



Phelan Piñon Hills Community Services District

Annual Financial Report

For the Fiscal Year Ended June 30, 2010



PHELAN PIÑON HILLS COMMUNITY SERVICES DISTRICT

List of Elected and Appointed Officials

June 30, 2010

Elected Officials

BOARD OF DIRECTORS

<u>Title</u>	<u>Director</u>	<u>Term Expires</u>
President	Charlie Johnson	December 2013
Vice-President	Joe Fahlender	December 2011
Director	Ken Anderson	December 2011
Director	Al Morrissette	December 2013
Director	Mark Roberts	December 2013

Appointed Official

General Manager Don Bartz

**Phelan Piñon Hills Community Services District
4037 Phelan Road, Suite C-1
Phelan, California 92371
(760) 868-1212 www.pphcsd.org**



Phelan Piñon Hills Community Services District

Annual Financial Report

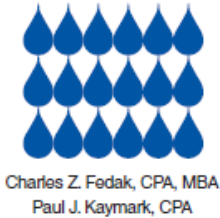
For the Fiscal Year Ended June 30, 2010

**Phelan Piñon Hills Community Services District
Annual Financial Report
For the Fiscal Year Ended June 30, 2010**

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Financial Section



Charles Z. Fedak & Company

Certified Public Accountants
An Accountancy Corporation

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Independent Auditor's Report

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

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 the Phelan Piñon Hills Community Services District (District) as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic 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 Phelan Piñon Hills Community Services District as of June 30, 2010, and the respective changes in net assets and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 18, 2010 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

October 18, 2010
Cypress, California

Charles Z. Fedak & Co. CPAs
An Accountancy Corporation

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**Phelan Piñon Hills Community Services District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010**

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, 2010. We encourage readers to consider the information presented here in conjunction with the basic financial statements and related notes, which follow this section.

Financial Highlights

- Net assets increased 4.33% or \$1,406,997 to \$33,920,500 as a result of this year's operations.
- Total revenues decreased 12.26% or \$876,339 in 2010 due primarily to a \$528,360 decrease in charges for services as a result of a one-time adjustment to receivables related to the transition from the County of San Bernardino financial records to the District's billing system and a \$220,666 decrease in service income from fiscal year 2009.
- Total expenses decreased by 19.91% or \$1,208,964 in 2010 due primarily to a decrease in the water fund expenses of \$1,243,824 from fiscal year 2009.

Using This Financial Report

This annual report consists of a series of financial statements. The Statement of Net Assets 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 Assets includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. 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 Assets 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 Assets and the Statement of Activities report information about the District in a way that helps answer this question. These statements include all assets and liabilities 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 assets* and changes in them. Think of the District's net assets – the difference between assets and liabilities – as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors; however, 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 Year Ended June 30, 2010**

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 15 through 26.

Government-wide Financial Analysis

Statement of Net Assets

The following table is a summary of the statement of net assets at June 30, 2010.

	Condensed Statement of Net Assets					
	Governmental Activities		Business-type Activities		Total District	
	2010	2009	2010	2009	2010	2009
Assets:						
Current and other assets	\$ 1,882,460	1,588,336	11,792,531	14,812,212	13,674,991	16,400,548
Non-current assets	126,400	-	-	-	126,400	-
Capital assets, net	2,104,045	951,513	21,885,230	19,208,838	23,989,275	20,160,351
Total assets	<u>4,112,905</u>	<u>2,539,849</u>	<u>33,677,761</u>	<u>34,021,050</u>	<u>37,790,666</u>	<u>36,560,899</u>
Liabilities:						
Current liabilities	116,006	47,484	918,120	1,052,008	1,034,126	1,099,492
Non-current liabilities	2,105	-	2,833,935	2,947,904	2,836,040	2,947,904
Total liabilities	<u>118,111</u>	<u>47,484</u>	<u>3,752,055</u>	<u>3,999,912</u>	<u>3,870,166</u>	<u>4,047,396</u>
Net assets:						
Net investment in capital assets	2,104,045	951,513	18,971,254	16,194,822	21,075,299	17,146,335
Unrestricted	1,890,749	1,540,852	10,954,452	13,826,316	12,845,201	15,367,168
Total net assets	<u>\$ 3,994,794</u>	<u>2,492,365</u>	<u>29,925,706</u>	<u>30,021,138</u>	<u>33,920,500</u>	<u>32,513,503</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets of the District exceeded liabilities by \$33,920,500 as of June 30, 2010. Compared to prior year, net assets of the District increased 4.33% or \$1,406,997. The District's net assets are made-up of two components: (1) net investment in capital assets and (2) unrestricted net assets.

**Phelan Piñon Hills Community Services District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010**

Statement of Activities

The following table is a summary of the statement of activities for the year ended June 30, 2010.

	Condensed Statement of Activities					
	Governmental Activities		Business-type Activities		Total District	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for services	\$ 142,601	19,109	3,860,371	4,732,889	4,002,972	4,751,998
Capital grants and contributions	300,000	-	176,546	80,698	476,546	80,698
General revenues:						
Property taxes	1,108,201	1,373,294	14,631	-	1,122,832	1,373,294
Interest earnings	11,191	9,390	147,916	455,757	159,107	465,147
Other	183,538	85,300	325,470	390,367	509,008	475,667
Total revenues	<u>1,745,531</u>	<u>1,487,093</u>	<u>4,524,934</u>	<u>5,659,711</u>	<u>6,270,465</u>	<u>7,146,804</u>
Expenses:						
Parks and recreation	229,139	191,489	-	-	229,139	191,489
Street lighting	13,963	16,753	-	-	13,963	16,753
Water	-	-	4,620,366	5,864,190	4,620,366	5,864,190
Total expenses	<u>243,102</u>	<u>208,242</u>	<u>4,620,366</u>	<u>5,864,190</u>	<u>4,863,468</u>	<u>6,072,432</u>
Change in net assets	1,502,429	1,278,851	(95,432)	(204,479)	1,406,997	1,074,372
Net assets, beginning of year	<u>2,492,365</u>	<u>1,213,514</u>	<u>30,021,138</u>	<u>30,225,617</u>	<u>32,513,503</u>	<u>31,439,131</u>
Net assets, end of year	<u>\$ 3,994,794</u>	<u>2,492,365</u>	<u>29,925,706</u>	<u>30,021,138</u>	<u>33,920,500</u>	<u>32,513,503</u>

Government and business-type activities increased the District's net assets by \$1,406,997 thereby accounting for the 4.33% increase in the net assets of the District.

Total revenues decreased 12.26% or \$876,339 in 2010 due primarily to a \$528,360 decrease in charges for services as a result of a one-time adjustment to receivables related to the transition from the County of San Bernardino financial records to the District's billing system and a \$220,666 decrease in service income from fiscal year 2009.

The District's total expenses decreased by 19.91% or \$1,208,964 in 2010 due primarily to a decrease in the water fund expenses of \$1,243,824 from fiscal year 2009.

Capital Asset Administration

	Capital Assets					
	Governmental Activities		Business-type Activities		Total District	
	2010	2009	2010	2009	2010	2009
Capital assets:						
Non-depreciable assets	\$ 1,233,329	54,453	1,625,829	869,252	2,859,158	923,705
Depreciable assets	1,069,849	1,042,407	34,164,754	31,243,454	35,234,603	32,285,861
Total capital assets	2,303,178	1,096,860	35,790,583	32,112,706	38,093,761	33,209,566
Accumulated depreciation	(199,133)	(145,347)	(13,905,353)	(12,903,868)	(14,104,486)	(13,049,215)
Total capital assets, net	<u>\$ 2,104,045</u>	<u>951,513</u>	<u>21,885,230</u>	<u>19,208,838</u>	<u>23,989,275</u>	<u>20,160,351</u>

At the end of fiscal year 2010, the District's investment in capital assets amounted to \$23,989,275 (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 4 to the basic financial statements.

**Phelan Piñon Hills Community Services District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010**

Long-Term Debt Administration

		Long-term Debt					
		Governmental Activities		Business-Type Activities		Total	
		2010	2009	2010	2009	2010	2009
Long-term debt:							
Long-term debt	\$	-	-	2,913,976	3,014,016	2,913,976	3,014,016

Long-term debt decreased due to regular debt payments. The long-term debt position of the District is more fully analyzed in note 6 to the basic financial statements.

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 funding sources, customers, stakeholders and other interested parties 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 at 4037 Phelan Road, Suite C-1, Phelan, California 92371 or (760) 868-1212.

Basic Financial Statements

Phelan Piñon Hills Community Services District
Statement of Net Assets
June 30, 2010

<i>Assets</i>	Governmental Activities	Business-type Activities	Total
Current assets:			
Cash and cash equivalents (note 2)	\$ 1,847,221	10,606,081	12,453,302
Accrued interest receivable	-	430	430
Accounts receivable – water sales and services	-	628,378	628,378
Accounts receivable – other	-	21,889	21,889
Property taxes and assessments receivable	33,780	144,027	177,807
Materials and supplies inventory	-	118,131	118,131
Prepaid expenses and other assets	1,459	164,662	166,121
Due from other funds	-	108,933	108,933
Total current assets	<u>1,882,460</u>	<u>11,792,531</u>	<u>13,674,991</u>
Non-current assets:			
Note receivable - property tax from state (note 3)	126,400	-	126,400
Capital assets – not being depreciated (note 4)	1,233,329	1,625,829	2,859,158
Capital assets – being depreciated, net (note 4)	870,716	20,259,401	21,130,117
Total non-current assets	<u>2,230,445</u>	<u>21,885,230</u>	<u>24,115,675</u>
Total assets	<u>4,112,905</u>	<u>33,677,761</u>	<u>37,790,666</u>
<i>Liabilities and Net Assets</i>			
Current liabilities:			
Accounts payable and accrued expenses	1,457	541,495	542,952
Accrued salaries and related payables	3,293	191,474	194,767
Customer deposits and deferred revenue	920	7,384	8,304
Accrued interest on long-term debt	-	58,574	58,574
Due to other funds	108,933	-	108,933
Long-term liabilities – due within one year:			
Compensated absences (note 5)	1,403	15,661	17,064
Long-term debt (note 6)	-	103,532	103,532
Total current liabilities	<u>116,006</u>	<u>918,120</u>	<u>1,034,126</u>
Non-current liabilities:			
Long-term liabilities – due in more than one year:			
Compensated absences (note 5)	2,105	23,491	25,596
Long-term debt (note 6)	-	2,810,444	2,810,444
Total non-current liabilities	<u>2,105</u>	<u>2,833,935</u>	<u>2,836,040</u>
Total liabilities	<u>118,111</u>	<u>3,752,055</u>	<u>3,870,166</u>
Net assets:			
Net investment in capital assets (note 8)	2,104,045	18,971,254	21,075,299
Unrestricted (note 9)	1,890,749	10,954,452	12,845,201
Total net assets	<u>\$ 3,994,794</u>	<u>29,925,706</u>	<u>33,920,500</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, 2010

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Governmental activities:						
Parks and recreation	\$ 229,139	142,601	300,000	213,462	-	213,462
Street lighting	13,963	-	-	(13,963)	-	(13,963)
Total governmental	<u>243,102</u>	<u>142,601</u>	<u>300,000</u>	<u>199,499</u>	<u>-</u>	<u>199,499</u>
Business-type activities:						
Water	4,620,366	3,860,371	176,546	-	(583,449)	(583,449)
Total business-type	<u>4,620,366</u>	<u>3,860,371</u>	<u>176,546</u>	<u>-</u>	<u>(583,449)</u>	<u>(583,449)</u>
Total	<u>\$ 4,863,468</u>	<u>4,002,972</u>	<u>476,546</u>	<u>199,499</u>	<u>(583,449)</u>	<u>(383,950)</u>
		General revenues:				
		Property taxes		\$ 1,108,201	14,631	1,122,832
		Interest earnings		11,191	147,916	159,107
		Other		183,538	325,470	509,008
		Total general revenues		<u>1,302,930</u>	<u>488,017</u>	<u>1,790,947</u>
		Change in net assets		1,502,429	(95,432)	1,406,997
		Net assets, beginning of year		<u>2,492,365</u>	<u>30,021,138</u>	<u>32,513,503</u>
		Net assets, end of year		<u>\$ 3,994,794</u>	<u>29,925,706</u>	<u>33,920,500</u>

See accompanying notes to the basic financial statements

Phelan Piñon Hills Community Services District
Balance Sheets – Governmental Funds
June 30, 2010

	Parks and Recreation	Street Lighting	Total Governmental Activities
Assets:			
Cash and cash equivalents	\$ 1,847,221	-	1,847,221
Property taxes and assessments receivable	33,780	-	33,780
Prepaid expenses and other deposits	1,459	-	1,459
Total assets	1,882,460	-	1,882,460
Liabilities:			
Accounts payable and accrued expenses	1,457	-	1,457
Accrued wages and related payables	3,293	-	3,293
Customer deposits and deferred revenue	920	-	920
Due to other funds	108,933	-	108,933
Total liabilities	114,603	-	114,603
Fund balance:			
Reserved for provision for parks and recreation	1,762,890	-	1,762,890
Reserved for prepaid expenses	1,459	-	1,459
Reserved for compensated absences	3,508	-	3,508
Reserved for street lighting	-	-	-
Total fund balance	1,767,857	-	1,767,857
Total liabilities and fund balance	\$ 1,882,460	-	1,882,460

Phelan Piñon Hills Community Services District
Reconciliation of the Balance Sheets of Governmental Funds to the Statement of Net Assets
June 30, 2010

Reconciliation:

Fund balance of governmental funds	\$	1,767,857
Amounts reported for governmental activities in the statement of net assets is different because:		
Non-current assets applicable to the District are not receivable in the current period and, therefore, are not reported as fund assets. All assets both current and non-current, are reported in the Statement of Net Assets as follows:		126,400
Capital 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 assets includes those capital assets among the assets of the District as a whole.		2,104,045
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 Assets as follows:		<u>(3,508)</u>
Net assets of governmental activities	\$	<u><u>3,994,794</u></u>

See accompanying notes to the basic financial statements

Phelan Piñon Hills Community Services District
Statements of Revenues, Expenditures and Changes in Fund Balances– Governmental Funds
For the Fiscal Year Ended June 30, 2010

	Parks and Recreation	Street Lighting	Total Governmental Activities
Revenues:			
Property taxes	\$ 981,801	-	981,801
Special assessments	142,601	-	142,601
Capital grants	300,000	-	300,000
Interest earnings	11,191	-	11,191
Other	183,538	-	183,538
Total revenues	1,619,131	-	1,619,131
Expenditures:			
Parks and recreation	171,845	-	171,845
Street lighting	-	13,963	13,963
Capital outlay	1,206,318	-	1,206,318
Total expenditures	1,378,163	13,963	1,392,126
Net income(loss)	240,968	(13,963)	227,005
Other financing sources(uses):			
Transfers in(out)	(13,963)	13,963	-
Total other financing sources	(13,963)	13,963	-
Change in fund balance	227,005	-	227,005
Fund balance, beginning of year	1,540,852	-	1,540,852
Fund balance, end of year	\$ 1,767,857	-	1,767,857

Phelan Piñon Hills Community Services District
Reconciliation of the Statements of Revenues, Expenditures and Changes in Fund Balance of
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2010

Reconciliation:

Net changes in fund balance of total governmental funds	\$	227,005
Amounts reported for governmental activities in the statement of activities are different because:		
Some revenues reported in the Statement of Activities are not considered current financial resources and therefore are not reported as revenues in the government funds as follows:		
Note receivable - property tax from state		126,400
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		1,206,318
Depreciation expense		(53,786)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and are therefore not reported as expenses in the governmental fund as follows:		
Net change in compensated absences		<u>(3,508)</u>
Change in net assets of governmental activities	\$	<u><u>1,502,429</u></u>

See accompanying notes to the basic financial statements

Phelan Piñon Hills Community Services District
Statements of Net Assets – Enterprise Funds
June 30, 2010

<i>Assets</i>	Water Enterprise
Current assets:	
Cash and cash equivalents	\$ 10,606,081
Accrued interest receivable	430
Accounts receivable – utilities, net	628,378
Accounts receivable – other	21,889
Property taxes and assessments receivable	144,027
Materials and supplies inventory	118,131
Prepaid expenses and other assets	164,662
Due from other funds	108,933
Total current assets	11,792,531
Non-current assets:	
Capital assets – not being depreciated	1,625,829
Capital assets – being depreciated, net	20,259,401
Total non-current assets	21,885,230
Total assets	33,677,761
<i>Liabilities and Net Assets</i>	
Current liabilities:	
Accounts payable and accrued expenses	541,495
Accrued salaries and related payables	191,474
Customer deposits and deferred revenue	7,384
Accrued interest on long-term debt	58,574
Long-term liabilities – due within one year:	
Compensated absences	15,661
Long-term debt	103,532
Total current liabilities	918,120
Non-current liabilities:	
Long-term liabilities – due in more than one year:	
Compensated absences	23,491
Long-term debt	2,810,444
Total non-current liabilities	2,833,935
Total liabilities	3,752,055
Net assets:	
Net investment in capital assets	18,971,254
Unrestricted	10,954,452
Total net assets	\$ 29,925,706

See accompanying notes to the basic financial statements

Phelan Piñon Hills Community Services District
Statements of Revenues, Expenses and Changes in Fund Net Assets – Enterprise Funds
For the Year Ended June 30, 2010

		<u>Water Enterprise</u>
Operating revenues:		
Water consumption sales	\$	2,219,450
Monthly meter service charge		1,343,450
Special assessment		219,623
Other charges and services		<u>77,848</u>
Total operating revenues		<u>3,860,371</u>
Operating expenses:		
Source of supply – water related purchases		228,683
Pumping – utilities		778,341
Transmission and distribution		1,313,040
General and administrative		<u>1,104,480</u>
Total operating expenses		<u>3,424,544</u>
Operating income before depreciation		435,827
Depreciation		<u>(1,058,281)</u>
Operating loss		<u>(622,454)</u>
Non-operating revenues(expenses):		
Interest earnings		147,916
Property taxes		14,631
Interest expense – long-term debt		(127,200)
Other non-operating revenues		325,470
Other non-operating expenses		<u>(10,341)</u>
Total non-operating revenues, net		<u>350,476</u>
Net loss before capital contributions		<u>(271,978)</u>
Capital contributions:		
Connection fees		59,692
Capital grants		<u>116,854</u>
Capital contributions		<u>176,546</u>
Change in net assets		(95,432)
Net assets, beginning of year		<u>30,021,138</u>
Net assets, end of year	\$	<u><u>29,925,706</u></u>

See accompanying notes to the basic financial statements

Phelan Piñon Hills Community Services District
Statements of Cash Flows – Enterprise Funds
For the Year Ended June 30, 2010

	<u>Water</u> <u>Enterprise</u>
Cash flows from operating activities:	
Cash receipts from customers	\$ 3,798,790
Cash paid to vendors and suppliers	<u>(3,761,925)</u>
Net cash used in operating activities	<u>36,865</u>
Cash flows from non-capital financing activities:	
Other non-operating revenues	325,470
Other non-operating expenses	<u>(10,341)</u>
Net cash provided by non-capital financing activities	<u>315,129</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(3,734,673)
Proceeds from capital contributions	59,692
Principal payments on long-term debt	(100,040)
Interest payments on long-term debt	<u>(68,626)</u>
Net cash used in capital and financing activities	<u>(3,843,647)</u>
Cash flows from investing activities:	
Purchases and sales of investments, net	326,415
Interest earnings	<u>147,486</u>
Net cash used in investing activities	<u>473,901</u>
Net decrease in cash	(3,332,881)
Cash and cash equivalents, beginning of year	<u>13,938,962</u>
Cash and cash equivalents, end of year	<u>\$ 10,606,081</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	<u>(622,454)</u>
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	1,058,281
Changes in assets and liabilities:	
(Increase)decrease in assets:	
Accounts receivable – water sales and services	101,535
Accounts receivable – other	(19,089)
Property taxes and assessments receivable	(144,027)
Materials and supplies inventory	(45,699)
Prepaid expenses and other assets	(137,314)
Increase(decrease) in liabilities:	
Accounts payable and accrued expenses	(103,252)
Accrued salaries and related payables	19,967
Customer deposits and deferred revenue	(64,998)
Compensated absences	(6,085)
Total adjustments	<u>659,319</u>
Net cash used in operating activities	<u>\$ 36,865</u>

See accompanying notes to the basic financial statements

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements
June 30, 2010

(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.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Statements No. 14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations Are Component Units* (an amendment of No. 14). The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The District has no blended or discretely-presented component units.

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements
June 30, 2010

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

B. Basis of Accounting and Measurement Focus

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

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 and liabilities, including capital assets, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. 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 assets 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 are 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, 2010

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

B. Basis of Accounting and Measurement Focus, continued

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed in both the government-wide and propriety fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

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

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.

Enterprise Funds

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

C. Financial Statement Elements

1. 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.

2. 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.

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2010

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

C. Financial Statement Elements, continued

3. 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

4. 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.

5. Prepaid Expenses

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

6. 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 estimated fair market 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

Business-Type Activities

- Facility and systems – 10 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, 2010

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

C. Financial Statement Elements, continued

7. Net Assets/Fund Balances

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

- **Net Investment in Capital Assets** – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt against the acquisition, construction or improvement of those assets.
- **Restricted Net Assets** – This component of net assets consists of net assets that are restricted for a specific use and are not available for the general use of the District.
- **Unrestricted Net Assets** – This component of net assets consists of net assets that do not meet the definition of *restricted* or *net investment in capital assets*.

In the fund financial statements, reserves and designations segregate portions of fund balances that are either not available or have been earmarked for specific purposes. Reservations and designations of fund balance are described below:

- **Reserved** – Some of the assets reported in governmental funds are not available for spending in the subsequent year's budget. Fund balance also is reserved to indicate situations where a position of fund balance is not available for spending on any and all purposes of the fund.
- **Unreserved Designated** – Designations essentially reflect a government's self imposed limitations on the use of otherwise available current financial resources.

8. 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.

9. 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.

10. 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 and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net assets during the reporting period. Actual results could differ from those estimates.

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2010

(2) Cash and Investments

Cash and cash equivalents consist of the following:

	2010
Cash on hand	\$ 1,300
Deposits held with financial institutions	12,173,287
Deposits held with California Local Agency Investment Fund (LAIF)	278,715
Total	\$ 12,453,302

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

Deposits held with California Local Agency Investment Fund (LAIF)	203 days
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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.

Local Agency Investment Fund

The District is a voluntary participant in the California Local Agency Investment Fund (LAIF) that is regulated by California Code Section 16429 under oversight of the Treasurer of the State of California. Each agency in the fund may invest up to \$40 million and may invest without limitation in special bond proceeds accounts. 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.

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, 2010

(2) Cash and Cash Equivalents, continued

Credit Risk

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.

Concentration of Credit Risk

The District's investment policy does not contain 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 governmental agencies such as the Local Agency Investment Fund (LAIF) was 2% of the District's total depository and investment portfolio as of June 30, 2010.

(3) Note Receivable – Property Tax from State

Under the provisions of the State of California Proposition 1A and as part of the 2010 fiscal year State of California budget package passed by the California State Legislature on July 28, 2009, the State of California borrowed 8.0% of the amount of property tax revenue apportioned to cities, counties and special districts. The State of California is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California State Legislature may consider only one additional borrowing within a ten-year period. The amount of the borrowing pertaining to the District was \$126,400. The borrowing by the State of California was recognized as a note receivable in the accompanying financial statements.

(4) Capital Assets

Governmental Activities:

Changes in capital assets for the year were as follows:

	<u>Balance 2009</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2010</u>
Non-depreciable assets:				
Land	\$ 43,026	1,137,717	-	1,180,743
Construction in progress	11,427	68,601	(27,442)	52,586
Total non-depreciable assets	<u>54,453</u>	<u>1,206,318</u>	<u>(27,442)</u>	<u>1,233,329</u>
Depreciable assets:				
Land improvements	1,029,562	27,442	-	1,057,004
Equipment	12,845	-	-	12,845
Total depreciable assets	<u>1,042,407</u>	<u>27,442</u>	<u>-</u>	<u>1,069,849</u>
Accumulated depreciation:				
Land improvements	(144,009)	(53,144)	-	(197,153)
Equipment	(1,338)	(642)	-	(1,980)
Total accumulated depreciation	<u>(145,347)</u>	<u>(53,786)</u>	<u>-</u>	<u>(199,133)</u>
Total depreciable assets, net	<u>897,060</u>	<u>(26,344)</u>	<u>-</u>	<u>870,716</u>
Total capital assets, net	<u>\$ 951,513</u>			<u>2,104,045</u>

Major governmental capital asset additions during fiscal year 2010 include additions to non-depreciable land and depreciable land improvements.

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2010

(4) Capital Assets, continued

Enterprise Funds:

Changes in capital assets for the year were as follows:

	<u>Balance 2009</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2010</u>
Non-depreciable assets:				
Land	\$ 340,434	440,401	-	780,835
Construction in progress	528,818	3,249,530	(2,933,354)	844,994
Total non-depreciable assets	<u>869,252</u>	<u>3,689,931</u>	<u>(2,933,354)</u>	<u>1,625,829</u>
Depreciable assets:				
Transmission and distribution mains	16,947,819	241,696	-	17,189,515
Reservoirs	4,187,496	-	-	4,187,496
Pumping Station	3,935,081	179,727	-	4,114,808
Wells	3,911,795	530,370	-	4,442,165
Tanks	1,418,853	44,551	-	1,463,404
Hydrants and telemetry control	186,054	5,615	-	191,669
Meters	-	1,921,146	-	1,921,146
Vehicles and equipment	656,356	54,991	(56,796)	654,551
Total depreciable assets	<u>31,243,454</u>	<u>2,978,096</u>	<u>(56,796)</u>	<u>34,164,754</u>
Accumulated depreciation:				
Transmission and distribution mains	(8,635,606)	(460,924)	-	(9,096,530)
Reservoirs	(1,358,181)	(159,247)	-	(1,517,428)
Pumping Station	(1,984,165)	(100,282)	-	(2,084,447)
Wells	(572,219)	(103,396)	-	(675,615)
Tanks	(123,698)	(36,890)	-	(160,588)
Hydrants and telemetry control	(83,724)	(37,304)	-	(121,028)
Meters	-	(48,029)	-	(48,029)
Vehicles and equipment	(146,275)	(112,209)	56,796	(201,688)
Total accumulated depreciation	<u>(12,903,868)</u>	<u>(1,058,281)</u>	<u>56,796</u>	<u>(13,905,353)</u>
Total depreciable assets, net	<u>18,339,586</u>	<u>1,919,815</u>	<u>-</u>	<u>20,259,401</u>
Total capital assets, net	<u>\$ 19,208,838</u>	<u>5,609,746</u>	<u>(2,933,354)</u>	<u>21,885,230</u>

Major enterprise capital asset additions during fiscal year 2010 include additions to non-depreciable land and depreciable transmission and distribution system mains, pump stations, wells, tanks, hydrants and telemetry control, meters, and vehicles and equipment.

(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 Assets.

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

	<u>Balance 2009</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance 2010</u>	<u>Due Within One Year</u>	<u>Due in more than one year</u>
\$	<u>45,237</u>	<u>58,913</u>	<u>(61,490)</u>	<u>42,660</u>	<u>17,064</u>	<u>25,596</u>

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2010

(6) Long-term Debt

Changes in long-term debt were as follows:

	Balance 2009	Additions	Payments	Balance 2010
Bonds payable:				
CA Infrastructure & Economic Dev. Bank	\$ 3,014,016	-	(100,040)	2,913,976
Total loan payable	3,014,016	-	(100,040)	2,913,976
Less: current portion	(100,040)			(103,532)
	\$ 2,913,976			2,810,444

California Infrastructure & Economic Development Bank – Revenue Bonds Payable

The San Bernardino County Special District County Service Area 70, Zone L, entered into an Installment Loan 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 was \$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 17, 2002 at an interest rate of 3.50%. Principal and interest payments are due on the Bonds each February 1st.

Fiscal Year	Principal	Interest	Total
2011	\$ 103,532	117,148	220,680
2012	107,156	113,524	220,680
2013	110,906	109,774	220,680
2014	114,788	105,892	220,680
2015	118,805	101,874	220,679
2016-2020	659,389	444,010	1,103,399
2021-2025	783,147	320,252	1,103,399
2026-2030	916,253	173,266	1,089,519
Totals	2,913,976	1,485,740	4,399,716
Less: current portion	(103,532)		
Total non-current	\$ 2,810,444		

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2010

(7) Defined Benefit Pension Plan

Plan Description

The District contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multi-employer defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS act as a common investment and administrative agent for participating public agencies within the State of California. Benefit provisions and all other requirements are established by state statute and the Agency. Copies of CalPERS annual financial report may be obtained form their executive Office: 400 P Street, Sacramento, CA, 95814.

Funding Policy

The contribution rate for plan members in the CalPERS 2.5% at 55 Risk Pool Retirement Plan is 8% of their annual covered salary. The Agency makes these contributions required of Agency employees on their behalf and for their account. Also, the Agency is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The required employer contribution rates are equal to the annual pension costs (APC) percentage of payroll for fiscal year 2010 as noted below. The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS. For fiscal year 2010, the Agencies annual contribution for CalPERS and were equal to the Agencies required and actual contribution for each fiscal year as follows:

Three Year Funding Information:

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>	<u>APC Percentage of Payroll</u>
2008*	\$ -	100%	-	0.000%
2009*	-	100%	-	0.000%
2010	200,484	100%	-	10.309%

The Districts defined benefit pension plan was implemented in fiscal year 2010.

(8) Net Investment in Capital Assets

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
The balance consists of the following:			
Capital assets – not being depreciated	\$ 1,233,329	1,625,829	2,859,158
Capital assets – being depreciated, net	870,716	20,259,401	21,130,117
Long-term debt – current portion	-	(103,532)	(103,532)
Long-term debt – long-term portion	-	(2,810,444)	(2,810,444)
Total	<u>\$ 2,104,045</u>	<u>18,971,254</u>	<u>21,075,299</u>

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2010

(9) Unrestricted Net Assets

Net assets are designated as follows:	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Parks and recreation	\$ 1,889,290	-	1,889,290
Street lighting	-	-	-
Materials and supplies inventory	-	118,131	118,131
Prepaid expenses and other assets	1,459	108,933	110,392
Water operations and capital replacement	-	10,727,388	10,727,388
Total	<u>\$ 1,890,749</u>	<u>10,954,452</u>	<u>12,845,201</u>

(10) 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, 2010, 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 \$400,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverage's.
- 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 \$2,000 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.
- 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, with no 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 2010 and 2009. 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 claims payable as of June 30, 2010 and 2009.

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2010

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2010, that has effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 54

In February 2009, the GASB issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. This statement is not effective for this District until the fiscal year ended June 30, 2011. The statement is not expected to have a significant impact on the presentation of the District's financial statements.

Governmental Accounting Standards Board Statement No. 59

In June 2010, the GASB issued Statement No. 59, *Financial Instruments Omnibus*. This statement improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools. This statement is not effective for this District until the fiscal year ended June 30, 2011. This statement is not expected to have a significant impact on the presentation of the District's financial statements.

(12) Commitments and Contingencies

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.

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.

Report on Compliance and Internal Controls



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Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting 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 the basic financial statements of the Phelan Piñon Hills Community Services District (District) as of and for the year ended June 30, 2010, and have issued our report thereon dated October 18, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

October 18, 2010
Cypress, California

Charles Z. Fedak & Co. CPAs
An Accountancy Corporation