year ended June 30, 2017.

Condensed Changes in Fund Balance - Governmental Funds

	<u>General</u>	<u>Parks and Recreation</u>	<u>Street Lighting</u>	<u>Solid Waste</u>	<u>Total Governmental Activities</u>
Fund balance, beginning of year	\$ 516,149	3,524,897	-	165,190	4,206,236
Change in fund balance	<u>257,627</u>	<u>292,399</u>	<u>-</u>	<u>(126,448)</u>	<u>423,578</u>
Fund balance, end of year	<u>\$ 773,776</u>	<u>3,817,296</u>	<u>-</u>	<u>38,742</u>	<u>4,629,814</u>

In 2017, total fund balance increased by 10.07% or \$423,578 to \$4,629,814. The General fund increased by 49.91% or \$257,627 to \$773,776. The solid waste fund decreased by 76.55% or \$126,448 to \$38,742, and the parks and recreation fund increased by 8.30% or \$292,399 to \$3,817,296

Capital Asset Administration

Capital Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total District</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
	Capital assets:					
Non-depreciable assets	\$ 2,569,743	2,569,743	18,846,572	26,739,885	21,416,315	29,309,628
Depreciable assets	<u>2,041,614</u>	<u>1,973,232</u>	<u>46,409,239</u>	<u>38,043,506</u>	<u>48,450,853</u>	<u>40,016,738</u>
Total capital assets	4,611,357	4,542,975	65,255,811	64,783,391	69,867,168	69,326,366
Accumulated depreciation	<u>(1,082,419)</u>	<u>(963,389)</u>	<u>(22,897,701)</u>	<u>(21,442,875)</u>	<u>(23,980,120)</u>	<u>(22,406,264)</u>
Total capital assets, net	<u>\$ 3,528,938</u>	<u>3,579,586</u>	<u>42,358,110</u>	<u>43,340,516</u>	<u>45,887,048</u>	<u>46,920,102</u>

At the end of fiscal year 2017, the District's investment in capital assets amounted to \$45,887,048 (net of accumulated depreciation). This investment in capital assets includes land, buildings, building improvements, furnishings and equipment, collection and distribution systems, tanks, wells, water transmission and distribution systems, and construction-in-process. The capital assets of the District are more fully analyzed in Note 3 to the basic financial statements.

Long-Term Debt Administration

Long-term Debt

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
	Long-term debt:					
Long-term debt	\$ -	-	13,715,100	14,219,582	13,715,100	14,219,582
Total long-term debt	<u>\$ -</u>	<u>-</u>	<u>13,715,100</u>	<u>14,219,582</u>	<u>13,715,100</u>	<u>14,219,582</u>

Long-term debt decreased 3.55% or \$504,482 to \$13,715,100 in 2017 primarily due to regular debt service payments. The long-term debt position of the District is more fully analyzed in Note 6 to the basic financial statements.

**Phelan Piñon Hills Community Services District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2017**

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 past, present and future.

Requests for Information

This financial report is designed to provide the District's present users, including funding sources, customers, stakeholders and other interested parties with a general overview of the District's finances and to demonstrate the District's accountability with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's Administrative Services Manager, Lori Lowrance at Phelan Pinon Hills Community Services District, 4176 Warbler Road, Phelan, California, 92371 or (760) 868-1212.



Basic Financial Statements

Phelan Piñon Hills Community Services District
Statement of Net Position
June 30, 2017

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Current assets:			
Cash and cash equivalents (note 2)	\$ 4,611,085	6,615,547	11,226,632
Accrued interest receivable	-	21,379	21,379
Accounts receivable – water sales and services	-	710,915	710,915
Accounts receivable – other	13,546	160	13,706
Property taxes and assessments receivable	29,605	122,932	152,537
Materials and supplies inventory	-	152,743	152,743
Prepays and other assets	-	161,357	161,357
Total current assets	<u>4,654,236</u>	<u>7,785,033</u>	<u>12,439,269</u>
Non-current assets:			
Capital assets – not being depreciated (note 3)	2,569,743	18,846,572	21,416,315
Capital assets – being depreciated, net (note 3)	<u>959,195</u>	<u>23,511,538</u>	<u>24,470,733</u>
Total non-current assets	<u>3,528,938</u>	<u>42,358,110</u>	<u>45,887,048</u>
Total assets	<u>8,183,174</u>	<u>50,143,143</u>	<u>58,326,317</u>
Deferred outflows of resources:			
Deferred pension outflows (note 4, 7)	<u>46,010</u>	<u>414,072</u>	<u>460,082</u>
Current liabilities:			
Accounts payable and accrued expenses	16,201	629,912	646,113
Accrued salaries and related payables	3,131	57,793	60,924
Customer deposits and unearned revenue	5,090	58,823	63,913
Accrued interest on long-term debt	-	160,879	160,879
Long-term liabilities – due within one year:			
Compensated absences (note 5)	4,464	50,981	55,445
Long-term debt (note 6)	<u>-</u>	<u>520,696</u>	<u>520,696</u>
Total current liabilities	<u>28,886</u>	<u>1,479,084</u>	<u>1,507,970</u>
Non-current liabilities:			
Long-term liabilities – due in more than one year:			
Compensated absences (note 5)	4,464	50,981	55,445
Long-term debt (note 6)	-	13,194,404	13,194,404
Net pension liability (note 7)	<u>2,966</u>	<u>26,672</u>	<u>29,638</u>
Total non-current liabilities	<u>7,430</u>	<u>13,272,057</u>	<u>13,279,487</u>
Total liabilities	<u>36,316</u>	<u>14,751,141</u>	<u>14,787,457</u>
Deferred inflows of resources:			
Deferred pension inflows (note 7, 8)	<u>3,965</u>	<u>35,674</u>	<u>39,639</u>
Net position (note 9):			
Net investment in capital assets	3,528,938	28,643,010	32,171,948
Unrestricted	<u>4,659,965</u>	<u>7,127,390</u>	<u>11,787,355</u>
Total net position	<u>\$ 8,188,903</u>	<u>35,770,400</u>	<u>43,959,303</u>

See accompanying notes to the basic financial statements

Phelan Piñon Hills Community Services District
Statement of Activities
For the Fiscal Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:						
General	\$ 57,367	-	-	(57,367)	-	(57,367)
Parks and recreation	424,872	24,220	-	(400,652)	-	(400,652)
Street lighting	12,956	-	-	(12,956)	-	(12,956)
Solid waste	35,209	-	-	(35,209)	-	(35,209)
Total governmental activities	530,404	24,220	-	(506,184)	-	(506,184)
Business-type activities:						
Water	5,547,014	6,006,720	125,902	-	585,608	585,608
Total business-type activities	5,547,014	6,006,720	125,902	-	585,608	585,608
Total	\$ 6,077,418	6,030,940	125,902	(506,184)	585,608	79,424
General revenues:						
Property taxes				\$ 1,062,550	19,845	1,082,395
Interest earnings				33,106	27,612	60,718
Other				248,130	237,164	485,294
Total general revenues				1,343,786	284,621	1,628,407
Transfers (to)/from other funds (note 10)				(448,000)	448,000	-
Change in net position				389,602	1,318,229	1,707,831
Net position, beginning of year				7,799,301	34,452,171	42,251,472
Net position, end of year				\$ 8,188,903	35,770,400	43,959,303

See accompanying notes to the basic financial statements

Phelan Piñon Hills Community Services District
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2017

	General	Parks and Recreation	Street Lighting	Solid Waste	Total Governmental Activities
Assets:					
Cash and cash equivalents	\$ 768,593	3,814,981	-	27,511	4,611,085
Accounts receivable – services	-	2,315	-	11,231	13,546
Property taxes and assessments receivable	29,605	-	-	-	29,605
Total assets	\$ 798,198	3,817,296	-	38,742	4,654,236
Liabilities:					
Accounts payable and accrued expenses	\$ 16,201	-	-	-	16,201
Accrued salaries and related payables	3,131	-	-	-	3,131
Customer deposits and unearned revenue	5,090	-	-	-	5,090
Total liabilities	24,422	-	-	-	24,422
Fund balance:					
Assigned	-	3,817,296	-	38,742	3,856,038
Unassigned (note 11)	773,776	-	-	-	773,776
Total fund balance	773,776	3,817,296	-	38,742	4,629,814
Total liabilities and fund balance	\$ 798,198	3,817,296	-	38,742	4,654,236

Reconciliation:

Fund balance of governmental funds \$ 4,629,814

Amounts reported for governmental activities in the statement of net position is different because:

Non-current assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet. However, the Statement of Net Position includes those non-current assets among the assets of the District as a whole.

Capital assets 3,528,938

Pension contributions made during the fiscal year after the measurement date are reported as expenditures in governmental funds and as deferred outflows of resources in the government-wide financial statements. \$ 12,586

Recognized portion due to net differences between the expected and actual experience are reported as deferred outflows of resources in the government-wide financial statements. 323

Recognized portion due to net differences between the actual employer contribution and the proportionate share of contribution are reported as deferred outflows of resources in the government-wide financial statements. 7,398

Recognized portion due to net differences in proportions are reported as deferred outflows of resources in the government-wide financial statements. 5,072

Recognized net difference between projected and actual earnings on pension plan investments are reported as deferred outflows of resources in the government-wide financial statements. 20,631 46,010

Long-term liabilities applicable to the District are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities both current and long-term, are reported in the Statement of Net Position as follows:

Compensated absences (8,928)
Net pension liability (2,966)

Recognized changes in net assumptions are reported as deferred inflows of resources in the government-wide financial statements. (3,965)

Net position of governmental activities \$ 8,188,903

See accompanying notes to the basic financial statements

Phelan Piñon Hills Community Services District
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2017

	<u>General</u>	<u>Parks and Recreation</u>	<u>Street Lighting</u>	<u>Solid Waste</u>	<u>Total Governmental Activities</u>
Revenues:					
Charges for services	\$ -	24,220	-	-	24,220
Property taxes	739,848	309,746	12,956	-	1,062,550
Investment earnings	160	32,946	-	-	33,106
Other	39,464	28,385	-	180,281	248,130
Total revenues	<u>779,472</u>	<u>395,297</u>	<u>12,956</u>	<u>180,281</u>	<u>1,368,006</u>
Expenditures:					
General	57,367	-	-	-	57,367
Parks and recreation	-	322,514	-	-	322,514
Street lighting	-	-	12,956	-	12,956
Solid waste	-	-	-	35,209	35,209
Capital outlay	-	68,382	-	-	68,382
Total expenditures	<u>57,367</u>	<u>390,896</u>	<u>12,956</u>	<u>35,209</u>	<u>496,428</u>
Net income	<u>722,105</u>	<u>4,401</u>	<u>-</u>	<u>145,072</u>	<u>871,578</u>
Other financing sources (uses):					
Transfers in	-	287,998	-	-	287,998
Transfers (out)	(464,478)	-	-	(271,520)	(735,998)
Total other financing sources (uses)	<u>(464,478)</u>	<u>287,998</u>	<u>-</u>	<u>(271,520)</u>	<u>(448,000)</u>
Change in fund balance	<u>257,627</u>	<u>292,399</u>	<u>-</u>	<u>(126,448)</u>	<u>423,578</u>
Fund balance, beginning of year	<u>516,149</u>	<u>3,524,897</u>	<u>-</u>	<u>165,190</u>	<u>4,206,236</u>
Fund balance, end of year	<u>\$ 773,776</u>	<u>3,817,296</u>	<u>-</u>	<u>38,742</u>	<u>4,629,814</u>

Reconciliation:

Net changes in fund balance of total governmental funds	\$ 423,578
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense as follows:	
Capital outlay expense	68,382
Depreciation expense	(119,030)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenses in governmental funds as follows:	
Net change in compensated absences for the current period	(2,210)
Net change in pension obligations for the current period	18,882
Change in net position of governmental activities	<u>\$ 389,602</u>

See accompanying notes to the basic financial statements

Phelan Piñon Hills Community Services District
Statement of Net Position – Enterprise Fund
June 30, 2017

	<u>Water Enterprise</u>
Current assets:	
Cash and cash equivalents	\$ 6,615,547
Accrued interest receivable	21,379
Accounts receivable – water sales and services	710,915
Accounts receivable – other	160
Property taxes and assessments receivable	122,932
Materials and supplies inventory	152,743
Prepays and other assets	161,357
Total current assets	<u>7,785,033</u>
Non-current assets:	
Capital assets – not being depreciated	18,846,572
Capital assets – being depreciated, net	23,511,538
Total non-current assets	<u>42,358,110</u>
Total assets	<u>50,143,143</u>
Deferred outflows of resources:	
Deferred pension outflows	<u>414,072</u>
Current liabilities:	
Accounts payable and accrued expenses	629,912
Accrued salaries and related payables	57,793
Customer deposits and deferred revenue	58,823
Accrued interest on long-term debt	160,879
Long-term liabilities – due within one year:	
Compensated absences	50,981
Long-term debt	520,696
Total current liabilities	<u>1,479,084</u>
Non-current liabilities:	
Long-term liabilities – due in more than one year:	
Compensated absences	50,981
Long-term debt	13,194,404
Net pension liability	26,672
Total non-current liabilities	<u>13,272,057</u>
Total liabilities	<u>14,751,141</u>
Deferred inflows of resources:	
Deferred pension inflows	<u>35,674</u>
Net position:	
Net investment in capital assets	28,643,010
Unrestricted	7,127,390
Total net position	<u>\$ 35,770,400</u>

See accompanying notes to the basic financial statements

Phelan Piñon Hills Community Services District
Statement of Revenues, Expenses and Changes in Fund Net Position – Enterprise Fund
For the Fiscal Year Ended June 30, 2017

	Water Enterprise
Operating revenues:	
Water consumption sales	\$ 2,703,781
Monthly meter service charge	1,959,191
Chromium-6 surcharge (note 12)	794,579
Special assessment	299,385
Other charges and services	249,784
Total operating revenues	6,006,720
Operating expenses:	
Source of supply – water related purchases	9,590
Pumping – utilities	543,155
Transmission and distribution	708,014
General and administrative	2,388,257
Total operating expenses	3,649,016
Operating income before depreciation	2,357,704
Depreciation	(1,476,403)
Operating income	881,301
Non-operating revenues (expenses):	
Property taxes	19,845
Interest earnings	27,612
Interest expense – long-term debt	(393,784)
Other non-operating revenues	237,164
Other non-operating expenses	(27,811)
Total non-operating revenues, net	(136,974)
Net income before capital contributions	744,327
Capital contributions:	
Capital grants and contributions	125,902
Capital contributions	125,902
Transfers from (to) other funds	448,000
Change in net position	1,318,229
Net position, beginning of year	34,452,171
Net position, end of year	\$ 35,770,400

See accompanying notes to the basic financial statements

Phelan Piñon Hills Community Services District
Statement of Cash Flows – Enterprise Fund
For the Fiscal Year Ended June 30, 2017

	<u>Water Enterprise</u>
Cash flows from operating activities:	
Cash receipts from customers	\$ 5,975,890
Cash paid to employees	(1,669,720)
Cash paid to vendors and suppliers	<u>(1,907,413)</u>
Net cash provided by operating activities	<u>2,398,757</u>
Cash flows from non-capital financing activities:	
Property tax revenue	19,830
Transfer of property tax revenue from General fund	647,478
Other non-operating revenue	<u>295,407</u>
Net cash provided by non-capital financing activities	<u>962,715</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(498,938)
Proceeds from capital contributions	125,902
Principal payments on long-term debt	(504,482)
Interest payments on long-term debt	<u>(393,784)</u>
Net cash used in capital and financing activities	<u>(1,271,302)</u>
Cash flows from investing activities:	
Purchases and sales of investments, net	(182,449)
Interest earnings	<u>16,053</u>
Net cash used in investing activities	<u>(166,396)</u>
Net increase in cash and cash equivalents	1,923,774
Cash and cash equivalents, beginning of year	<u>4,691,773</u>
Cash and cash equivalents, end of year	<u><u>\$ 6,615,547</u></u>

Continued on next page

See accompanying notes to the basic financial statements

Phelan Piñon Hills Community Services District
Statement of Cash Flows – Enterprise Fund, continued
For the Fiscal Year Ended June 30, 2017

Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ <u>881,301</u>
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	1,476,403
Other non-operating expenses	27,811
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources	
(Increase) decrease in assets and deferred outflows:	
Accounts receivable – water sales and services	(32,294)
Accounts receivable – other	1,464
Materials and supplies inventory	(14,675)
Prepays and other assets	3,874
Deferred outflows of resources	(177,038)
Increase (decrease) in liabilities and deferred inflows:	
Accounts payable and accrued expenses	396,356
Accrued salaries and related payables	(70,192)
Customer deposits and deferred revenue	28,374
Compensated absences	2,280
Net pension liability	(66,002)
Deferred inflows of resources	<u>(58,905)</u>
Total adjustments	<u>1,517,456</u>
Net cash provided by operating activities	\$ <u><u>2,398,757</u></u>

See accompanying notes to the basic financial statements

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2017

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Phelan Piñon Hills Community Service District (District) was established through an election on February 5, 2008. With an 81% approval rating, the voters approved the formation of the District as a consolidation of three San Bernardino County Special District Service Areas of: Zone-L70 Water, CSA-9 Phelan Parks and Street Lighting and CSA56-F1 Piñon Hills Parks. The San Bernardino County Special District Service Areas named above transferred \$31,439,131 in net assets to form the District.

This consolidation enabled the communities of Phelan and Piñon Hills to establish a form of self-governance while maintaining their individual rural integrity. The 128 square mile District is the largest Community Service District in San Bernardino County.

The primary component of the District is water service to the approximately 6,700 customers. Parks and recreation are a vital component to any community. As part of the District there are two community centers. These centers are utilized for a wide range of activities and are available to the community for a nominal fee. Adjacent to the centers are two parks that have picnic tables and playgrounds. They are available from morning until dusk. The street lights serve primarily the business district of Phelan. The street lights are not owned by the District, but the District pays for the electricity use costs for the street lights.

The District normally conducts two monthly general meetings of the Board of Directors which are held on the first and third Wednesdays of the month in the Phelan Community Center.

B. Basis of Accounting and Measurement Focus

Financial Reporting

The District's basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The District has adopted the following GASB pronouncements in the current year:

In June 2015, the GASB issued Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness or information about postemployment benefits other than pensions (other postemployment benefits of OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No.50, *Pension Disclosures*.

The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2016. There currently is no impact of the implementation of this Statement to the District's financial statements at this time.

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2017

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

B. Basis of Accounting and Measurement Focus, continued

Financial Reporting, continued

In August 2015, the GASB issued Statement No. 77 – *Tax Abatement Disclosures*. The objective of this Statement is to improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Financial statement users need information about certain limitations on a government’s ability to raise resources. This includes limitations on revenue-raising capacity resulting from governmental programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Tax abatements are widely used by state and local governments, particularly to encourage economic development.

In December 2015, the GASB issued Statement No. 78 – *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that meet certain criteria.

In January 2016, the GASB issued Statement No. 80 – *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

In March 2016, the GASB issued Statement No. 82 – *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No.73*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The *basic financial statements* of the District are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2017

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

B. Basis of Accounting and Measurement Focus, continued

Government-wide Financial Statements

These statements are presented on an *economic resources* measurement focus and the accrual basis of accounting for both governmental and business-like activities. Accordingly, all of the District's assets (including capital assets), deferred outflows of resources, liabilities, and deferred inflows of resources are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, such as, unbilled but utilized utility services are recorded at year end. The Statement of Activities demonstrates the degree to which the operating expenses of a given function are offset by operating revenues. Operating expenses are those that are clearly identifiable with a specific function. The types of transactions reported as operating revenues for the District are charges for services directly related to the operations of the District. Charges for services include revenues from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by the District. Taxes, operating grants and other items not properly included among operating revenues are reported instead as non-operating revenues. Contributed capital and capital grants are included as capital contributions.

Fund Financial Statements

These statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds. Accompanying these statements is a schedule to reconcile and explain the differences in fund balances as presented in these statements to the net position presented in the Government-wide Financial Statements.

Governmental funds are accounted for on a spending or *current financial resources* measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under modified accrual basis of accounting, revenues are recognized in the accounting period in which they become measurable and available to finance expenditures of the current period.

Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60-days after year-end) are recognized when due. The primary sources susceptible to accrual for the District are property tax, interest earnings, investment revenue and operating and capital grant revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. However, exceptions to this rule include principal and interest on debt, which are recognized when due.

The accrual basis of accounting is followed by the proprietary enterprise funds. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, such as unbilled but utilized utility services recorded at year end.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place. Operating revenues and expenses, such as water sales and purchases of water, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Management, administration and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories, such as interest income and interest expense, are reported as non-operating revenues and expenses.

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2017

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

B. Basis of Accounting and Measurement Focus, continued

Fund Financial Statements, continued

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity with a self-balancing set of accounts established for the purpose of carrying out specific activities or attaining certain objectives in accordance with specific regulations, restrictions or limitations.

Funds are organized into two major categories: governmental and proprietary categories. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operation fund of the District or meets the following criteria:

- a) Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or proprietary fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b) Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or proprietary fund are at least 5 percent of the corresponding total for all governmental and proprietary funds combined.
- c) The entity has determined that a fund is important to the financial statement user.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund – This fund is used to account for and report all financial resources not accounted for and reported in another Fund.

Parks and Recreation – This fund is used to account for all parks and recreation activities within the District.

Street Lighting – This fund is used to account for all street lighting activities within the District.

Solid Waste – This fund is used to account for sanitation collection and recycling activities within the District.

Enterprise Fund

Water – This fund accounts for the water transmission and distribution operations of the District.

C. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position

1. Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in District net position during the reporting period. Actual results could differ from those estimates.

2. Cash and Cash Equivalents

Substantially all of the District's cash is invested in interest bearing accounts. The District considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2017

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

C. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position, continued

3. Investments

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

- State of California Local Area Investment Fund (LAIF)
- CalTRUST

LAIF is regulated by California Government Code (Code) Section 16429 and is under the management of the State of California Treasurer's Office with oversight provided by the Local Agency Investment Advisory Board.

LAIF is carried at fair value based on the value of each participating dollar as provided by LAIF. The fair value of the District's position in the LAIF is the same as the value of its pooled share. Investments in securities of the U.S. government or its agencies are carried at fair value based on quoted market prices. Bank balances are secured by the pledging of a pool of eligible securities to collateralize the District's deposits with the bank in accordance with the Code.

CalTRUST is a Joint Powers Agency Authority created by local public agencies and is governed by a Board of Trustees made up of experienced local agency Treasurer and investment officers. Investments in securities of the U.S. government or its agencies are carried at fair value based on quoted market prices.

Changes in fair value that occur during a fiscal year are recognized as unrealized gains or losses and reported for that fiscal year. Investment income comprises interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

4. Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on valuation inputs used to measure the fair value of the asset, as follows:

- **Level 1** – This valuation is based on quoted prices in active markets for identical assets.
- **Level 2** – This valuation is based on directly observable and indirectly observable inputs. These inputs are derived principally from or corroborated by observable market data through correlation or market-corroborated inputs. The concept of market-corroborated inputs incorporates observable market data such as interest rates and yield curves that are observable at commonly quoted intervals.
- **Level 3** – This valuation is based on unobservable inputs where assumptions are made based on factors such as prepayment rates, probability of defaults, loss severity and other assumptions that are internally generated and cannot be observed in the market.

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques attempt to maximize the use of observable inputs and minimize the use of unobservable inputs.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the District believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurement at the reporting date.

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2017

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

C. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position, continued

4. Fair Value Measurements, continued

The District does not currently hold any investments which require the treatment of fair value measurements.

5. Accounts Receivable – Water Sales and Services

The District extends credit to customers in the normal course of operations. Management reviews all accounts receivable as collectible.

6. Property Taxes and Assessments

The San Bernardino County Assessor's Office assesses all real and personal property within the County each year. The San Bernardino County Tax Collector's Office bills and collects the District's share of property taxes and/or tax assessments. The San Bernardino County Treasurer's Office remits current and delinquent property tax collections to the District throughout the year. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations.

Property taxes and assessments receivable at year-end are related to property taxes and special assessments collected by the San Bernardino County, which have not been credited to the District's cash balance as of June 30. The property tax calendar is as follows:

Lien date	March 1
Levy date	July 1
Due dates	November 1 and February 1
Collection dates	December 10 and April 10

7. Materials and Supplies Inventory

Materials and supplies inventory consists primarily of water meters, pipe and pipe fittings for construction and repair to the District's water transmission and distribution system. Inventory is valued at cost using a weighted average method. Inventory items are charged to expense at the time that individual items are withdrawn from inventory or consumed.

8. Prepaids

Certain payments to vendors reflect costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

9. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at \$5,000. Donated assets are recorded at acquisition value at the date of donation and/or historical cost. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized.

Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Governmental Activities

- Infrastructure, street lighting – 30 to 40 years
- Vehicles and equipment – 5 to 10 years

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2017

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

C. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position, continued

9. Capital Assets, continued

Business-Type Activities

- Facility and systems – 10 to 40 years
- Vehicles and equipment – 5 to 10 years

10. Deferred Outflows of Resources

The statement of net position reports a separate section for deferred outflows of resources. This financial statement element, *deferred outflows of resources*, represents a consumption of resources applicable to future periods and therefore will *not* be recognized as an outflow of resources (expenditure) until that time. Included is a deferred outflow related to pensions equal to the employer contributions made after the measurement date of the net pension liability. This amount will be amortized-in-full against the net pension liability in the next fiscal year. Additionally, deferred outflows related to pensions for the net differences between expected and actual experience, the net difference between the actual and proportionate share of contribution, and the net difference in the proportion of the net pension liability will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plans determined as of the measurement date June 30, 2016, which is a 3.7 year period. Additionally, a deferred outflow related to pensions for the net difference in projected and actual earnings on investments of the pension plans fiduciary net position will be amortized over a 5 year period.

11. Compensated Absences

Accrued Vacation – For each full time, (30 hours per week) employee, vacation days shall be earned per biweekly pay period. Upon completion of 1 through 4 years of employment, 80 vacation hours are earned, from year 5 through year 9, 120 vacation hours are earned, from year 10 through year 20, 160 vacation hours are earned and after 20 years, 200 vacation hours are earned.

Part-time regular employees shall earn vacation prorated on actual hours worked. Exempt positions will, at the time of hire, begin at two (2) weeks per year. Vacation time may be accumulated up to a maximum of 160 hours (4 weeks). An employee may, at the discretion of the District, receive pay on their anniversary date for a maximum of forty (40) hours of his or her earned vacation instead of taking time off. New employees will not be authorized vacation time off until completion of one (1) year of continuous employment. If employment is terminated for any reason, the earned vacation will be paid through the last day of employment.

Accrued Sick Leave – Beginning with the date of employment, sick leave at 3.69 hours per pay period shall be credited to the employee. The biweekly pay record will reflect the current sick leave accumulation for each employee. Sick leave is not considered to be vacation, and is to be used only during illness or injury. If sick leave is used up due to illness or injury, vacation can be used. An employee with no sick leave or vacation credit shall not receive compensation for days not worked due to illness or injury. Abuse of sick leave is grounds for discipline, up to and including dismissal.

Sick leave may be accumulated up to a maximum of 120 hours. After 120 hours are accumulated, an employee will receive, in December, 100% of the value of the unused sick leave, which exceeds the 120 hours maximum. At the end of each year's employment (anniversary date), 10% of the total accumulated sick leave shall vest in and become the property of the employee subject only to the employee's leaving the District under any condition other than discharge for cause. Upon retirement or resignation from the District, the employee shall be paid 10% for each year of service of the accumulated sick leave.

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2017

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

C. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position, continued

12. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's California Public Employees' Retirement System (CalPERS) plans (Plans) and addition to/deduction from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

- Valuation Date: June 30, 2015
- Measurement Date: June 30, 2016
- Measurement Period: July 1, 2015 to June 30, 2016

13. Deferred Inflows of Resources

The statement of net position and the governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This financial statement element, *deferred inflows of resources*, represents an acquisition of resources applicable to future periods and therefore will *not* be recognized as an inflow of resources (revenue) until that time. Deferred inflows related to pensions for the net changes in assumptions are amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plans determined as of the measurement date June 30, 2016, which is a 3.7 year period.

14. Net Position

The government-wide financial statements utilize a net position presentation. Net position categories are as follows:

- **Net Investment in Capital Assets** – Investment in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and amortization, and reduced by outstanding balances of any debt, or other long-term borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted** – Restricted consists of assets that have restrictions placed upon their use by external constraints imposed either by creditors (debt covenants), grantors, contributors, or laws and regulations of other governments or constraints imposed by law through enabling legislation.
- **Unrestricted** – Unrestricted consists of the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets or restricted component of net position.

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2017

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

C. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position, continued

15. Fund Balance

The financial statements, governmental funds report fund balance as non-spendable, restricted, committed, assigned, or unassigned based primarily on the extent to which the District is bound to honor constraints on how specific amounts can be spent.

- **Nonspendable fund balance** – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.
- **Restricted fund balance** – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions enabling legislation.
- **Committed fund balance** – amounts that can only be used for specific purposes determined by formal action of the District’s highest level of decision-making authority (the Board of Directors) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- **Assigned fund balance** – amounts that are constrained by the District’s intent to be used for specific purposes. The intent can be established at either the highest level of decision-making, or by a body or an official designated for that purpose.
- **Unassigned fund balance** – the residual classification for the District’s general fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

The Board of Directors established, modifies or rescinds fund balance commitments and assignments by passage of an ordinance or resolution. This is done through adoption of the budget and subsequent budget amendments that occur throughout the year.

When both 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.

Fund Balance Policy

The District believes that sound financial management principles require that sufficient funds be retained by the District to provide a stable financial base at all times. To retain this stable financial base, the District needs to maintain an unrestricted fund balance in its funds sufficient to fund cash flows of the District and to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature. Committed, assigned, and unassigned fund balances are considered unrestricted.

The purpose of the District’s fund balance policy is to maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures.

15. Water Sales and Services

Water sales are billed on a bi-monthly basis. Estimated unbilled water revenue through June 30 has been accrued at year-end for the enterprise funds.

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2017

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

C. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position, continued

16. Capital Contributions

Capital contributions represent cash and capital asset additions contributed to the District by property owners, granting agencies, or real estate developers desiring services that require capital connection expenditures or capacity commitment.

17. Reclassification

The District has reclassified certain prior year information to conform to current year presentation.

(2) Cash and Cash Equivalents

Cash and cash equivalents as of June 30, 2017, are classified as follows:

Governmental activity funds:	2017
General fund	\$ 768,593
Parks and recreation fund	3,814,981
Street lighting fund	-
Solid waste fund	27,511
Total	<u>4,611,085</u>
Business-type activity funds:	
Water fund	<u>6,615,547</u>
Total cash and cash equivalents	<u>\$ 11,226,632</u>

Cash and cash equivalents as of June 30, 2017, consisted of the following:

	2017
Cash on hand	\$ 2,500
Deposits held with financial institutions	428,821
Deposits held with San Bernardino County Treasurer	9,901
Deposits held with California Local Agency Investment Fund (LAIF)	8,777,196
Deposits with Cal Trust – Medium Term Fund	2,008,214
Total	<u>\$ 11,226,632</u>

As of June 30, 2017, the District's authorized deposits had the following maturities:

	2017
Deposits held with California Local Agency Investment Fund (LAIF)	194 days
Deposits with Cal Trust – Medium Term Fund	<u>748 days</u>

Authorized Deposits and Investments

The District's investment policy authorizes investments in Certificates-of-deposit and the California Local Agency Investment Fund (LAIF). The District's investment policy does contain specific provisions intended to limit its exposure to interest rate risk, credit risk, custodial risk, and concentration of credit risk.

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2017

(2) Cash and Cash Equivalents, continued

Investment in the California State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Amounts held with LAIF are highly liquid, as deposits can be converted to cash within a twenty-four hour period without loss of accrued interest. Credit and market risk is unknown. LAIF detail may be obtained from the State of California Treasurer's website at www.treasurer.ca.gov/pmia-laif/index.asp.

The District's deposit and withdrawal restrictions and limitations are as follows:

- Each agency in the fund may invest up to \$40 million and may invest without limitation in special bond proceeds accounts.
- Same day transaction processing occurs for orders received before 10:00 a.m.
- Next day transactions processing occurs for orders received after 10:00 a.m.
- Maximum limit of 15 transactions (combination of deposits and withdrawals) per month.
- Minimum transaction amount requirement of \$5,000, in increments of a \$1,000 dollars.
- Withdrawals of \$10,000,000 or more require 24 hours advance.
- Prior to funds transfer, an authorized person must call LAIF to do a verbal transaction.

Custodial Credit Risk

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 and the District's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. Of the District's bank balances, up to \$250,000 is federally insured and the remaining balance is collateralized in accordance with the code.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Code and the District's investment policy contain legal and policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The longer the maturity an investment has the greater its fair value has sensitivity to changes in market interest rates. The District's investment policy follows the Code as it relates to limits on investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates.

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2017

(2) Cash and Cash Equivalents, continued

Credit Risk

Generally, credit risk is the risk that an 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; however, LAIF and CalTrust are not rated. 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.

Concentration of Credit Risk

The District's investment policy contains various limitations on the amounts that can be invested in any one governmental agency or non-governmental issuer as stipulated by the California Government Code. The District's deposit portfolio with a government-sponsored agency, LAIF, is 78% of the District's total depository and investment portfolio. The District's deposit portfolio with CalTrust, is 18% of the District's total depository and investment portfolio. There were no investments in any one non-governmental issuer that represent 5.0% or more of the District's total investments.

Fair Value Measurements

At June 30, 2017, the District did not hold any investments which require measurement at fair value on a recurring and non-recurring basis.

(3) Capital Assets

Governmental Activities:

Changes in capital assets at June 30, were as follows:

	<u>Balance 2016</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2017</u>
Non-depreciable assets:				
Land	\$ 2,569,743	-	-	2,569,743
Total non-depreciable assets	<u>2,569,743</u>	<u>-</u>	<u>-</u>	<u>2,569,743</u>
Depreciable assets:				
Building	540,000	-	-	540,000
Land improvements	1,376,547	-	-	1,376,547
Wells	24,840	-	-	24,840
Planning and development	-	68,382	-	68,382
Equipment	31,845	-	-	31,845
Total depreciable assets	<u>1,973,232</u>	<u>68,382</u>	<u>-</u>	<u>2,041,614</u>
Accumulated depreciation:				
Building	(410,545)	(36,848)	-	(447,393)
Land improvements	(529,692)	(70,872)	-	(600,564)
Wells	(10,350)	(4,968)	-	(15,318)
Planning and development	-	(1,900)	-	(1,900)
Equipment	(12,802)	(4,442)	-	(17,244)
Total accumulated depreciation	<u>(963,389)</u>	<u>(119,030)</u>	<u>-</u>	<u>(1,082,419)</u>
Total depreciable assets, net	<u>1,009,843</u>	<u>(50,648)</u>	<u>-</u>	<u>959,195</u>
Total capital assets, net	<u>\$ 3,579,586</u>	<u>(50,648)</u>	<u>-</u>	<u>3,528,938</u>

Major governmental capital asset additions during fiscal year 2017 to depreciable assets of \$68,382 sourced from construction-in-progress – water enterprise, which was transferred to planning and development – general fund.

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2017

(3) Capital Assets, continued

Business-type Activities:

Changes in capital assets at June 30, were as follows:

	<u>Balance 2016</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2017</u>
Non-depreciable assets:				
Land	\$ 1,722,824	-	-	1,722,824
Water rights	16,371,783	-	-	16,371,783
Construction in progress	8,645,278	537,937	(8,431,250)	751,965
Total non-depreciable assets	<u>26,739,885</u>	<u>537,937</u>	<u>(8,431,250)</u>	<u>18,846,572</u>
Depreciable assets:				
Building and facilities	589,925	5,279,192	-	5,869,117
Transmission and distribution mains	18,144,344	-	-	18,144,344
Reservoirs	4,187,496	-	-	4,187,496
Pumping Station	4,114,808	-	-	4,114,808
Wells	5,071,217	-	-	5,071,217
Tanks	2,184,312	-	-	2,184,312
Hydrants and telemetry control	191,669	-	-	191,669
Meters	1,921,146	-	-	1,921,146
Planning and development	383,517	2,362,041	-	2,745,558
Vehicles and equipment	1,255,072	746,077	(21,577)	1,979,572
Total depreciable assets	<u>38,043,506</u>	<u>8,387,310</u>	<u>(21,577)</u>	<u>46,409,239</u>
Accumulated depreciation:				
Building and facilities	(113,157)	(30,110)	-	(143,267)
Transmission and distribution mains	(11,702,001)	(433,766)	-	(12,135,767)
Reservoirs	(2,442,491)	(154,322)	-	(2,596,813)
Pumping Station	(2,718,039)	(105,599)	-	(2,823,638)
Wells	(1,503,261)	(152,430)	-	(1,655,691)
Tanks	(467,685)	(70,232)	-	(537,917)
Hydrants and telemetry control	(191,670)	-	-	(191,670)
Meters	(1,200,717)	(192,114)	-	(1,392,831)
Planning and development	(166,264)	(64,338)	-	(230,602)
Vehicles and equipment	(937,590)	(273,492)	21,577	(1,189,505)
Total accumulated depreciation	<u>(21,442,875)</u>	<u>(1,476,403)</u>	<u>21,577</u>	<u>(22,897,701)</u>
Total depreciable assets, net	<u>16,600,631</u>	<u>6,910,907</u>	<u>-</u>	<u>23,511,538</u>
Total capital assets, net	<u>\$ 43,340,516</u>	<u>7,448,844</u>	<u>(8,431,250)</u>	<u>42,358,110</u>

Major enterprise fund capital asset additions during fiscal year 2017, include additions to construction in progress of \$537,937 that is comprised of the following capital project additions: Chromium-6 Mitigation project of \$290,567, Engineering for Water Quality project of \$188,012, Administrative property additions of \$27,141, and various miscellaneous projects \$32,217. Additions to depreciable assets sourcing from construction-in-progress include \$5,264,098 to buildings and facilities, \$2,362,041 to planning and development, and \$746,077 added to vehicles and equipment. District additions not sourcing from construction-in-progress included building additions of \$15,094, and vehicles and equipment of \$32,748. Disposals included a one vehicle disposition of \$21,577.

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2017

(3) Capital Assets, continued

Depreciation expense was charged to various functions at June 30, 2017, as follows:

Governmental activities:	
General government	\$ 47,516
Parks and Recreation	<u>71,514</u>
Total governmental activities	<u>\$ 119,030</u>
Business type activities:	
Water Fund	<u>\$ 1,476,403</u>

(4) Deferred Outflows of Resources

Changes in deferred outflows of resources at June 30, were as follows:

	<u>Balance 2016</u>	<u>Additions</u>	<u>Amortization</u>	<u>Balance 2017</u>
<i>Governmental:</i>				
Deferred pension outflows	\$ <u>26,337</u>	<u>40,955</u>	<u>(21,282)</u>	<u>46,010</u>
<i>Enterprise:</i>				
Deferred pension outflows	<u>237,034</u>	<u>368,569</u>	<u>(191,531)</u>	<u>414,072</u>
Total deferred outflows of resources	<u>\$ 263,371</u>	<u>409,524</u>	<u>(212,813)</u>	<u>460,082</u>

(5) Compensated Absences

Compensated absences comprise unpaid vacation leave that accrue when benefits are fully vested and are determined annually. Compensated absences turn-over each year, therefore, the compensated absence balance of the District is considered a current liability on the Statements of Net Position. The compensated absences for governmental funds will generally be liquidated through the general fund. The balance in the proprietary fund will be liquidated through the water fund.

The changes to compensated absences balances at June 30, were as follows:

Governmental:

	<u>Balance 2016</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance 2017</u>	<u>Due Within One Year</u>	<u>Due in more than one year</u>
\$	<u>6,718</u>	<u>11,528</u>	<u>(9,318)</u>	<u>8,928</u>	<u>4,464</u>	<u>4,464</u>

Enterprise:

	<u>Balance 2016</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance 2017</u>	<u>Due Within One Year</u>	<u>Due in more than one year</u>
\$	<u>99,682</u>	<u>128,786</u>	<u>(126,506)</u>	<u>101,962</u>	<u>50,981</u>	<u>50,981</u>

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2017

(6) Long-term Debt

Changes in long-term debt at June 30, were as follows:

	<u>Balance</u> <u>2016</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>2017</u>
CIEDB – 02-033	\$ 2,312,552	-	(110,274)	2,202,278
MFC – 14-003	4,740,049	-	(181,525)	4,558,524
State Dept of Transportation – 22784-00	209,081	-	(23,644)	185,437
CIEDB – 14-101	<u>6,957,900</u>	<u>-</u>	<u>(189,039)</u>	<u>6,768,861</u>
Total loan payable	14,219,582	<u>-</u>	<u>(504,482)</u>	13,715,100
Less: current portion	<u>(505,412)</u>			<u>(520,696)</u>
Total non-current portion	<u>\$ 13,714,170</u>			<u>13,194,404</u>

California Infrastructure & Economic Development Bank – 02-033 Installment Sale Agreement

The San Bernardino County Special District County Service Area 70, Zone L, entered into an Installment Sale Agreement (Agreement) dated December 17, 2002, with the California Infrastructure and Economic Development Bank (CIEDB) to fund water system improvements in County Service Area 70, Zone L - Water Tank Project. According to the Agreement, the CIEDB is expected to issue a total amount of

\$5,001,000 in Infrastructure State Revolving Fund Program Revenue Bonds (Bonds) to the San Bernardino County Special District County Service Area 70, Zone L, on a reimbursement basis. The San Bernardino County Special District County Service Area 70, Zone L, has agreed to make installment payments to the CIEDB on the Bonds, secured by a pledge of first lien on all the pledged net system revenue and all amounts in the San Bernardino County Special District County Service Area 70, Zone L.

Total amounts reimbursed by the CIEDB from inception to June 30, 2009, were \$3,537,908 and the principal amount paid by the San Bernardino County Special District County Service Area 70, Zone L on the Bond was \$457,244. The remainder of the loan payable balance was assumed by the Phelan-Piñon Hills Community Service District per LAFCO resolution No. 2989 as of March 18, 2008. The balance of the CIEDB loan assumed was \$3,110,664.

The term of the agreement is thirty years from December 2002 at an interest rate of 3.50%. Interest only payments are due each February 1st, with principal and interest payments due each August 1st.

California Infrastructure & Economic Development Bank – 02-033 Installment Sale Agreement

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 114,133	75,082	189,215
2019	118,128	71,018	189,146
2020	122,262	66,811	189,073
2021	126,542	62,457	188,999
2022	130,971	57,950	188,921
2023-2027	726,906	216,438	943,344
2028-2032	<u>863,336</u>	<u>78,320</u>	<u>941,656</u>
Totals	2,202,278	<u>628,076</u>	<u>2,830,354</u>
Less: current portion	<u>(114,133)</u>		
Total non-current	<u>\$ 2,088,145</u>		

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2017

(6) Long-term Debt, continued

California Infrastructure & Economic Development Bank – 14-101 (previously 12-101) Installment Sale Agreement

In 2013, the District entered into an agreement for loan number 12-101 with the California Infrastructure and Economic Development Bank (CIEDB) to fund the purchase of water rights in the amount of \$7,500,000 with an interest rate of 2.29%. The term of the agreement is thirty years from December 2013. In March 2014, the loan was rewritten under number 14-101 with a reduced interest rate of 2.04%. Interest only payments are due each February 1st, with principal and interest payments due each August 1st.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 193,368	136,112	329,480
2019	197,796	132,123	329,919
2020	202,325	128,041	330,366
2021	206,958	123,867	330,825
2022	211,697	119,596	331,293
2023-2027	1,133,466	530,425	1,661,380
2028-2032	1,269,330	408,008	1,674,525
2033-2037	1,421,479	270,917	1,689,247
2038-2042	1,591,865	117,394	1,705,733
2043	340,577	3,474	687,344
Totals	6,768,861	<u>1,969,957</u>	<u>9,070,112</u>
Less: current portion	<u>(193,368)</u>		
Total non-current	\$ <u>6,575,493</u>		

Municipal Finance Corporation – 14-003 Installment Sale Agreement

In 2014, the District entered into an agreement with the Municipal Finance Corporation (MFC) to acquire, construct and install improvements to the District's water supply facilities within the District's service area in the amount of \$5,000,000 with an interest rate of 3.75%. The term of the agreement is twenty years from September 2014. Principal and interest payments are due each at February 1st and August 1st.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 188,396	136,112	324,508
2019	195,528	132,123	327,651
2020	202,929	128,041	330,970
2021	210,610	146,982	357,592
2022	218,582	139,010	357,592
2023-2027	1,223,457	564,499	1,787,956
2028-2032	1,473,211	314,746	1,787,957
2033-2035	845,811	48,166	893,977
Totals	4,558,524	<u>1,609,679</u>	<u>6,168,203</u>
Less: current portion	<u>(188,396)</u>		
Total non-current	\$ <u>4,370,128</u>		

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2017

(6) Long-term Debt, continued

State Department of Transportation – 22784-00 Utility Agreement

In 2014, the State of California (State), acting by and through the Department of Transportation, proposed a project to widen to 4 lanes from SR-18 to I-15 and construct a 14ft wide Median Buffer that affected a portion of the District’s facilities. Thus, the District is ordered by the State to relocate identified facilities to avoid conflict with the State’s widening project to accommodate the State’s project. Total estimated costs of the State project amounts to \$710,828.66.

The State agreed to advance the District the sum of \$252,632.55, in accordance with Section 706 of the Streets and Highways Code, to cover the District’s portion of the cost of the work to be undertaken by the State. The interest rate shall be the rate of earnings of the Surplus Money Investment Fund and computation shall be in accordance with Section 1268.350 of the Code of Civil Procedure. The current annual interest rate for the amount advanced of \$252,632.55 is 0.912%. The term of the agreement is ten years from October 2014. Principal and interest payments are due quarterly during the year at January 1st, April 1st, July 1st, and October 1st.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 24,799	1,663	26,462
2019	25,025	1,436	26,461
2020	25,255	1,207	26,462
2021	25,486	976	26,462
2022	25,719	743	26,462
2023-2025	<u>59,153</u>	<u>822</u>	<u>85,506</u>
Totals	185,437	<u>6,847</u>	<u>217,815</u>
Less: current portion	<u>(24,799)</u>		
Total non-current	\$ <u>160,638</u>		

(7) Defined Benefit Pension Plan

Plan Description

All qualified permanent and probationary employees are eligible to participate in the District’s Miscellaneous Employee Pension Plan, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees’ Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and District’s resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits provided

CalPERS 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 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: The Basic Death Benefit, 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.

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2017

(7) Defined Benefit Pension Plan, continued

Benefits provided, continued

On September 12, 2012, the California Governor signed the California Public Employees' Pension Reform Act of 2013 (PEPRA) into law. PEPRA took effect January 1, 2013. The new legislation closed the District's CalPERS 2.5% at 55 Risk Pool Retirement Plan to new employee entrants effective December 31, 2012. For employees hired prior to January 1, 2013, who are current members of CalPERS or a reciprocal agency as of December 31, 2012, and have not been separated from service from such agency for more than six months, the retirement benefit is 2.5% @ 55 years of age; highest single year of compensation. All other employees hired on or after January 1, 2013, the retirement benefit is 2.0% @ 62 years of age; 3 year final compensation.

The Plans' provision and benefits in effect at June 30, 2017, are summarized as follows:

	Miscellaneous Plan		
	Classic	New Classic	PEPRA
Hire date	Prior to January 1, 2011	On or after January 1, 2011 - December 31, 2012	On or after January 1, 2013
Benefit formula	2.5% @ 55	2.0% @ 60	2.0% @ 62
Benefit vesting schedule	5 years of service	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 - 55	50 - 63	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.1% to 2.4%	1.0% to 2.5%
Required employee contribution rates	7.944%	6.886%	6.250%
Required employer contribution rates	10.614%	7.159%	6.555%

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 July 1 following notice of the change in rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. 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 fiscal year ended June 30, 2017, the contributions for the Plan were as follows:

	Miscellaneous Plan
Contributions – employer	\$ 125,840
Contributions – employee (paid by employer)	71,268
Total employer paid contributions	<u>\$ 197,108</u>

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2017

(7) Defined Benefit Pension Plan, continued

Net Pension Liability

As of the fiscal year ended June 30, 2017, the District reported a net pension liability for its proportionate share of the net pension liability of each Plan as follows:

	Proportionate Share of Net Pension Liability		
	<u>Governmental</u>	<u>Enterprise</u>	<u>Total</u>
Miscellaneous Plan	\$ <u>2,966</u>	<u>26,672</u>	<u>29,638</u>

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2016 (the measurement date), and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 (the valuation date), rolled forward to June 30, 2016, using standard update procedures. The District's proportion 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, actuarially determined.

The District's proportionate share of the pension liability for the Plan as of the measurement date June 30, 2016, was as follows:

	<u>Miscellaneous</u>
Proportion – June 30, 2015	-0.00064%
Proportion – June 30, 2016	<u>0.00037%</u>
Change – (Increase)Decrease	<u>0.00100%</u>

Deferred Pension Outflows (Inflows) of Resources

For the fiscal year ended June 30, 2017, the District recognized pension income of \$62,983.

At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to the measurement date	\$ 125,840	-
Net differences between actual and expected experience	3,230	-
Net changes in assumptions	-	(39,639)
Net differences between projected and actual earnings on plan investments	206,308	-
Net differences between actual contribution and proportionate share of contribution	73,980	-
Net adjustment due to differences in proportions of net pension liability	<u>50,724</u>	<u>-</u>
Total	<u>\$ 460,082</u>	<u>(39,639)</u>

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2017

(7) Defined Benefit Pension Plan, continued

Deferred Pension Outflows (Inflows) of Resources, continued

As of June 30, 2017, employer pension contributions reported as deferred outflows of resources related to contributions subsequent to the measurement date of \$125,840 will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018.

At June 30, 2017, the District recognized other amounts reported as deferred outflows of resources and deferred inflows of resources related to the pension liability, which will be recognized as pension expense as follows.

Fiscal Year Ending June 30,	Deferred Net Outflows/(Inflows) of Resources
2018	\$ 77,711
2019	89,727
2020	79,189
2021	56,976
2022	-
Remaining	-

Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation report was determined using the following actuarial assumptions:

The following is a summary of the actuarial assumptions and methods:

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial cost method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial assumptions:	
Discount rate	7.65%
Inflation	2.75%
Salary increases	Varies by Entry Age and Service
Investment Rate of Return	7.50 % Net of Pension Plan Investment and Administrative Expenses; includes inflation
Mortality Rate Table*	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

* The mortality table used above was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 Experience Study report. Further details of the Experience Study can be found on the CalPERS website.

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2017

(7) Defined Benefit Pension Plan, continued

Discount Rate

The discount rate used to measure the total pension liability was 7.65% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, the amortization and smoothing periods recently adopted by CalPERS were utilized. The crossover test was performed for a miscellaneous agent plan and a safety agent plan selected as being more at risk of failing the crossover test and resulting in a discount rate that would be different from the long-term expected rate of return on pension investments.

Based on the testing of the plans, the tests revealed the assets would not run out. 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 for the Plan.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1-10*</u>	<u>Real Return Year 11+**</u>
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	20.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	10.0	6.83	6.95
Real Estate	10.0	4.50	5.13
Infrastructure and Forestland	2.0	4.50	5.09
Liquidity	1.0	(0.55)	(1.05)
Total	<u>100.0%</u>		

* An expected inflation of 2.5% used for this period

** An expected inflation of 3.0% used for this period

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2017

(7) Defined Benefit Pension Plan, continued

Sensitivity of the Proportionate Share of Net Pension Liability to Changes in the Discount Rate

The following table presents the District's proportionate share of the net position liability for the Plan, calculated using the discount rate, as well as what the District's proportional share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

At June 30, 2017, the discount rate comparison was the following:

	Discount Rate - 1% 6.65%	Current Discount Rate 7.65%	Discount Rate + 1% 8.65%
District's Net Pension Liability	\$ 251,577	29,638	(153,784)

Payable to the Pension Plan

At June 30, 2017, the District reported \$0 in payables for the outstanding amount of contribution to the pension plan.

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in separately issued CalPERS financial reports. See pages 62 through 63 for the Required Supplementary Schedules.

(8) Deferred Inflows of Resources

Changes in deferred inflows of resources at June 30, were as follows:

	Balance 2016	Additions	Amortization	Balance 2017
Deferred inflows of resources:				
<i>Governmental:</i>				
Deferred pension inflows	\$ 10,509	(4,244)	(2,300)	3,965
<i>Enterprise:</i>				
Deferred pension inflows	94,579	(38,191)	(20,714)	35,674
Total deferred inflows of resources	\$ 105,088	(42,435)	(23,014)	39,639

(9) Net Position

Net investment in capital assets is calculated as follows:

	Governmental Activities	Business-type Activities	Total
Capital assets – not being depreciated	\$ 2,569,743	18,846,572	21,416,315
Capital assets – being depreciated, net	959,195	23,511,538	24,470,733
Long-term debt – current portion	-	(520,696)	(520,696)
Long-term debt – long-term portion	-	(13,194,404)	(13,194,404)
Total	\$ 3,528,938	28,643,010	32,171,948

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2017

(9) Net Position, continued

Net position is designated as follows:

	Governmental Activities	Business-type Activities	Total
Parks and recreation	\$ 4,648,734	-	4,648,734
Solid waste	11,231	-	11,231
Materials and supplies inventory	-	152,743	152,743
Prepaid expenses and other assets	-	161,357	161,357
Water operations and capital replacement	-	6,813,290	6,813,290
Total	\$ 4,659,965	7,127,390	11,787,355

(10) Internal Balances

Interfund Operational Transfers

Interfund transfers consist of the following for the year ended June 30, 2017:

Transfer from	Transfer to	Amount
General	Water	\$ 448,000
	Total	\$ 448,000

During the fiscal year ended June 30, 2017, interfund transfers were designated by the Board to utilize resources from General fund revenue to help balance the Water fund budget. The funds were transferred accordingly.

(11) Fund Balance

Fund balances are presented in the following categories: non-spendable, restricted, committed, assigned, and unassigned (See Note 1.C.15 for a description of these categories). Fund balances and their funding composition at June 30, 2017, is as follows:

Fund Balance Category	
Assigned:	
Parks and recreation	\$ 3,817,296
Solid waste	38,742
Total assigned fund balance	3,856,038
Unassigned fund balance:	
General fund	773,776
Total fund balance	\$ 4,629,814

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2017

(12) Chromium-6 Surcharge

The District's water wells have traces of naturally occurring Chromium-6, which exceed the maximum contaminant levels (MCL) under the new state regulations and must reduce the MCL to meet the state goals by January 2020. The District thoroughly considered options to reduce the levels of Chromium-6 in the water and has concluded that blending the water supply with water that does not contain Chromium-6 is the most efficient and economical solution. The District estimates the cost to comply with new regulations to be approximately \$17 million. The District is applying for capital grants to help offset the costs and will seek low-interest loans to fund the remainder of the project. Loans will be repaid by a surcharge on the water bill, as approved by the Board during the water rate study process.

On January 20, 2016, the District adopted new rates which included a new Chromium-6 surcharge fee which became effective on July, 1 2017. At June 30, 2017, the Chromium-6 surcharge amounted to \$794,579.

(13) 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. The District is a member of the Special District Risk Management Authority (SDRMA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California special districts. The purpose of the SDRMA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage.

At June 30, 2017, the District participated in the liability and property programs of the SDRMA as follows:

- General and auto liability, public officials and employees' errors and omissions: Total risk financing self-insurance limits of \$2,500,000, combined single limit at \$2,500,000 per occurrence.

In addition to the above, the District also has the following insurance coverage:

- Employee dishonesty coverage up to \$1,000,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverage.
- Property loss is paid at the replacement cost for property on file, if replaced within two years after the loss, otherwise paid on an actual cash value basis, to a combined total of \$1.0 billion per occurrence, subject to a \$1,000 deductible per occurrence.
- Boiler and machinery coverage for the replacement cost up to \$100 million per occurrence, subject to a \$1,000 deductible per occurrence, unless otherwise specified.
- Public officials' personal liability up to \$500,000 each occurrence, with an annual aggregate of \$500,000 per each elected/appointed official to which this coverage applies, subject to the terms, subject to a \$500 deductible per claim.
- Workers compensation insurance with statutory limits per occurrence and Employer's Liability Coverage up to \$5 million.

Settled claims have not exceeded any of the coverage amounts in the last fiscal years. There were no reductions in insurance coverage in fiscal year 2017. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no material IBNR claim payables as of June 30, 2017.

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2017

(14) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2017, that has effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 75

In June 2015, the GASB issued Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

This Statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2017. The impact of the implementation of this Statement to the District’s financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 81

In March 2016, the GASB issued Statement No. 81 – *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.

Governmental Accounting Standards Board Statement No. 83

In November 2016, the GASB issued Statement No. 83 – *Certain Asset Retirement Obligations*. This Statement (1) addresses accounting and financial reporting for certain asset retirement obligations (AROs), (2) establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs, (3) requires that recognition occur when the liability is both incurred and reasonably estimable, (4) requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred, (5) requires the current value of a government’s AROs to be adjusted for the effects of general inflation or deflation at least annually, and (6) and requires disclosure of information about the nature of a government’s AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2017

(14) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 84

In January 2017, the GASB issued Statement No. 84 – *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

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.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 85

In March 2017, the GASB issued Statement No. 85 – *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 86

In May 2017, the GASB issued Statement No. 86 – *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2017

(14) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 87

In June 2017, the GASB issued Statement No. 87 – *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. 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. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. 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, thereby enhancing the relevance and consistency of information about governments’ leasing activities.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

(15) Commitments and Contingencies

Grant Awards

Grant funds received by the District are subject to audit by the grantor agencies. Such audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the District believes that such disallowances, if any, would not be significant.

Litigation

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

(16) Subsequent Event

Events occurring after June 30, 2017, have been evaluated for possible adjustment to the financial statements or disclosure as of November 1, 2017, which is the date the financial statements were available to be issued. The District is not aware of any further subsequent events that would require recognition or disclosure in the financial statements.

Required Supplementary Information

Phelan Pinon Hills Community Services District
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual – General Fund
For the Year Ended June 30, 2017

	Final Budgeted Amounts	Actual Amounts	Variance Positive (Negative)
Revenues:			
Property taxes	\$ 565,128	739,848	174,720
Investment earnings	-	160	160
Other	585	39,464	38,879
Total revenues	565,713	779,472	213,759
Expenditures:			
Salaries and benefits	2,261	8,914	(6,653)
Materials and services	40,167	15,281	24,886
Utilities	12,715	33,172	(20,457)
Capital outlay	-	-	-
Total expenditures	55,143	57,367	(2,224)
Excess of revenues (under) expenditures	510,570	722,105	211,535
Other financing sources(uses):			
Transfers in	-	-	-
Transfers out	(464,478)	(464,478)	-
Total other financing sources	(464,478)	(464,478)	-
Net change in fund balance	46,092	257,627	\$ 211,535
Fund balance – beginning of period	40,524	516,149	
Fund balance – end of period	\$ 86,616	773,776	

Pinon Hills Community Services District
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual – Parks and Recreation Fund
For the Year Ended June 30, 2017

	Final Budgeted Amounts	Actual Amounts	Variance Positive (Negative)
Revenues:			
Property taxes	\$ 408,265	309,746	(98,519)
Charges for services	22,753	24,220	1,467
Investment earnings	20,191	32,946	12,755
Other	28,049	28,385	336
Total revenues	479,258	395,297	(83,961)
Expenditures:			
Salaries and benefits	179,093	157,881	21,212
Materials and services	149,759	144,505	5,254
Utilities	15,540	20,128	(4,588)
Capital outlay	-	68,382	(68,382)
Total expenditures	344,392	390,896	(46,504)
Excess of revenues (under) expenditures	134,866	4,401	(130,465)
Other financing sources(uses):			
Transfers in	16,478	287,998	271,520
Transfers out	-	-	-
Total other financing sources	16,478	287,998	271,520
Net change in fund balance	151,344	292,399	\$ 141,055
Fund balance – beginning of period	4,808,292	3,524,897	
Fund balance – end of period	\$ 4,959,636	3,817,296	

Pinon Hills Community Services District
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual – Street Lighting Fund
For the Year Ended June 30, 2017

	<u>Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Property taxes	\$ 13,687	12,956	731
Total revenues	<u>13,687</u>	<u>12,956</u>	<u>731</u>
Expenditures:			
Utilities	13,687	12,956	731
Total expenditures	<u>13,687</u>	<u>12,956</u>	<u>731</u>
Excess of revenues (under) expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Other financing sources(uses):			
Transfers in	-	-	-
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	-	-	\$ <u><u>-</u></u>
Fund balance – beginning of period	<u>-</u>	<u>-</u>	
Fund balance – end of period	<u><u>\$ -</u></u>	<u><u>-</u></u>	

Pinon Hills Community Services District
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual – Solid Waste Fund
For the Year Ended June 30, 2017

	<u>Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Franchise fees	\$ 125,380	180,281	54,901
Total revenues	<u>125,380</u>	<u>180,281</u>	<u>54,901</u>
Expenditures:			
Salaries and benefits	6,394	8,739	(2,345)
Services and materials	5,521	26,470	(20,949)
Total expenditures	<u>11,915</u>	<u>35,209</u>	<u>(23,294)</u>
Excess of revenues over expenditures	<u>113,465</u>	<u>145,072</u>	<u>31,607</u>
Other financing sources(uses):			
Transfers in	-	-	-
Transfers out	-	(271,520)	(271,520)
Total other financing sources	<u>-</u>	<u>(271,520)</u>	<u>-</u>
Net change in fund balance	113,465	(126,448) \$	<u>31,607</u>
Fund balance – beginning of period	<u>(204,195)</u>	<u>165,190</u>	
Fund balance – end of period	<u><u>\$ (90,730)</u></u>	<u><u>38,742</u></u>	

Phelan Pinon Hills Community Service District
Notes to the Required Supplementary Information
June 30, 2017

Basis of Budgeting

The District follows specific procedures in establishing the budgetary data reflected in the financial statements. Each year, the District's General Manager and Administrative Services Manager prepare and submit a capital and operating budget to the Board of Directors and adopted no later than June of each year. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all government and proprietary funds. Annual budgets are adopted on the modified accrual basis of accounting for government fund types and accrual basis for the proprietary fund. The adopted budget becomes operative on July 1.

The Board of Directors must approve all supplemental appropriations to the budget and transfers between major funds. The legal level of budgetary control is at the fund level. Budget information is presented as required supplementary information for the General, Parks and Recreation, Street Lighting, and Solid Waste Funds.

Phelan Pinon Hills Community Service District
Schedules of the District's Proportionate Share of the Net Pension Liability (CalPERS)
As of June 30, 2017
Last Ten Years*

	Measurement Date 6/30/2016	Measurement Date 6/30/2015	Measurement Date 6/30/2014
District's Proportion of the Net Pension Liability	0.00037%	-0.00064%	-0.00059%
District's Proportionate Share of the Net Pension Liability	\$ 29,638	\$ (43,699)	\$ (36,475)
District's Covered-Employee Payroll	\$ 1,260,143	\$ 1,184,091	\$ 1,106,270
District's proportionate share of the net pension liability as a as a Percentage of its Covered-Employee Payroll	2.35%	-3.69%	-3.30%
District's Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	98.20%	103.19%	103.43%
District's Proportionate Share of Aggregate Employer Contributions	\$ 60,285	\$ 48,918	\$ 29,783

Notes:

Changes in Benefit Terms – For the measurement date June 30, 2016, there were no changes in the benefit terms.

Changes of Assumptions – For the measurement date June 30, 2016, there were no changes in the assumptions.

* Historical information presented above follows the measurement periods for which GASB 68 & 71 were applicable. The fiscal year ended June 30, 2015, was the first year of implementation required by GASB 68 & 71, therefore, only three years are shown.

Phelan Pinon Hills Community Service District
Schedules of Pension Plan Contributions (CalPERS)
As of June 30, 2017
Last Ten Years*

<u>Schedule of Pension Plan Contributions:</u>	<u>Fiscal Year Ended 6/30/2017</u>	<u>Fiscal Year Ended 6/30/2016</u>	<u>Fiscal Year Ended 6/30/2015</u>
Actuarially Determined Contribution	\$ 119,964	\$ 115,218	\$ 118,081
Contributions in Relation to the Actuarially Determined Contribution	<u>(125,840)</u>	<u>(117,285)</u>	<u>(118,081)</u>
Contribution Deficiency (Excess)	\$ <u>(5,876)</u>	\$ <u>(2,067)</u>	\$ <u>-</u>
Covered Payroll	\$ <u>1,260,143</u>	\$ <u>1,184,091</u>	\$ <u>1,106,270</u>
Contribution's as a percentage of Covered-employee Payroll	<u>9.52%</u>	<u>9.73%</u>	<u>10.67%</u>

Notes:

- * Historical information presented above follows the measurement periods for which GASB 68 & 71 were applicable. The fiscal year ended June 30, 2015, was the first year of implementation required by GASB 68 & 71, therefore, only four years are shown.



Statistical Section

**Phelan Pinon Hills Community Service District
Statistical Section**

This part of the District’s comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the District’s overall financial health.

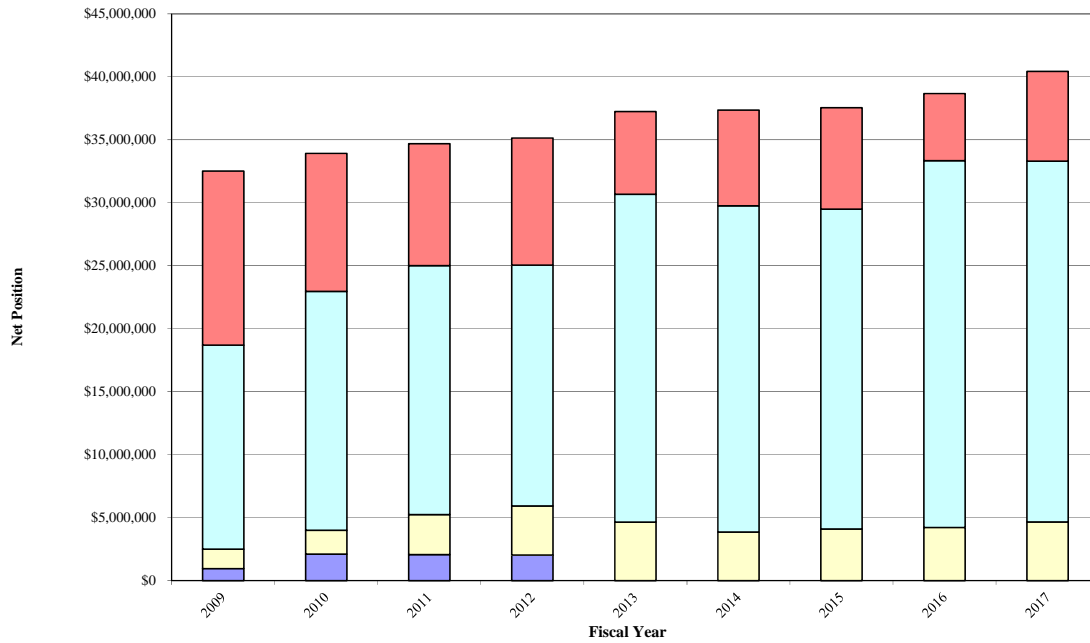
The following statistical information reflects the last nine full years of operations since the District’s initial formation in mid-fiscal year 2008.

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	<u>Page No.</u>
Financial Trends These schedules contain information to help the reader understand how the District’s financial performance and well-being have changed over time.	65
Revenue Capacity These schedules contain information to help the reader assess the District’s most significant own-source revenue, water sales.	71
Debt Capacity These schedules present information to help the reader assess the affordability of the District’s current levels of outstanding debt and the District’s ability to issue additional debt in the future.	75
Demographic Information This schedule offers demographic indicators to help the reader understand the environment within which the District’s financial activities take place.	77
Operating Information This schedule contains service and infrastructure data to help the reader understand how the information in the District’s financial report relates to the service the District provides.	78

Phelan Pinon Hills Community Services District Net Position by Component Last Nine Fiscal Years

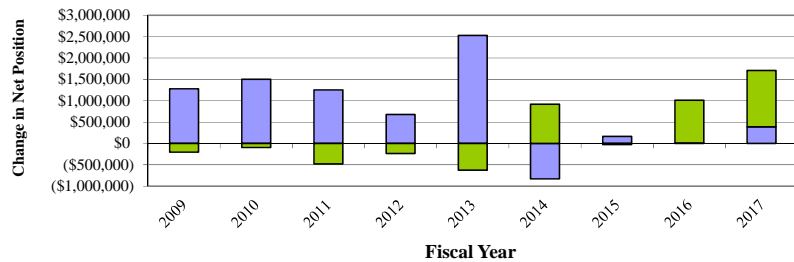
	Fiscal Year								
	2009	2010	2011	2012	2013	2014	2015	2016	2017
Governmental activities									
Invested in capital assets, net of related debt	\$ 951,513	2,104,045	2,062,298	2,020,112	3,799,590	3,770,219	3,694,550	3,579,586	3,528,938
Unrestricted	1,540,852	1,890,749	3,183,847	3,903,170	4,652,758	3,853,719	4,092,530	4,219,715	4,659,965
Total governmental activities net position	2,492,365	3,994,794	5,246,145	5,923,282	8,452,348	7,623,938	7,787,080	7,799,301	8,188,903
Business-type activities									
Invested in capital assets, net of related debt	\$ 16,194,822	18,971,254	19,762,550	19,116,771	26,019,217	25,906,040	25,401,202	29,120,934	28,643,010
Unrestricted	13,826,316	10,954,452	9,684,849	10,094,958	6,568,039	7,600,621	8,052,114	5,331,237	7,127,390
Total business-type activities net position	30,021,138	29,925,706	29,447,399	29,211,729	32,587,256	33,506,661	33,453,316	34,452,171	35,770,400
Primary government									
Invested in capital assets, net of related debt	\$ 17,146,335	21,075,299	21,824,848	21,136,883	29,818,807	29,676,259	29,095,752	32,700,520	32,171,948
Unrestricted	15,367,168	12,845,201	12,868,696	13,998,128	11,220,797	11,454,340	12,144,644	9,550,952	11,787,355
Total primary government net position	\$ 32,513,503	33,920,500	34,693,544	35,135,011	41,039,604	41,130,599	41,240,396	42,251,472	43,959,303



Source: Phelan Pinon Hills Community Service District audited financial statements

Phelan Pinon Hills Community Services District Change in Net Position Last Nine Fiscal Years

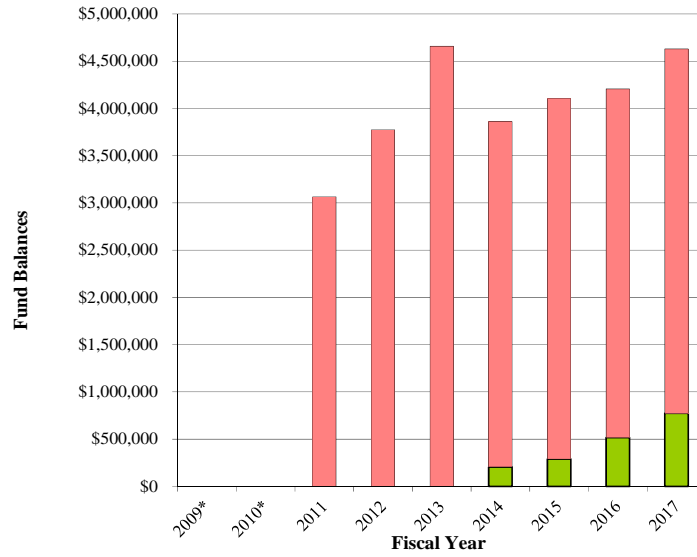
	Fiscal Year								
	2009	2010	2011	2012	2013	2014	2015	2016	2017
Expenses:									
Governmental activities:									
General government	\$ -	-	-	-	-	73,381	56,457	53,281	57,367
Parks and Recreation	191,489	229,139	274,856	240,564	1,259,421	433,697	396,400	380,024	424,872
Street Lighting	16,753	13,963	12,867	13,567	13,643	13,489	13,804	13,679	12,956
Solid Waste	-	-	-	-	450	2,173	9,377	10,133	35,209
Total governmental activities expenses	<u>208,242</u>	<u>243,102</u>	<u>287,723</u>	<u>254,131</u>	<u>1,273,514</u>	<u>522,740</u>	<u>476,038</u>	<u>457,117</u>	<u>530,404</u>
Business-type activities:									
Water enterprise	5,864,190	4,620,366	4,757,100	4,454,157	5,032,281	5,121,970	5,481,342	5,394,700	5,547,014
Total primary government expenses	<u>6,072,432</u>	<u>4,863,468</u>	<u>5,044,823</u>	<u>4,708,288</u>	<u>6,305,795</u>	<u>5,644,710</u>	<u>5,957,380</u>	<u>5,851,817</u>	<u>6,077,418</u>
Program Revenues:									
Governmental activities:									
Charges for services:									
Parks and Recreation	19,109	142,601	20,622	67,186	25,199	13,065	19,758	21,488	24,220
Capital grants and contributions	-	300,000	600,000	-	2,772,000	-	-	-	-
Total governmental activities program revenues	<u>19,109</u>	<u>442,601</u>	<u>620,622</u>	<u>67,186</u>	<u>2,797,199</u>	<u>13,065</u>	<u>19,758</u>	<u>21,488</u>	<u>24,220</u>
Business-type activities:									
Charges for services – water enterprise	4,449,747	3,640,748	3,607,564	3,556,149	3,862,480	3,975,482	4,375,271	4,521,209	5,707,335
Assessments	283,142	219,623	324,650	355,749	303,841	299,818	295,257	309,682	299,385
Capital grants and contributions	80,698	176,546	151,582	39,514	-	-	-	436,492	125,902
Total business-type activities program revenues	<u>4,813,587</u>	<u>4,036,917</u>	<u>4,083,796</u>	<u>3,951,412</u>	<u>4,166,321</u>	<u>4,275,300</u>	<u>4,670,528</u>	<u>5,267,383</u>	<u>6,132,622</u>
Net (Expense)/Revenue:									
Governmental activities	(189,133)	199,499	332,899	(186,945)	1,523,685	(509,675)	(456,280)	(435,629)	(506,184)
Business-type activities	(1,050,603)	(583,449)	(673,304)	(502,745)	(865,960)	(846,670)	(810,814)	(127,317)	585,608
Total primary government net expense	<u>(1,239,736)</u>	<u>(383,950)</u>	<u>(340,405)</u>	<u>(689,690)</u>	<u>657,725</u>	<u>(1,356,345)</u>	<u>(1,267,094)</u>	<u>(562,946)</u>	<u>79,424</u>
General Revenues and Other Changes in Net Position:									
Governmental activities:									
Property taxes	1,373,294	1,108,201	907,485	843,931	845,706	895,649	930,801	1,003,264	1,062,550
Investment income	9,390	11,191	10,967	20,151	16,555	11,667	13,607	15,827	33,106
Other income	85,300	183,538	-	-	144,527	294,734	205,275	197,710	248,130
Transfers in (out)	-	-	-	-	(1,385)	(1,520,785)	(527,170)	(768,951)	(448,000)
Total governmental activities	<u>1,467,984</u>	<u>1,302,930</u>	<u>918,452</u>	<u>864,082</u>	<u>1,005,403</u>	<u>(318,735)</u>	<u>622,513</u>	<u>447,850</u>	<u>895,786</u>
Business-type activities:									
Property taxes	-	14,631	-	-	-	41,295	21,180	21,907	19,845
Investment income	455,757	147,916	81,866	51,390	29,110	13,924	37,455	23,862	27,612
Other income	390,367	325,470	113,131	215,685	209,846	190,071	199,483	311,452	237,164
Transfers in (out)	-	-	-	-	1,385	1,520,785	527,170	768,951	448,000
Total business-type activities	<u>846,124</u>	<u>488,017</u>	<u>194,997</u>	<u>267,075</u>	<u>240,341</u>	<u>1,766,075</u>	<u>785,288</u>	<u>1,126,172</u>	<u>732,621</u>
Total primary government	<u>2,314,108</u>	<u>1,790,947</u>	<u>1,113,449</u>	<u>1,131,157</u>	<u>1,245,744</u>	<u>1,447,340</u>	<u>1,407,801</u>	<u>1,574,022</u>	<u>1,628,407</u>
Changes in Net Position:									
Governmental activities	1,278,851	1,502,429	1,251,351	677,137	2,529,088	(828,410)	166,233	12,221	389,602
Business-type activities	(204,479)	(95,432)	(478,307)	(235,670)	(625,619)	919,405	(25,526)	998,855	1,318,229
Total primary government	<u>\$ 1,074,372</u>	<u>1,406,997</u>	<u>773,044</u>	<u>441,467</u>	<u>1,903,469</u>	<u>90,995</u>	<u>140,707</u>	<u>1,011,076</u>	<u>1,707,831</u>



Source: Phelan Pinon Hills Community Service District audited financial statements

**Phelan Pinon Hills Community Services District
Fund Balances, Governmental Funds
Last Nine Fiscal Years**

		Fiscal Year								
		2009*	2010*	2011	2012	2013	2014	2015	2016	2017
General Fund: **										
Assigned	\$	-	-	-	-	-	-	-	-	-
Unassigned		-	-	-	-	-	204,907	288,875	516,149	773,776
Total general fund	\$	-	-	-	-	-	204,907	288,875	516,149	773,776
All Other Governmental Funds:										
Assigned	\$	-	-	3,064,223	3,773,709	4,658,680	3,655,592	3,812,880	3,690,087	3,856,038
Unassigned		-	-	-	-	-	-	-	-	-
Total all other government	\$	-	-	3,064,223	3,773,709	4,658,680	3,655,592	3,812,880	3,690,087	3,856,038

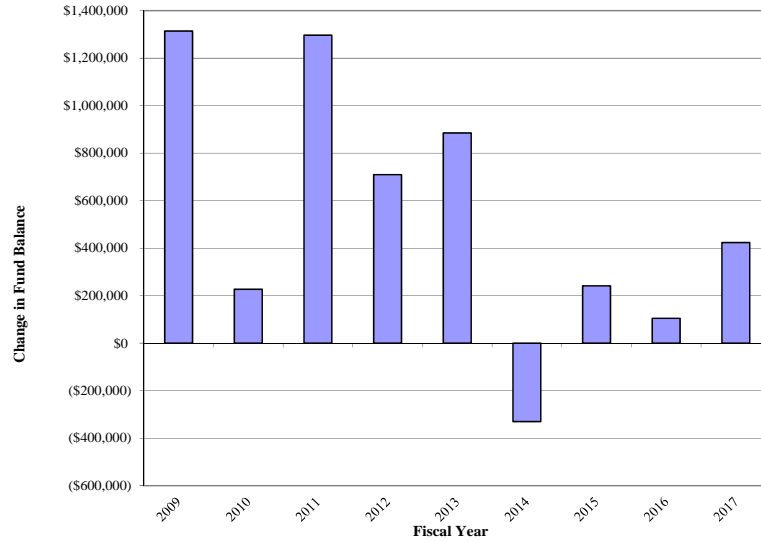


Note: * Governmental Accounting Standards Board No. 54 - *Fund Balance Reporting and Governmental Fund Type Definition* was adopted in 2011.
** Reporting for the General Fund was initiated in fiscal year 2014.

Source: Phelan Pinon Hills Community Service District audited financial statements

Phelan Pinon Hills Community Services District Changes in Fund Balances - Governmental Funds Last Nine Fiscal Years

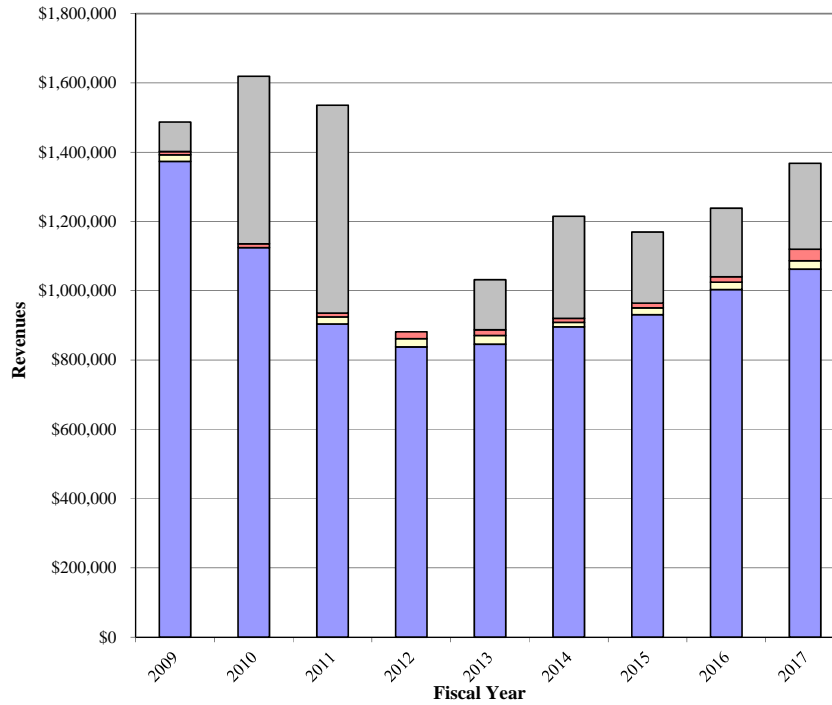
	Fiscal Year								
	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenues	\$ 1,487,093	1,619,131	1,535,598	881,727	1,031,987	1,215,115	1,169,441	1,238,289	1,368,006
Expenditures	173,263	1,392,126	239,232	172,241	145,631	492,511	401,015	364,857	496,428
Excess of revenues over (under) expenditures	1,313,830	227,005	1,296,366	709,486	886,356	722,604	768,426	873,432	871,578
Other Financing Sources (Uses)									
Proceeds from long-term debt	-	-	-	-	-	-	-	-	-
Operating transfers in	-	-	-	-	-	-	7,055	322,141	287,998
Operating transfers out	-	-	-	-	(1,385)	(1,052,785)	(534,225)	(1,091,092)	(735,998)
Total Other Financing Sources (Uses)	-	-	-	-	(1,385)	(1,052,785)	(527,170)	(768,951)	(448,000)
Net change in fund balances	\$ 1,313,830	227,005	1,296,366	709,486	884,971	(330,181)	241,256	104,481	423,578



Source: Phelan Pinon Hills Community Service District audited financial statements

Phelan Pinon Hills Community Services District Governmental Fund Revenues Last Nine Fiscal Years

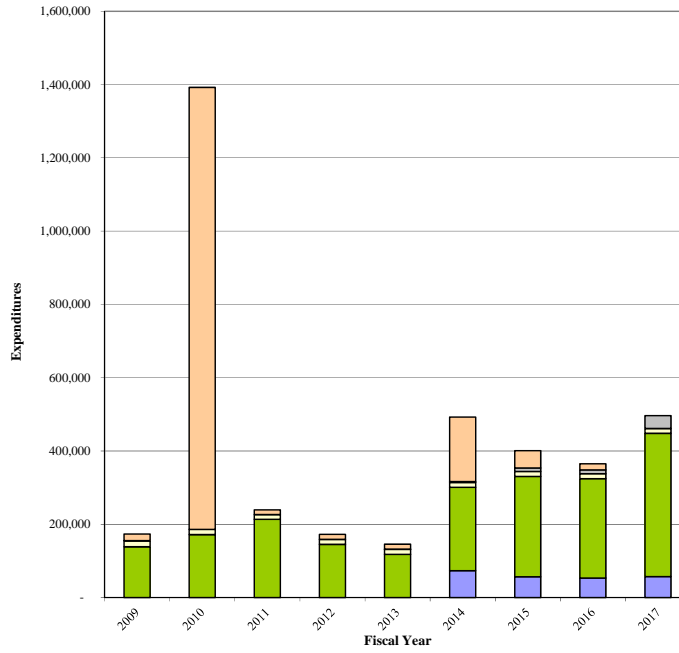
	Fiscal Year								
	2009	2010	2011	2012	2013	2014	2015	2016	2017
Property taxes	\$ 1,373,294	1,124,402	904,009	837,927	845,706	895,649	930,801	1,003,264	1,062,550
Charges for services	19,109	-	20,622	23,649	25,199	13,065	19,758	21,488	24,220
Interest	9,390	11,191	10,967	20,151	16,555	11,667	13,607	15,827	33,106
Other	85,300	483,538	600,000	-	144,527	294,734	205,275	197,710	248,130
Total governmental revenues	\$ 1,487,093	1,619,131	1,535,598	881,727	1,031,987	1,215,115	1,169,441	1,238,289	1,368,006



Source: Phelan Pinon Hills Community Service District audited financial statements

Phelan Pinon Hills Community Services District Governmental Fund Expenditures Last Nine Fiscal Years

	Fiscal Year								
	2009	2010	2011	2012	2013	2014	2015	2016	2017
General government *	-	-	-	-	-	73,381	56,457	53,281	57,367
Parks and Recreation	138,427	171,845	213,497	145,107	117,895	227,373	273,906	271,147	390,896
Street Lighting	16,753	13,963	12,867	13,567	13,643	13,489	13,804	13,679	12,956
Solid Waste **	-	-	-	-	450	2,173	9,377	10,133	35,209
Capital outlay	18,083	1,206,318	12,868	13,567	13,643	176,095	47,471	16,617	-
Total governmental expenditures \$	173,263	1,392,126	239,232	172,241	145,631	492,511	401,015	364,857	496,428



Note: * Reporting for the General Fund was initiated in fiscal year 2014.
 ** Reporting for the Solid Waste Fund started in fiscal year 2013.

Source: Phelan Pinon Hills Community Service District audited financial statements

**Phelan Pinon Hills Community Services District
Assessed Valuations – San Bernardino County
Last Nine Fiscal Years**

<u>Fiscal Year</u>	<u>Secured San Bernardino County</u>	<u>Unsecured San Bernardino County</u>	<u>Totals</u>	<u>Total Direct Tax Rate</u>
2009	\$ 1,741,368,348	16,509,903	1,757,878,251	1.000000%
2010	1,532,317,514	16,375,132	1,548,692,646	1.000000%
2011	1,324,493,910	14,652,369	1,339,146,279	1.000000%
2012	1,290,225,544	14,062,282	1,304,287,826	1.000000%
2013	1,263,174,951	12,969,370	1,276,144,321	1.000000%
2014	1,291,389,085	13,060,922	1,304,450,007	1.000000%
2015	1,348,979,703	13,974,369	1,362,954,072	1.000000%
2016	1,471,330,134	13,123,355	1,484,453,489	1.000000%
2017	1,546,141,340	12,545,948	1,558,687,288	1.000000%

Note: Property in San Bernardino County is reassessed each year. Property is assessed at actual value, therefore, the assessed values are equal to the actual values.

Source: San Bernardino County Assessor offices

**Phelan Pinon Hills Community Services District
Water Sales Revenue and Water Production
Last Nine Fiscal Years**

Fiscal Year	Water Sales Revenue				Quantity of Water Sold (HCF*)			
	Residential	Commercial	Industrial	Total	Residential	Commercial	Industrial	Total
2009	\$ 3,507,346	16,267	239,981	3,763,594	1,158,622	113,770	519	1,272,911
2010	3,434,919	198,055	2,256	3,635,230	1,047,467	89,795	1,992	1,139,254
2011	3,112,427	91,906	12,037	3,216,370	1,107,186	84,129	6,852	1,198,167
2012	3,374,117	150,628	2,034	3,526,779	1,027,852	63,206	397	1,091,455
2013	3,625,890	157,581	15,225	3,798,696	1,150,776	68,000	397	1,219,173
2014	3,745,316	144,093	12,995	3,902,404	1,136,271	60,273	6,277	1,202,821
2015	3,991,657	196,573	25,860	4,214,090	1,088,662	75,237	7,963	1,171,862
2016	4,090,260	240,168	7,577	4,338,006	837,199	71,340	7,577	916,116
2017	4,312,101	298,476	52,395	4,662,972	895,380	90,471	6,755	992,606

Note: * Hundred Cubic Feet (HCF) = 748 gallons.

Source: Phelan Pinon Hills Community Service District audited financial statements and billing records

**Phelan Pinon Hills Community Services District
Water Rates
Last Nine Fiscal Years**

Commodity Charge		March 2008 -							
Tiered	Tier (HCF)	Feb. 2013	March 1, 2013	January 1, 2014	January 1, 2015	February 1, 2016	July 1, 2016	July 1, 2017	
Tier 1	0-25	\$ na	1.69	1.89	2.02	2.50	2.22	2.35	
Tier 2	25.01+	na	1.95	2.18	2.33	3.95	3.51	3.71	
Tier 1	0-14	1.81	na	na	na	na	na	na	
Tier 2	14.01-80	2.01	na	na	na	na	na	na	
Tier 3	80.01+	2.08	na	na	na	na	na	na	

Meter Charge	Bi-Monthly				Monthly			
	March 2008 - Feb. 2013	March 1, 2013	January 1, 2014	January 1, 2015	January 1, 2016	February 1, 2016	July 1, 2016	July 1, 2017
3/4"	\$ 26.02	31.37	33.75	35.77	18.96	18.96	16.97	17.90
1"	37.20	41.65	44.81	47.49	25.17	29.22	25.91	27.46
1.5"	64.20	67.35	72.45	76.80	40.70	54.87	48.24	51.34
2"	93.50	98.19	105.63	111.97	59.34	85.65	75.04	80.00
3"	159.64	170.14	183.05	194.03	102.83	157.47	137.57	146.87
4"	245.64	272.94	293.64	311.26	164.96	260.07	226.91	242.41
6"	453.10	529.93	570.12	604.32	N/A	N/A	N/A	N/A
8"	669.24	838.32	901.90	956.01	N/A	N/A	N/A	N/A

Source: Phelan Pinon Hills Community Service District billing records

**Phelan Pinon Hills Community Services District
Water Customer Demographics
Last Nine Fiscal Years**

Customer by Type

Connection Type	2009	2010	2011	2012	2013	2014	2015	2016	2017
Residential	6,698	6,708	6,709	6,712	6,714	6,719	6,735	6,753	6,780
Commercial	50	50	50	50	51	51	51	49	42
Industrial	-	-	-	-	3	4	4	4	7
Other	2	2	2	2	-	-	-	-	-
Total	6,750	6,760	6,761	6,764	6,768	6,774	6,790	6,806	6,829

Ten Largest System Users

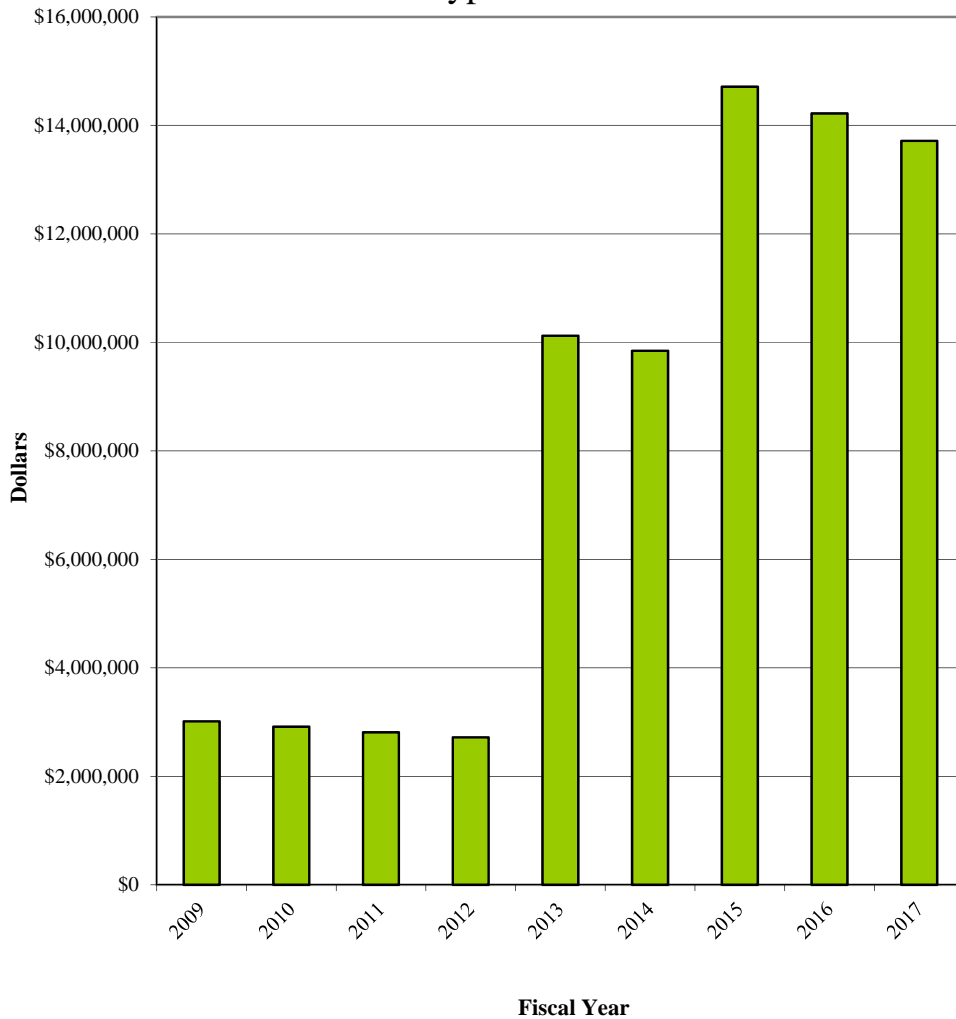
Customer	Percent of System Use	Percent of System Revenues	Customer Type
Snowline JUSD	8.79%	5.00%	Commercial
County of San Bernardino	0.37%	0.51%	Residential
Mina Jun	0.26%	0.18%	Residential
Myong Cha (Grace) Pak	0.25%	0.17%	Industrial / Other
Flatiron West Inc.	0.21%	0.28%	Residential
Kirk Radewald	0.21%	0.14%	Residential
Janice Chung	0.18%	0.12%	Residential
John & Martha Browne	0.17%	0.11%	Residential
Hae Li Lee	0.16%	0.11%	Residential
Terry & Cherie Conan	0.16%	0.10%	Residential
Totals	10.76%	6.72%	

Source: Phelan Pinon Hills Community Service District billing records

**Phelan Pinon Hills Community Services District
Ratios of Outstanding Debt
Last Nine Fiscal Years**

Fiscal Year	Business-type Activities	Total Debt	Per Capita	As a Share of Personal Income	
				Total	Business-type Activities
2009	\$ 3,014,016	3,014,016	139.87	0.46%	0.46%
2010	2,913,976	2,913,976	135.06	0.46%	0.46%
2011	2,810,444	2,810,444	130.11	0.44%	0.44%
2012	2,717,596	2,717,596	125.73	0.42%	0.42%
2013	10,121,499	10,121,499	468.05	1.64%	1.64%
2014	9,845,414	9,845,414	454.94	1.60%	1.60%
2015	14,711,230	14,711,230	678.18	2.07%	2.07%
2016	14,219,582	14,219,582	N/A	N/A	N/A
2017	13,715,100	13,715,100	N/A	N/A	N/A

Business-type Activities



Source: Phelan Pinon Hills Community Service District audited financial statements

Phelan Pinon Hills Community Services District
Debt Service Ratio
Last Nine Fiscal Years

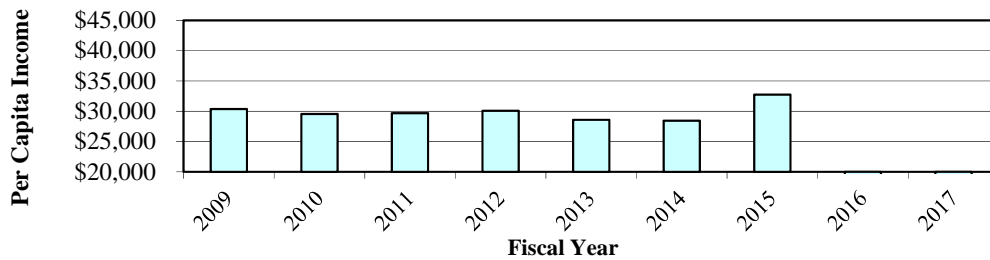
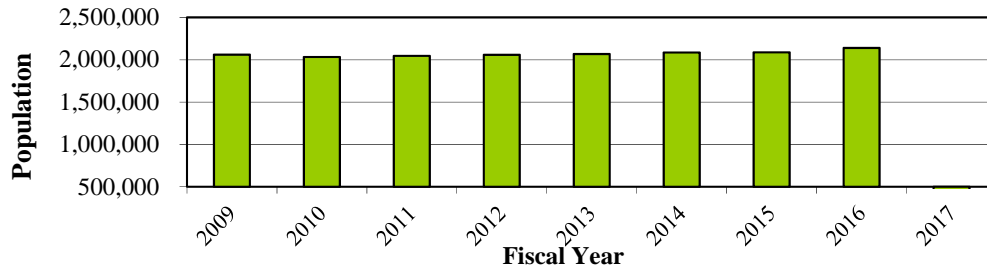
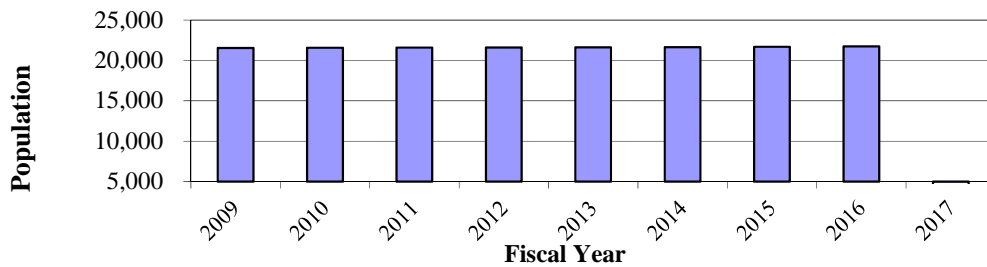
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Gross Revenues:									
Water Fund Revenues	\$ 5,579,013	4,348,388	4,127,211	4,178,972	4,405,277	4,479,295	4,908,496	5,188,112	6,291,341
Total Revenue	5,579,013	4,348,388	4,127,211	4,178,972	4,405,277	4,479,295	4,908,496	5,188,112	6,291,341
Operating Expenses:									
Water Fund Expenses	(5,864,190)	(4,620,366)	(4,757,100)	(4,454,156)	(5,032,281)	(4,862,383)	(5,104,683)	(4,120,250)	(4,070,611)
Less Depreciation	886,786	1,058,281	1,245,913	1,292,064	1,214,772	1,229,221	1,257,916	1,274,450	1,476,403
Total Water Fund Expenses	(4,977,404)	(3,562,085)	(3,511,187)	(3,162,092)	(3,817,509)	(3,633,162)	(3,846,767)	(2,845,800)	(2,594,208)
Net Revenues Water Fund	<u>601,609</u>	<u>786,303</u>	<u>616,024</u>	<u>1,016,880</u>	<u>587,768</u>	<u>846,133</u>	<u>1,061,730</u>	<u>2,342,312</u>	<u>3,697,133</u>
Senior and Parity Debt Service									
2002 Water Facilities	231,311	231,021	230,721	209,792	199,366	199,077	198,779	198,470	198,151
2012 Water Rights Acquisition	-	-	-	-	26,240	268,852	351,719	350,061	349,925
2014 Solar Project	-	-	-	-	-	-	150,150	357,591	357,591
2014 Hwy 138	-	-	-	-	-	-	13,231	26,462	35,943
Combined Total Annual Debt	<u>\$ 231,311</u>	<u>231,021</u>	<u>230,721</u>	<u>209,792</u>	<u>225,606</u>	<u>467,929</u>	<u>713,879</u>	<u>932,584</u>	<u>941,610</u>
Debt Service Coverage (times)	2.60	3.40	2.67	4.85	2.61	1.81	1.49	2.51	3.93

Source: Phelan Pinon Hills Community Service District audited financial statements

**Phelan Pinon Hills Community Services District
Demographic and Economic Statistics
Last Nine Fiscal Years**

County of San Bernardino⁽²⁾

Year	Phelan & Piñon Hills Population (1)	Unemployment Rate	Population	Personal Income (thousands of dollars)	Personal Income per Capita
2009	21,549	13.5%	2,060,950	62,576,625	30,363
2010	21,576	14.3%	2,033,141	60,089,482	29,555
2011	21,601	14.0%	2,046,619	60,789,947	29,703
2012	21,614	12.6%	2,059,699	61,957,654	30,081
2013	21,625	9.9%	2,068,610	59,127,096	28,583
2014	21,641	8.1%	2,085,669	59,345,866	28,454
2015	21,692	5.8%	2,088,371	68,387,465	32,747
2016	21,743	6.2%	2,140,096	N/A	N/A
2017	N/A	0.0%	N/A	N/A	N/A



Sources: California Department of Finance and California Labor Market Info

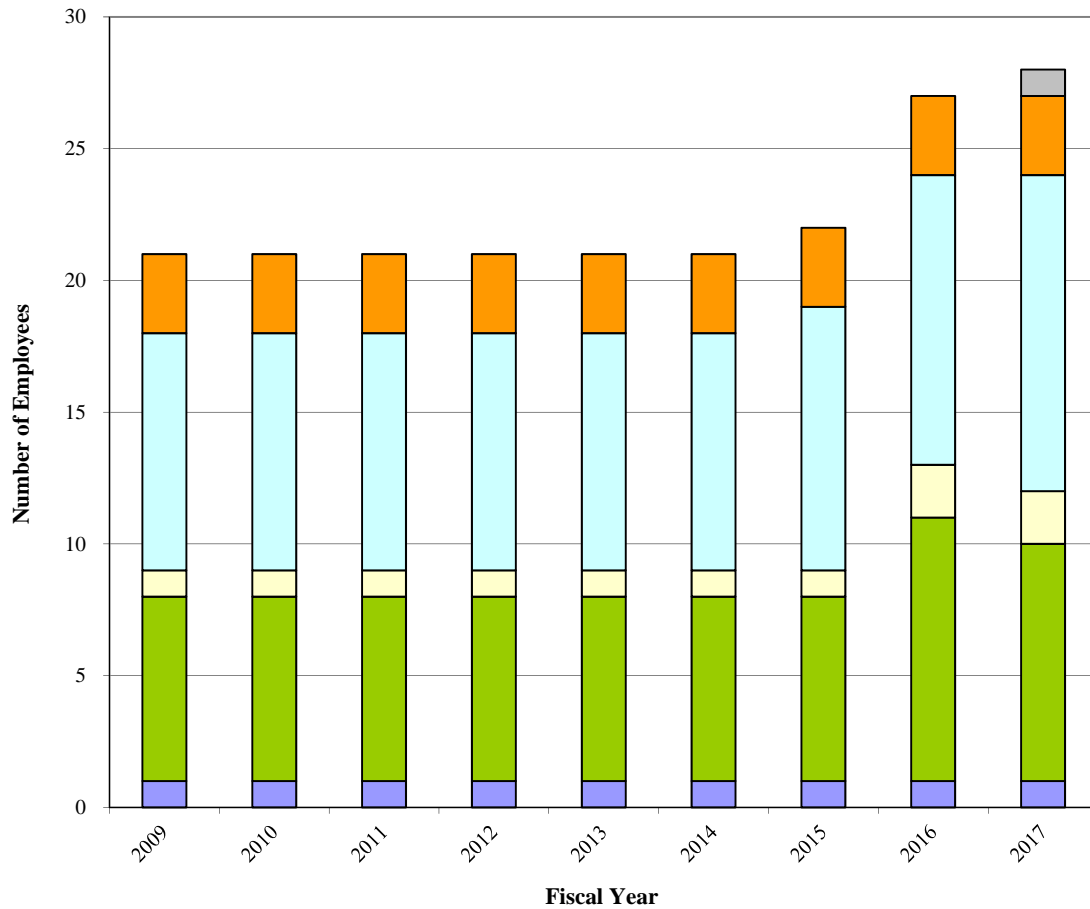
Notes:

- (1) Data is derived from the 2010 census and adjusted for the average population per meter connection. The District has chosen to use this methodology since the District believes that it provides the best approximation of area population.
- (2) Only County data is updated annually. Therefore, the District has chosen to use its data since the District believes that the County data is representative of the conditions and experience of the District: Website for State of California, Employment Development Department, San Bernardino County Profile

Phelan Pinon Hills Community Services District Operating and Capacity Indicators – By Function Last Nine Fiscal Years

District Employees by Department

Department	2009	2010	2011	2012	2013	2014	2015	2016	2017
General Manager	1	1	1	1	1	1	1	1	1
Administration	7	7	7	7	7	7	7	10	9
Engineering	1	1	1	1	1	1	1	2	2
Water Operations	9	9	9	9	9	9	10	11	12
Parks & Recreation	3	3	3	3	3	3	3	3	3
Street Lighting	0	0	0	0	0	0	0	0	0
Solid Waste	0	0	0	0	0	0	0	0	1
	<u>21</u>	<u>21</u>	<u>21</u>	<u>21</u>	<u>21</u>	<u>21</u>	<u>22</u>	<u>27</u>	<u>28</u>



**Phelan Pinon Hills Community Services District
Miscellaneous Statistics
June 30, 2017**

Water System:

Number of Pressure Zones	11
Miles of Water Main	353
Reservoirs	35
Wells	11
Booster Stations	24
Booster Pumps	63
Pressure Reducing Stations	32
Service Connections (Meters)	6,809

Parks and Recreation Facilities:

Number of Parks	2
Number of Community Centers	2
Number of Senior Centers	2

Street Lighting:

Number of Street Lights	92
Number of Lights at RR Crossings	1

Solid Waste and Recycling:

Number of Residential Customers	3,437
Number of Commercial Customers	159

Misc. Statistical Information

Population	24,164
Service Area	128 square miles
Employees	22 Full-time, 5 Part-time
Enterprise Fund Budget 2015/2016	\$6,415,138
Government Fund Budget 2015/2016	\$535,263
Capital Budget 2015/2016	\$1,240,000

Report on Compliance and Internal Controls



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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*

Board of Directors
Phelan Piñon Hills Community Services District
Phelan, 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 Piñon Hills Community Services District (District), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 1, 2017.

Internal Control Over Financial Reporting

In planning and performing our audits 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 opinion 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 entity'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 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, 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 audits, 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*.

**Independent Auditor's Report on Internal Controls Over Financial Reporting
And on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*, (continued)**

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 results 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.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
November 1, 2017