



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

**Comprehensive Annual Financial Report**

**For the Fiscal Year Ended**

**June 30, 2014**



**4176 Warbler Road | Phelan, CA**



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

**Comprehensive Annual Financial Report**

**For the Fiscal Year Ended**

**June 30, 2014**

Prepared by:

*Lori Lowrance, Administrative Services Manager*

**Phelan Piñon Hills Community Services District  
Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2014**

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# **Introductory Section**





November 30, 2014

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, 2014. 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 Charles Z. Fedak & Company, CPAs 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.

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.

### ***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 odd years. For the currently seated Board, three Directors were elected in November of 2013 and two Directors will be 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, Parks & Recreation, Government Affairs, and Finances. 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. The District currently employs nineteen full-time and two part-time employees. There are no plans to increase staffing levels at this time. 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.

### ***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 almost 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, we have 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. We do have some at strategic intersections to help in providing safety to the community. We consider 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.

### ***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.

## **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 six years revenues have decreased and the cost of operating the District has continued to rise. Property tax revenue decreased by over 40% between 2008 and 2012 due to the reduction in property values in the District. Water revenue decreased by 16% between 2009 and 2012 primarily due to the number of vacant properties within the District. The cost of pumping water out of the ground (the only water source) increased by 18% in 2013 and by another 14% in 2014 due to the Southern California Edison rate changes. The cost of operations continue to rise, including costs of producing and delivering water, and providing clean, safe parks and community centers with increased 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 our 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. Currently, the District is in the process of initiating a solar project that will result in credits against the most costly and uncontrollable expense: electricity. After loan repayment, the estimated savings due to the solar project are \$11 million dollars over twenty years. The combined results of these two measures are savings estimated to exceed \$35 million dollars over the next thirty years.

### *Current Financial Plans*

In 2012 the District conducted the first water rate and fee study. The study was completed over a six month period with several public workshops held throughout the process to garner public involvement and input. On February 20, 2013, after exceeding notification and meeting requirements of Proposition 218 (now Articles XII C & D of the California Constitution), the Board held a public hearing on the proposed multi-year rate change. As there were only a few protests, the Board adopted Resolution #2013-01, approving the water rate changes. The Board of Directors reviews the approved rate changes each year to determine the necessity of the rate change, and to determine if the change can be reduced as a result of District efforts to lower expenses and obtain additional revenues to help mitigate the costs of operations. For example, the District is currently in negotiations to install 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 offset its considerable electric costs, currently over \$800,000 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 expected to be finalized and formally adopted by the Board of Directors in the coming fiscal year.

## **Relevant Financial Policies and Controls**

The District's Financial Policies include the Reserve Policy, the Investment Policy, Government Fund Balance Policy, Purchasing Policy, and Revenue Policy. The District's Controls include the Budgetary Control, Internal Control Structure and Risk Management.

### ***Reserve Policy***

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, services 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 three to six 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***

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.

### ***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.

### ***Purchasing Policy***

The purpose of the policy is to standardize the purchasing procedures of the District, thereby securing the advantages of a uniform purchasing policy, saving the taxpayers money and increasing public confidence and 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 Manger and District staff. The Purchasing policy is reviewed periodically and updated as deemed appropriate by the Board of Directors.

### ***Revenue Policy***

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.

### ***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 fiscal year 2014 include:

- Create Finance page on website
- Complete procedures manual for administration and financial tasks
- Implement scanning for Tyler processes
- Complete fifty percent of scanning of customer account files
- Complete Cost Allocation Study
- Implement cost allocation processes

## ***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 fiscal year 2014 include:

- Alternative Energy Project (solar)
- Caltrans Highway 138 Water Pipeline Relocation Project
- Cross Connection Control Program
- Dairy Property Annexation
- Future Tank Land Acquisition
- GIS Mobile Application (SEDARU)
- GIS Website Project
- Piñon Hills Park Expansion
- SCADA Upgrade and Replacement
- Sheep Creek Wash Retention and Recharge Basin
- Tank Interior Coating Reports
- Tank Exterior Coating Project

## ***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 fiscal year 2014 include:

- Develop hydrant and valve maintenance program
- Develop air valve release locating and maintenance program
- Train operators on water line location and marking
- SCADA system replacement and upgrade
- Develop and implement in-house backflow prevention certification and program

## ***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 fiscal year 2014 include:

- Phelan Farmers Market
- Senior Lunch Program
- Grass and picnic area at Phelan Park
- Expansion of Piñon Hills Park, including new basketball court and play equipment

### ***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.

### ***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 fiscal year 2014 include:

- Community Clean Up Day
- Tire Recycling Program
- Implement Office Recycling Program

### **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.

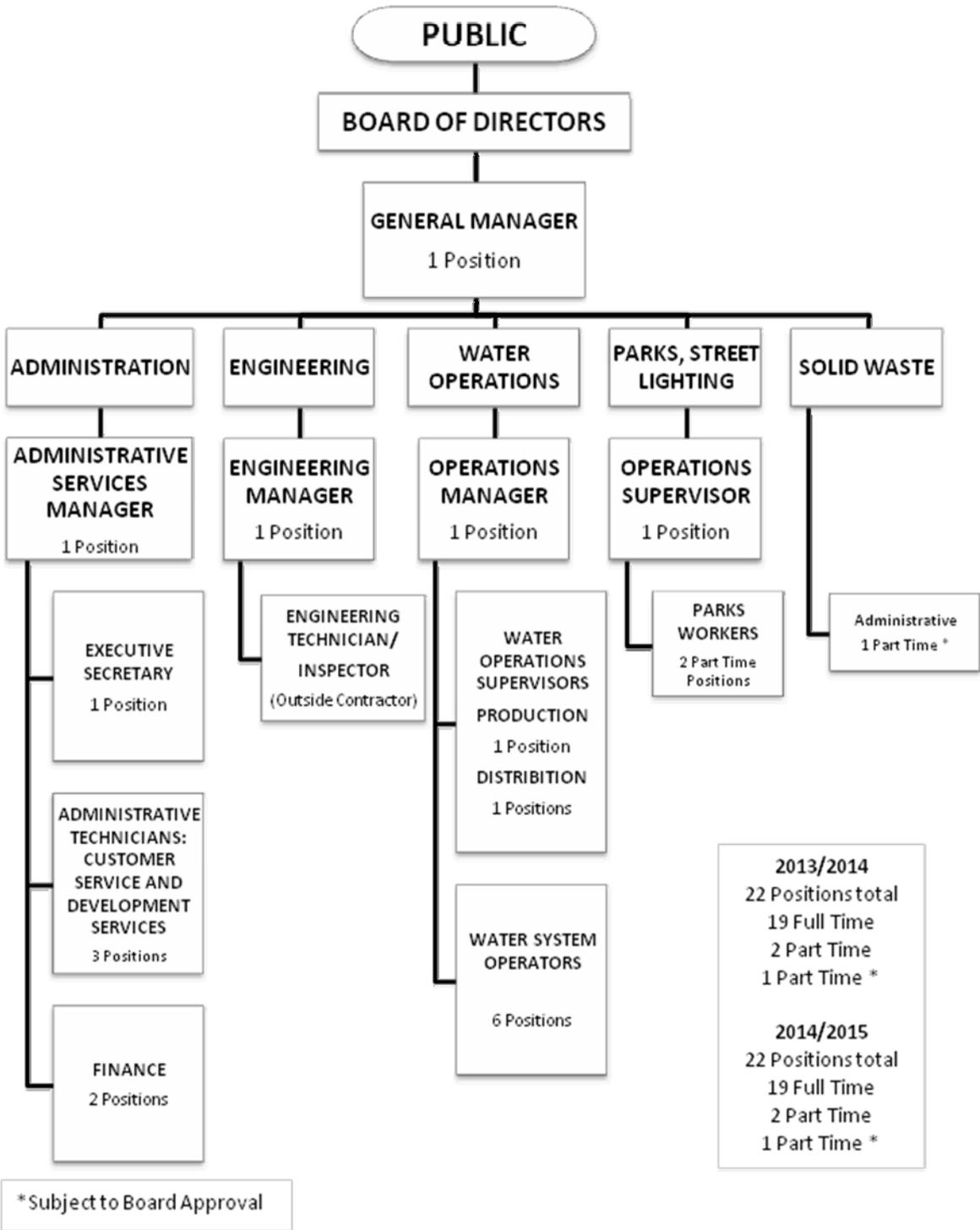
Respectfully submitted,



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Don Bartz, General Manager

# Organizational Chart



# 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.”*

## Board of Directors

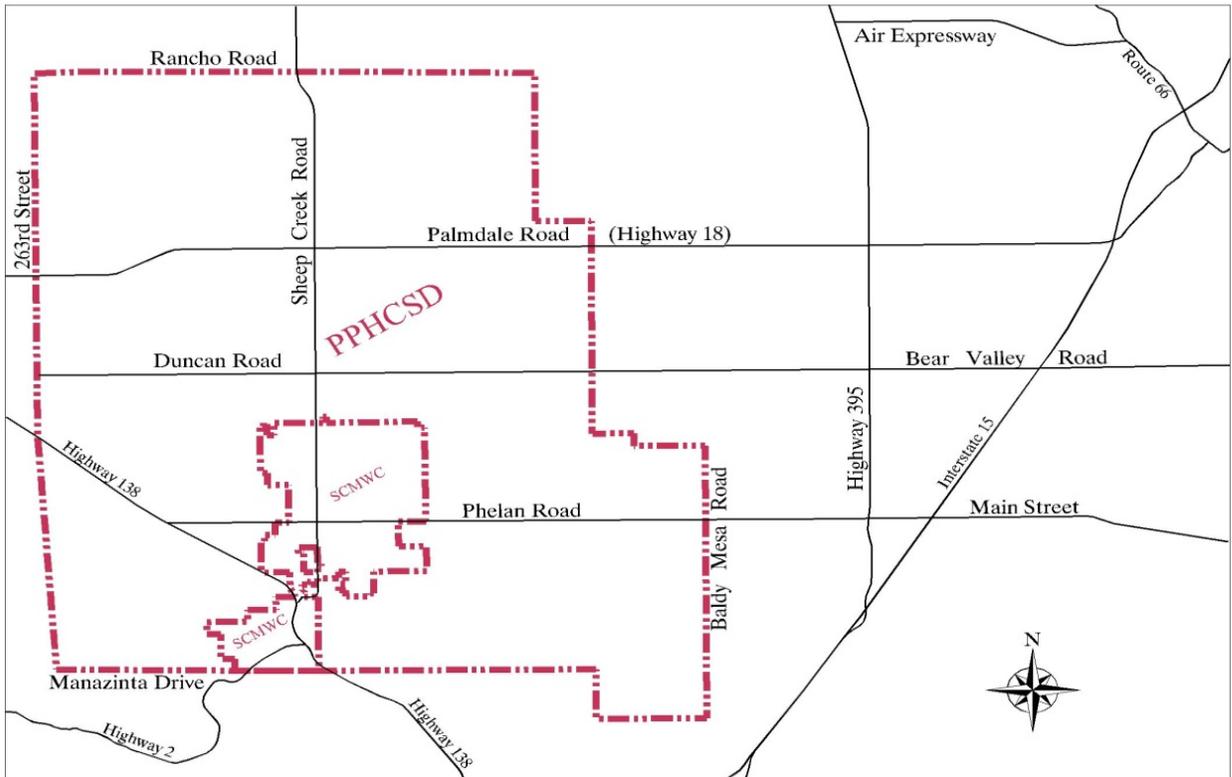
<u>Name</u>	<u>Title</u>	<u>Elected/ Appointed</u>	<u>Term Expires</u>
Alex Brandon	President	Elected	2015
Al Morrissette	Vice President	Elected	2017
Cathy Pace	Director	Elected	2017
Mark Roberts	Director	Appointed	2015
Dan Whalen	Director	Elected	2017

## District Management

Donald Bartz	General Manager
Lori Lowrance	Administrative Services Manager
George Cardenas	Engineering Manager
Jack Stonesifer	Water Operations Manager

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

# District Service Area





# **Financial Section**





Charles Z. Fedak, CPA, MBA  
Paul J. Kaymark, CPA  
Christopher J. Brown, CPA

# Charles Z. Fedak & Company

Certified Public Accountants  
An Accountancy Corporation

6081 Orange Avenue  
Cypress, California 90630  
(714) 527-1818  
(562) 598-6565  
FAX (714) 527-9154  
EMAIL [czfco@czfcpa.com](mailto:czfco@czfcpa.com)  
WEB [www.czfcpa.com](http://www.czfcpa.com)

## 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, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinions.

### Opinions

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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## 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 14 through 17 and budgetary comparison information on pages 42 through 46 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 8 and statistical section on pages 47 through 62 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 30, 2014, 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 63 and 64.

*Charles Z. Fedak & Company CPAs - An Accountancy Corporation*

**Charles Z. Fedak & Company, CPAs – An Accountancy Corporation**  
Cypress, California  
November 30, 2014

**Phelan Piñon Hills Community Services District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2014**

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, 2014. 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 Position increased 0.22% or \$90,995 to \$41,130,599 in 2014, as the result of operations.
- Total revenues decreased 30.13% or \$2,473,559 in 2014, due primarily to a \$2,772,000 decrease in capital contributions in the government fund, and an increase in service revenues in the amount of \$108,979 for the water fund, and \$91,238 in total property taxes.
- Total expenses decreased by 10.48% or \$661,085 in 2014, due primarily to a decrease in government fund expenses of \$825,724 related to the write-down of certain contributed assets in 2013, and an \$89,689 increase in water fund expenses from fiscal year 2013.

**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 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 position* and changes in it. Think of the District's net position – the difference between assets and deferred outflows of resources, and 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. One 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, 2014**

**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 27 through 41.

**Government-wide Financial Analysis**

**Statement of Net Position**

The following table is a summary of the statement of net position at June 30, 2014.

	<b>Condensed Statements of Net Position</b>					
	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total District</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>Assets:</b>						
Current and other assets	\$ 3,880,516	4,706,343	8,136,940	7,030,598	12,017,456	11,736,941
Capital assets, net	<u>3,770,219</u>	<u>3,799,590</u>	<u>35,751,454</u>	<u>36,140,716</u>	<u>39,521,673</u>	<u>39,940,306</u>
<b>Total assets</b>	<u>7,650,735</u>	<u>8,505,933</u>	<u>43,888,394</u>	<u>43,171,314</u>	<u>51,539,129</u>	<u>51,677,247</u>
<b>Liabilities:</b>						
Current liabilities	23,407	50,635	779,855	706,379	803,262	757,014
Non-current liabilities	<u>3,390</u>	<u>2,950</u>	<u>9,601,878</u>	<u>9,877,679</u>	<u>9,605,268</u>	<u>9,880,629</u>
<b>Total liabilities</b>	<u>26,797</u>	<u>53,585</u>	<u>10,381,733</u>	<u>10,584,058</u>	<u>10,408,530</u>	<u>10,637,643</u>
<b>Net position:</b>						
Net investment in capital assets	3,770,219	3,799,590	25,906,040	26,019,217	29,676,259	29,818,807
Unrestricted	<u>3,853,719</u>	<u>4,652,758</u>	<u>7,600,621</u>	<u>6,568,039</u>	<u>11,454,340</u>	<u>11,220,797</u>
<b>Total net position</b>	<u>\$ 7,623,938</u>	<u>8,452,348</u>	<u>33,506,661</u>	<u>32,587,256</u>	<u>41,130,599</u>	<u>41,039,604</u>

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 of the District exceeded liabilities by \$41,130,599 as of June 30, 2014. Compared to prior year, net position of the District increased 0.22% or \$90,995. 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 Year Ended June 30, 2014**

**Statement of Activities**

The following table is a summary of the statement of activities for the year ended June 30, 2014.

	<b>Condensed Statements of Activities</b>					
	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total District</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>Revenues:</b>						
<b>Program revenues:</b>						
Charges for services	\$ 13,065	20,289	4,275,300	4,166,321	4,288,365	4,186,610
Capital grants and contributions	-	2,772,000	-	-	-	2,772,000
<b>General revenues:</b>						
Property taxes	374,864	845,706	562,080	-	936,944	845,706
Interest earnings	11,667	16,555	13,924	29,110	25,591	45,665
Other	294,734	149,437	190,071	209,846	484,805	359,283
<b>Total revenues</b>	<u>694,330</u>	<u>3,803,987</u>	<u>5,041,375</u>	<u>4,405,277</u>	<u>5,735,705</u>	<u>8,209,264</u>
<b>Expenses:</b>						
General	73,381	-	-	-	73,381	-
Parks and recreation	433,697	1,259,421	-	-	433,697	1,259,421
Street lighting	13,489	13,643	-	-	13,489	13,643
Solid waste	2,173	450	-	-	2,173	450
Water	-	-	5,121,970	5,032,281	5,121,970	5,032,281
<b>Total expenses</b>	<u>522,740</u>	<u>1,273,514</u>	<u>5,121,970</u>	<u>5,032,281</u>	<u>5,644,710</u>	<u>6,305,795</u>
<b>Transfers from(to) other funds</b>	<u>(1,000,000)</u>	<u>(1,385)</u>	<u>1,000,000</u>	<u>1,385</u>	<u>-</u>	<u>-</u>
<b>Change in net position</b>	<u>(828,410)</u>	<u>2,529,088</u>	<u>919,405</u>	<u>(625,619)</u>	<u>90,995</u>	<u>1,903,469</u>
<b>Net position, beginning of year</b>	8,452,348	5,923,260	32,587,256	29,211,729	41,039,604	35,134,989
<b>Prior period adjustment</b>	-	-	-	4,001,146	-	4,001,146
<b>Net position, end of year</b>	<u>\$ 7,623,938</u>	<u>8,452,348</u>	<u>33,506,661</u>	<u>32,587,256</u>	<u>41,130,599</u>	<u>41,039,604</u>

Net Position increased 0.22%, or \$90,995 to \$41,130,599, in 2014, as the result of operations.

Total revenues decreased 30.13% or \$2,473,559 in 2014, due primarily to a \$2,772,000 decrease in capital contributions in the government fund, and an increase in service revenues in the amount of \$108,979 for the water fund, and \$91,238 in total property taxes.

Total expenses decreased by 10.48% or \$661,085 in 2014, due primarily to a decrease in government fund expenses of \$825,724 related to the write-down of certain contributed assets in 2013, and an \$89,689 increase in water fund expenses from fiscal year 2013.

**Capital Asset Administration**

	<b>Capital Assets</b>					
	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total District</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>Capital assets:</b>						
Non-depreciable assets	\$ 2,744,873	2,716,853	17,864,132	17,881,182	20,609,005	20,598,035
Depreciable assets	<u>1,757,364</u>	<u>2,452,849</u>	<u>36,797,830</u>	<u>35,940,821</u>	<u>38,555,194</u>	<u>38,393,670</u>
<b>Total capital assets</b>	4,502,237	5,169,702	54,661,962	53,822,003	59,164,199	58,991,705
<b>Accumulated depreciation</b>	<u>(732,018)</u>	<u>(1,370,112)</u>	<u>(18,910,508)</u>	<u>(17,681,287)</u>	<u>(19,642,526)</u>	<u>(19,051,399)</u>
<b>Total capital assets, net</b>	<u>\$ 3,770,219</u>	<u>3,799,590</u>	<u>35,751,454</u>	<u>36,140,716</u>	<u>39,521,673</u>	<u>39,940,306</u>

**Phelan Piñon Hills Community Services District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2014**

**Capital Asset Administration, continued**

At the end of fiscal year 2014, the District's investment in capital assets amounted to \$39,521,673 (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.

**Long-Term Debt Administration**

	<b>Long-term Debt</b>					
	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Long-term debt:						
Long-term debt	\$ -	-	9,845,414	10,121,499	9,845,414	10,121,499
<b>Total long-term debt</b>	<b>\$ -</b>	<b>-</b>	<b>9,845,414</b>	<b>10,121,499</b>	<b>9,845,414</b>	<b>10,121,499</b>

Long-term debt decreased in 2014 due to \$276,085 in regular debt service 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 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, 2014**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Current assets:</b>			
Cash and cash equivalents (note 2)	\$ 3,843,094	6,981,291	10,824,385
Accrued interest receivable	-	156	156
Accounts receivable – water sales and services	-	849,612	849,612
Accounts receivable – other	10,069	320	10,389
Property taxes and assessments receivable	27,353	120,672	148,025
Materials and supplies inventory	-	141,224	141,224
Prepaid expenses and other assets	-	43,665	43,665
Total current assets	3,880,516	8,136,940	12,017,456
<b>Non-current assets:</b>			
Capital assets – not being depreciated (note 4)	2,744,872	17,864,132	20,609,004
Capital assets – being depreciated, net (note 4)	1,025,347	17,887,322	18,912,669
Total non-current assets	3,770,219	35,751,454	39,521,673
<b>Total assets</b>	7,650,735	43,888,394	51,539,129
<b>Current liabilities:</b>			
Accounts payable and accrued expenses	12,945	248,115	261,060
Accrued salaries and related payables	6,632	79,561	86,193
Customer deposits and unearned revenue	440	28,193	28,633
Accrued interest on long-term debt	-	100,300	100,300
Long-term liabilities – due within one year:			
Compensated absences (note 5)	3,390	40,075	43,465
Long-term debt (note 6)	-	283,611	283,611
Total current liabilities	23,407	779,855	803,262
<b>Non-current liabilities:</b>			
Long-term liabilities – due in more than one year:			
Compensated absences (note 5)	3,390	40,075	43,465
Long-term debt (note 6)	-	9,561,803	9,561,803
Total non-current liabilities	3,390	9,601,878	9,605,268
<b>Total liabilities</b>	26,797	10,381,733	10,408,530
<b>Net position:</b>			
Net investment in capital assets (note 8)	3,770,219	25,906,040	29,676,259
Unrestricted (note 8)	3,853,719	7,600,621	11,454,340
<b>Total net position</b>	\$ 7,623,938	33,506,661	41,130,599

See accompanying notes to the basic financial statements

**Phelan Piñon Hills Community Services District**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2014**

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>		<b>Net (Expense) Revenue and Changes in Net Position</b>		
		<b>Charges for Services</b>	<b>Capital Grants and Contributions</b>	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Governmental activities:</b>						
General	\$ 73,381	-	-	(73,381)	-	(73,381)
Parks and recreation	433,697	13,065	-	(420,632)	-	(420,632)
Street lighting	13,489	-	-	(13,489)	-	(13,489)
Solid waste	2,173	-	-	(2,173)	-	(2,173)
Total governmental	522,740	13,065	-	(509,675)	-	(509,675)
<b>Business-type activities:</b>						
Water	5,121,970	4,275,300	-	-	(846,670)	(846,670)
Total business-type	5,121,970	4,275,300	-	-	(846,670)	(846,670)
<b>Total</b>	<b>\$ 5,644,710</b>	<b>4,288,365</b>	<b>-</b>	<b>(509,675)</b>	<b>(846,670)</b>	<b>(1,356,345)</b>
<b>General revenues:</b>						
Property taxes				\$ 374,864	562,080	936,944
Interest earnings				11,667	13,924	25,591
Other				294,734	190,071	484,805
Total general revenues				681,265	766,075	1,447,340
Transfers from(to) other funds				(1,000,000)	1,000,000	-
Change in net position				(828,410)	919,405	90,995
Net position, beginning of year				8,452,348	32,587,256	41,039,604
Net position, end of year				\$ 7,623,938	33,506,661	41,130,599

See accompanying notes to the basic financial statements

**Phelan Piñon Hills Community Services District**  
**Balance Sheet – Governmental Funds**  
**June 30, 2014**

	<u>General</u>	<u>Parks and Recreation</u>	<u>Street Lighting</u>	<u>Solid Waste</u>	<u>Total Governmental Activities</u>
<b>Assets:</b>					
Cash and cash equivalents	\$ 177,994	3,345,608	-	319,492	3,843,094
Accounts receivable – services	-	1,143	-	8,926	10,069
Property taxes and assessments receivable	27,353	-	-	-	27,353
<b>Total assets</b>	<u>205,347</u>	<u>3,346,751</u>	<u>-</u>	<u>328,418</u>	<u>3,880,516</u>
<b>Liabilities:</b>					
Accounts payable and accrued expenses	-	12,945	-	-	12,945
Accrued wages and related payables	-	6,632	-	-	6,632
Unearned revenue	440	-	-	-	440
<b>Total liabilities</b>	<u>440</u>	<u>19,577</u>	<u>-</u>	<u>-</u>	<u>20,017</u>
<b>Fund balance:</b>					
Assigned	-	6,632	-	-	6,632
Unassigned	204,907	3,320,542	-	328,418	3,853,867
<b>Total fund balance</b>	<u>204,907</u>	<u>3,327,174</u>	<u>-</u>	<u>328,418</u>	<u>3,860,499</u>
<b>Total liabilities and fund balance</b>	<u>\$ 205,347</u>	<u>3,346,751</u>	<u>-</u>	<u>328,418</u>	<u>3,880,516</u>

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, 2014**

**Reconciliation:**

Fund balance of governmental funds	\$	3,860,499
Amounts reported for governmental activities in the statement of net position is different because:		
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 Position includes those capital assets among the assets of the District as a whole.		3,770,219
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:		<u>(6,780)</u>
Net position of governmental activities	\$	<u><u>7,623,938</u></u>

See accompanying notes to the basic financial statements

**Phelan Piñon Hills Community Services District**  
**Statement of Revenues, Expenditures and Changes in Fund Balances– Governmental Funds**  
**For the Fiscal Year Ended June 30, 2014**

	<u>General</u>	<u>Parks and Recreation</u>	<u>Street Lighting</u>	<u>Solid Waste</u>	<u>Total Governmental Activities</u>
<b>Revenues:</b>					
Charges for services	\$ -	13,065	-	-	13,065
Property taxes	109,017	252,358	13,489	-	374,864
Investment earnings	23	11,644	-	-	11,667
Other	140,001	5,296	-	149,437	294,734
<b>Total revenues</b>	<u>249,041</u>	<u>282,363</u>	<u>13,489</u>	<u>149,437</u>	<u>694,330</u>
<b>Expenditures:</b>					
General	73,381	-	-	-	73,381
Parks and recreation	-	227,373	-	-	227,373
Street lighting	-	-	13,489	-	13,489
Solid waste	-	-	-	2,173	2,173
Capital outlay	-	176,095	-	-	176,095
<b>Total expenditures</b>	<u>73,381</u>	<u>403,468</u>	<u>13,489</u>	<u>2,173</u>	<u>492,511</u>
<b>Net income(loss)</b>	<u>175,660</u>	<u>(121,105)</u>	<u>-</u>	<u>147,264</u>	<u>201,819</u>
<b>Other financing sources(uses):</b>					
Transfers in	1,029,247	-	-	172,602	1,201,849
Transfers (out)	(1,000,000)	(1,201,849)	-	-	(2,201,849)
Total other financing sources(uses)	<u>29,247</u>	<u>(1,201,849)</u>	<u>-</u>	<u>172,602</u>	<u>(1,000,000)</u>
<b>Change in fund balance</b>	<u>204,907</u>	<u>(1,322,954)</u>	<u>-</u>	<u>319,866</u>	<u>(798,181)</u>
<b>Fund balance, beginning of year</b>	<u>-</u>	<u>4,650,128</u>	<u>-</u>	<u>8,552</u>	<u>4,658,680</u>
<b>Fund balance, end of year</b>	<u>\$ 204,907</u>	<u>3,327,174</u>	<u>-</u>	<u>328,418</u>	<u>3,860,499</u>

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, 2014**

**Reconciliation:**

Net changes in fund balance of total governmental funds	\$ (798,181)
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	176,095
Depreciation expense	(204,906)
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>(1,418)</u>
Change in net position of governmental activities	\$ <u><u>(828,410)</u></u>

See accompanying notes to the basic financial statements

**Phelan Piñon Hills Community Services District**  
**Statement of Net Position – Enterprise Fund**  
**June 30, 2014**

	<u>Water Enterprise</u>
<b>Current assets:</b>	
Cash and cash equivalents	\$ 6,981,291
Accrued interest receivable	156
Accounts receivable – water sales and services	849,612
Accounts receivable – other	320
Property taxes and assessments receivable	120,672
Materials and supplies inventory	141,224
Prepaid expenses and other assets	<u>43,665</u>
Total current assets	<u>8,136,940</u>
<b>Non-current assets:</b>	
Capital assets – not being depreciated	17,864,132
Capital assets – being depreciated, net	<u>17,887,322</u>
Total non-current assets	<u>35,751,454</u>
<b>Total assets</b>	<u><u>43,888,394</u></u>
<b>Current liabilities:</b>	
Accounts payable and accrued expenses	248,115
Accrued salaries and related payables	79,561
Customer deposits and deferred revenue	28,193
Accrued interest on long-term debt	100,300
Long-term liabilities – due within one year:	
Compensated absences	40,075
Long-term debt	<u>283,611</u>
Total current liabilities	<u>779,855</u>
<b>Non-current liabilities:</b>	
Long-term liabilities – due in more than one year:	
Compensated absences	40,075
Long-term debt	<u>9,561,803</u>
Total non-current liabilities	<u>9,601,878</u>
<b>Total liabilities</b>	<u>10,381,733</u>
<b>Net position:</b>	
Net investment in capital assets	25,906,040
Unrestricted	<u>7,600,621</u>
<b>Total net position</b>	<u><u>\$ 33,506,661</u></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 Year Ended June 30, 2014**

	<b>Water Enterprise</b>
<b>Operating revenues:</b>	
Water consumption sales	\$ 2,263,658
Monthly meter service charge	1,638,746
Special assessment	299,818
Other charges and services	73,078
Total operating revenues	4,275,300
<b>Operating expenses:</b>	
Source of supply – water related purchases	36,544
Pumping – utilities	848,417
Transmission and distribution	490,334
General and administrative	2,235,101
Total operating expenses	3,610,396
Operating income before depreciation	664,904
Depreciation	(1,229,221)
<b>Operating loss</b>	(564,317)
<b>Non-operating revenues(expenses):</b>	
Property taxes	562,080
Interest earnings	13,924
Interest expense – long-term debt	(251,987)
Other non-operating revenues	190,071
Other non-operating expenses	(30,366)
Total non-operating revenues, net	483,722
<b>Net loss before capital contributions</b>	(80,595)
<b>Transfers from(to) other funds</b>	1,000,000
<b>Change in net position</b>	919,405
<b>Net position, beginning of year</b>	32,587,256
<b>Net position, end of year</b>	\$ 33,506,661

See accompanying notes to the basic financial statements

**Phelan Piñon Hills Community Services District**  
**Statement of Cash Flows – Enterprise Fund**  
**For the Year Ended June 30, 2014**

	<u>Water</u> <u>Enterprise</u>
Cash flows from operating activities:	
Cash receipts from customers	\$ 4,182,126
Cash paid to employees	(1,229,162)
Cash paid to vendors and suppliers	<u>(1,607,595)</u>
Net cash provided by operating activities	<u>1,345,369</u>
Cash flows from non-capital financing activities:	
Transfers from other fund	1,000,000
Other non-operating revenues	<u>190,071</u>
Net cash provided by non-capital financing activities	<u>1,190,071</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(1,012,538)
Principal payments on long-term debt	(276,085)
Interest payments on long-term debt	<u>(151,687)</u>
Net cash used in capital and financing activities	<u>(1,440,310)</u>
Cash flows from investing activities:	
Interest earnings	<u>13,768</u>
Net cash provided by investing activities	<u>13,768</u>
Net increase in cash	1,108,898
Cash and cash equivalents, beginning of year	<u>5,872,393</u>
Cash and cash equivalents, end of year	\$ <u><u>6,981,291</u></u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	<u>(564,317)</u>
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	1,229,221
Other non-operating expenses	912,634
Changes in assets and liabilities:	
(Increase)decrease in assets:	
Accounts receivable – water sales and services	(41,772)
Accounts receivable – other	9,228
Property taxes and assessments receivable	(60,630)
Materials and supplies inventory	(46,218)
Prepaid expenses and other assets	99,571
Increase(decrease) in liabilities:	
Accounts payable and accrued expenses	(19,772)
Accrued salaries and related payables	(116,254)
Customer deposits and deferred revenue	(24,976)
Compensated absences	<u>(31,346)</u>
Total adjustments	<u>1,909,686</u>
Net cash provided by operating activities	\$ <u><u>1,345,369</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, 2014**

**(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**

As part of the 2014 Comprehensive Annual Financial Report, the District determined to expand governmental fund reporting by inclusion a General Fund. The General Fund is used to account for and report all financial resources not accounted for and reported in another fund.

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 (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.

**Phelan Piñon Hills Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2014**

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

**B. Basis of Accounting and Measurement Focus, continued**

**Financial Reporting**

***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.

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.

**Phelan Piñon Hills Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2014**

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

**B. Basis of Accounting and Measurement Focus, continued**

**Financial Reporting**

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. 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, 2014**

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

**C. Financial Statement Elements**

**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, 2014**

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

**C. Financial Statement Elements, continued**

**7. Net Position/Fund Balances**

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 any remaining balance of the District’s net position that do not meet the definition of “restricted” or “net investment in capital assets”.

**8. Fund Equity**

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.

**Phelan Piñon Hills Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2014**

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

**C. Financial Statement Elements, continued**

**8. Fund Equity, continued**

***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.

**9. 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.

**10. 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.

**11. 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.

**(2) Cash and Investments**

Cash and cash equivalents consist of the following:

	<b>2014</b>
Cash on hand	\$ 1,600
Deposits held with financial institutions	10,521,826
Deposits held with San Bernardino County Treasurer	18,448
Deposits held with California Local Agency Investment Fund (LAIF)	282,511
Total	\$ 10,824,385

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

Deposits held with California Local Agency Investment Fund (LAIF)	232 days
-------------------------------------------------------------------	----------

***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, 2014**

**(2) Cash and Investments, continued**

***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.

***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 2.61% of the District's total depository and investment portfolio as of June 30, 2014.

**Phelan Piñon Hills Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2014**

**(3) Prior Period Adjustment**

In fiscal year 2013, the District determined that water rights granted to the District under terms of the District's formation agreement were not recognized and recorded as an asset by the District. These water rights are the District's "free production allowance" as assigned under the Mojave water Agency Adjudication. The water rights allow the District to pump a certain amount of water out of the basin each year. In this case, the District received 1,416 acre feet of water rights in the Osete Basin and 355 acre feet in the Alto Basin when the District was formed. As those rights are transferable, they were determined to be an asset valued based on the permanent water transfers\* that took place in 2008.

\*Mojave Basin Area Watermaster permanent transfers of base annual projection right October 2007-September 2008.

The effect of the prior period adjustment is as follows:

	<b>Business-Type Activities</b>
Net position-end of 2012 - as previously stated	\$ 29,211,729
Adjustment to recognize water rights	4,001,146
Net position- end of 2012 - as restated	33,212,875
Change in net position	(625,619)
Net position - end of year	\$ 32,587,256

**(4) Capital Assets**

***Governmental Activities:***

Changes in capital assets for the year were as follows:

	<b>Balance 2013</b>	<b>Additions</b>	<b>Deletions/ Transfers</b>	<b>Balance 2014</b>
Non-depreciable assets:				
Land	\$ 2,569,743	-	-	2,569,743
Construction in progress	147,110	176,095	(148,075)	175,130
Total non-depreciable assets	2,716,853	176,095	(148,075)	2,744,873
Depreciable assets:				
Building	540,000	-	-	540,000
Land improvements	1,900,004	122,675	(843,000)	1,179,679
Wells	-	24,840	-	24,840
Equipment	12,845	-	-	12,845
Total depreciable assets	1,069,849	147,515	(843,000)	1,757,364
Accumulated depreciation:				
Building	(315,353)	(6,142)	-	(321,495)
Land improvements	(1,050,852)	(198,122)	843,000	(405,974)
Wells	-	-	-	-
Equipment	(3,907)	(642)	-	(4,549)
Total accumulated depreciation	(1,370,112)	(204,906)	843,000	(732,018)
Total depreciable assets, net	(300,263)	(57,391)	-	1,025,346
Total capital assets, net	\$ 2,416,590			3,770,219

Major governmental capital asset additions during fiscal year 2014 include additions to land improvements in the amount of \$122,675, wells in the amount of \$24,840, and construction in progress in the amount of \$176,095.

**Phelan Piñon Hills Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2014**

**(4) Capital Assets, continued**

***Business-type Activities:***

Changes in capital assets for the year were as follows:

	<u>Balance 2013</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2014</u>
Non-depreciable assets:				
Land	\$ 779,824	943,000	-	1,722,824
Water rights	14,760,033	-	(943,000)	13,817,033
Construction in progress	<u>2,341,325</u>	<u>899,730</u>	<u>(916,780)</u>	<u>2,324,275</u>
Total non-depreciable assets	<u>17,881,182</u>	<u>1,842,730</u>	<u>(1,859,780)</u>	<u>17,864,132</u>
Depreciable assets:				
Building	563,265	-	-	563,265
Transmission and distribution mains	17,200,389	264,274	-	17,464,663
Reservoirs	4,187,496	-	-	4,187,496
Pumping Station	4,114,808	-	-	4,114,808
Wells	4,904,977	-	-	4,904,977
Tanks	1,463,404	513,586	-	1,976,990
Hydrants and telemetry control	191,669	-	-	191,669
Meters	1,921,146	-	-	1,921,146
Planning and development	319,427	-	-	319,427
Vehicles and equipment	<u>1,074,240</u>	<u>79,149</u>	<u>-</u>	<u>1,153,389</u>
Total depreciable assets	<u>35,940,821</u>	<u>857,009</u>	<u>-</u>	<u>36,797,830</u>
Accumulated depreciation:				
Transmission and distribution mains	(10,453,880)	(394,436)	-	(10,848,316)
Reservoirs	(1,979,882)	(154,151)	-	(2,134,033)
Pumping Station	(2,401,243)	(105,599)	-	(2,506,842)
Wells	(1,069,960)	(144,117)	-	(1,214,077)
Tanks	(278,907)	(42,294)	-	(321,201)
Hydrants and telemetry control	(189,517)	(1,123)	-	(190,640)
Meters	(624,372)	(192,115)	-	(816,487)
Planning and development	(64,422)	(32,211)	-	(96,633)
Vehicles and equipment	<u>(619,104)</u>	<u>(163,175)</u>	<u>-</u>	<u>(782,279)</u>
Total accumulated depreciation	<u>(17,681,287)</u>	<u>(1,229,221)</u>	<u>-</u>	<u>(18,910,508)</u>
Total depreciable assets, net	<u>18,259,534</u>	<u>(372,212)</u>	<u>-</u>	<u>17,887,322</u>
Total capital assets, net	<u>\$ 36,140,716</u>	<u>1,470,518</u>	<u>(1,859,780)</u>	<u>35,751,454</u>

Major enterprise fund capital asset additions during fiscal year 2014 include additions to land in the amount of \$943,000, construction in progress in the amount of \$899,730. Additions to depreciable assets include transmission and distribution mains in the amount of \$264,274, tanks in the amount of \$513,586, and vehicles and equipment in the amount of \$79,149.

**Phelan Piñon Hills Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2014**

**(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.

*Governmental:*

<u>Balance</u> <u>2013</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance</u> <u>2014</u>	<u>Due Within</u> <u>One Year</u>	<u>Due in more</u> <u>than one year</u>
\$ 64,533	132,918	(117,301)	80,150	40,075	40,075

*Enterprise:*

<u>Balance</u> <u>2013</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance</u> <u>2014</u>	<u>Due Within</u> <u>One Year</u>	<u>Due in more</u> <u>than one year</u>
\$ 5,899	7,206	(6,325)	6,780	3,390	3,390

**(6) Long-term Debt**

Changes in long-term debt were as follows:

	<u>Balance</u> <u>2013</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>2014</u>
CIEDB - 02-033	\$ 2,621,499	-	(99,460)	2,522,039
CIEDB - 12-101	7,500,000	-	(176,625)	7,323,375
Total loan payable	10,121,499	-	(276,085)	9,845,414
Less: current portion	(276,086)			(283,611)
Total non-current portion	\$ 9,845,413			9,561,803

***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 1<sup>st</sup>, with principal and interest payments due each August 1<sup>st</sup>.

**Phelan Piñon Hills Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2014**

**(6) Long-term Debt, continued**

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 102,942	88,272	191,214
2016	106,545	84,668	191,213
2017	110,274	80,940	191,214
2018	114,133	77,080	191,213
2019	118,128	73,086	191,214
2020-2024	655,728	300,436	956,164
2025-2029	778,680	177,386	956,066
2030-2032	535,609	37,930	573,539
Totals	2,522,039	919,798	3,441,837
Less: current portion	(102,942)		
Total non-curren \$	<u>2,419,097</u>		

***California Infrastructure & Economic Development Bank – 12-101 Installment Sale Agreement***

In 2013, the District entered into an agreement with the California Infrastructure and Economic Development Bank (CIEDB) to fund the purchase of water rights in the amount of \$7,500,000. The term of the agreement is thirty years from December 2013, at an interest rate of 2.29%. Interest only payments are due each February 1<sup>st</sup>, with principal and interest payments due each August 1<sup>st</sup>.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 180,669	165,637	346,306
2016	184,807	161,452	346,259
2017	189,039	157,171	346,210
2018	193,368	152,792	346,160
2019	197,796	148,314	346,110
2020-2024	1,059,033	670,714	1,729,747
2025-2029	1,185,973	542,320	1,728,293
2030-2034	1,328,131	398,543	1,726,674
2035-2039	1,487,328	237,514	1,724,842
2040-2043	1,317,231	61,176	1,378,407
Totals	7,323,375	2,695,633	10,019,008
Less: current portion	(180,669)		
Total non-curren \$	<u>7,142,706</u>		

**Phelan Piñon Hills Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2014**

**(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.

The following plan groups and requirements are as follows:

*Classic Members* – employees hired prior to January 1, 2013, are enrolled in the CalPERS Local Miscellaneous 2.5% at 55 Plan.

*New Members* – In accordance with the Public Employees Pension Reform Act of 2013 (PEPRA), employees hired on or after January 1, 2013, are enrolled in the CalPERS Local Miscellaneous 2% at 62 Plan.

***Funding Policy***

*Classic Members* - 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 District makes these contributions required of District employees on their behalf and for their account. Also, the District 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 2014, 2013, and 2012 as noted below.

***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>
2012	\$ 162,051	100%	-	10.309%
2013	279,624	100%	-	11.553%
2014	205,701	100%	-	12.300%

*New Members* – the contribution rate for the plan members in the CalPERS 2.0% at 62 Plan is 50% of the expected normal cost. In accordance with the Public Employees Pension Reform Act of 2013 (PEPRA), members for this retirement plan are required to contribute the entire 50% of the expected normal cost. The required employer contribution rates are equal to the annual pension costs (APC) percentage of payroll.

**(8) Net Position**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
The balance consists of the following:			
Capital assets – not being depreciated	\$ 2,744,872	17,864,132	20,609,004
Capital assets – being depreciated, net	1,025,347	17,887,322	18,912,669
Long-term debt – current portion	-	(283,611)	(283,611)
Long-term debt – long-term portion	-	(9,561,803)	(9,561,803)
Total	<u>\$ 3,770,219</u>	<u>25,906,040</u>	<u>29,676,259</u>

**Phelan Piñon Hills Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2014**

**(9) Fund Balance**

Fund balances are presented in the following categories: non-spendable, restricted, committed, assigned, and unassigned (See Note 1.C.8 for a description of these categories). Fund balances and their funding composition at June 30, 2014, is as follows:

<b>Fund Balance Category</b>	
Assigned:	
Compensated absences	\$ 6,780
Unassigned fund balance:	3,853,867
Total fund balance	\$ 3,860,647

**(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, 2014, 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.
- 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 2014. 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, 2014.

**Phelan Piñon Hills Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2014**

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2014, that have effective dates that may impact future financial presentations.

***Governmental Accounting Standards Board Statement No. 68***

In June 2012, the GASB issued Statement No. 68 – Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, as well as the requirements of Statement No. 50, Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014. 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. 69***

In January 2013, the GASB issued Statement No. 69 – Government Combinations and Disposals of Government Operations. The objective of this Statement is to provide new accounting and financial reporting standards for government mergers and acquisitions and for government operations that have been transferred or sold. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2013. 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. 71***

In November 2013, the GASB issued Statement No. 71 – Pension Transition for Contributions made Subsequent to the Measurement Date – an amendment of GASB No. 68. The objective of this statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement No. 68 in the accrual-basis financial statements of employers and non-employer contributing entities. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68.

**Phelan Piñon Hills Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2014**

**(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.

**(13) Subsequent Event**

Events occurring after June 30, 2014 have been evaluated for possible adjustment to the financial statements or disclosure as of November 30, 2014, which is the date the financial statements were available to be issued.



## **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, 2014**

	<b>Final Budgeted Amounts</b>	<b>Actual Amounts</b>	<b>Variance Positive (Negative)</b>
<b>Revenues:</b>			
Property taxes	21,104	109,017	87,913
Investment earnings	-	23	23
Other	-	140,001	140,001
<b>Total revenues</b>	<b>21,104</b>	<b>249,041</b>	<b>227,937</b>
<b>Expenditures:</b>			
Salaries and benefits	-	378	(378)
Materials and services	-	51,826	(51,826)
Other	-	21,177	(21,177)
Capital outlay	-	-	-
<b>Total expenditures</b>	<b>-</b>	<b>73,381</b>	<b>(73,381)</b>
Excess of revenues (under) expenditures	21,104	175,660	154,556
<b>Other financing sources(uses):</b>			
Transfers in	1,029,247	1,029,247	-
Transfers out	(1,000,000)	(1,000,000)	-
<b>Total other financing sources</b>	<b>29,247</b>	<b>29,247</b>	<b>-</b>
Net change in fund balance	50,351	204,907	\$ 154,556
Fund balance – beginning of period	-	-	
Fund balance – end of period	\$ 50,351	204,907	

**Pinon Hills Community Services District**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget to Actual – Parks and Recreation**  
**For the Year Ended June 30, 2014**

	<b>Final Budgeted Amounts</b>	<b>Actual Amounts</b>	<b>Variance Positive (Negative)</b>
<b>Revenues:</b>			
Property taxes	\$ 296,000	252,358	(43,642)
Charges for services	27,377	13,065	(14,312)
Investment earnings	15,000	11,644	(3,356)
Other	573	5,296	4,723
<b>Total revenues</b>	<u>338,950</u>	<u>282,363</u>	<u>(56,587)</u>
<b>Expenditures:</b>			
Salaries and benefits	185,369	142,932	42,437
Materials and services	95,044	84,441	10,603
Capital outlay	-	176,095	(176,095)
<b>Total expenditures</b>	<u>280,413</u>	<u>403,468</u>	<u>(123,055)</u>
Excess of revenues (under) expenditures	<u>58,537</u>	<u>(121,105)</u>	<u>(179,642)</u>
<b>Other financing sources(uses):</b>			
Transfers in	-	-	-
Transfers out	<u>(1,201,849)</u>	<u>(1,201,849)</u>	<u>-</u>
<b>Total other financing sources</b>	<u>(1,201,849)</u>	<u>(1,201,849)</u>	<u>-</u>
<b>Net change in fund balance</b>	<u>(1,143,312)</u>	<u>(1,322,954)</u>	<u>\$ (179,642)</u>
Fund balance – beginning of period	<u>4,650,128</u>	<u>4,650,128</u>	
Fund balance – end of period	<u>\$ 3,506,816</u>	<u>3,327,174</u>	

**Pinon Hills Community Services District**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget to Actual – Street Lighting**  
**For the Year Ended June 30, 2014**

	<b>Final Budgeted Amounts</b>	<b>Actual Amounts</b>	<b>Variance Positive (Negative)</b>
<b>Revenues:</b>			
Property taxes	15,504	13,489	2,015
<b>Total revenues</b>	<b>15,504</b>	<b>13,489</b>	<b>2,015</b>
<b>Expenditures:</b>			
Utilities	15,504	13,489	2,015
Total expenditures	15,504	13,489	2,015
Excess of revenues (under) expenditures	-	-	-
<b>Other financing sources(uses):</b>			
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources	-	-	-
Net change in fund balance	-	-	\$ -
Fund balance – beginning of period	-	-	
Fund balance – end of period	\$ -	-	

**Pinon Hills Community Services District**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget to Actual – Solid Waste**  
**For the Year Ended June 30, 2014**

	<u>Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance Positive (Negative)</u>
<b>Revenues:</b>			
Franchise fees	\$ 116,527	149,437	32,910
<b>Total revenues</b>	<u>116,527</u>	<u>149,437</u>	<u>32,910</u>
<b>Expenditures:</b>			
Salaries and benefits	-	621	(621)
Services and materials	<u>2,500</u>	<u>1,552</u>	<u>948</u>
Total expenditures	<u>2,500</u>	<u>2,173</u>	<u>327</u>
Excess of revenues over expenditures	<u>114,027</u>	<u>147,264</u>	<u>33,237</u>
<b>Other financing sources(uses):</b>			
Transfers in	172,602	172,602	-
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources	<u>172,602</u>	<u>172,602</u>	<u>-</u>
Net change in fund balance	286,629	319,866	\$ <u><u>33,237</u></u>
Fund balance – beginning of period	<u>-</u>	<u>8,552</u>	
Fund balance – end of period	\$ <u><u>286,629</u></u>	<u><u>328,418</u></u>	

**Phelan Pinon Hills Community Service District**  
**Notes to the Required Supplementary Information**  
**June 30, 2014**

**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.



# **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.

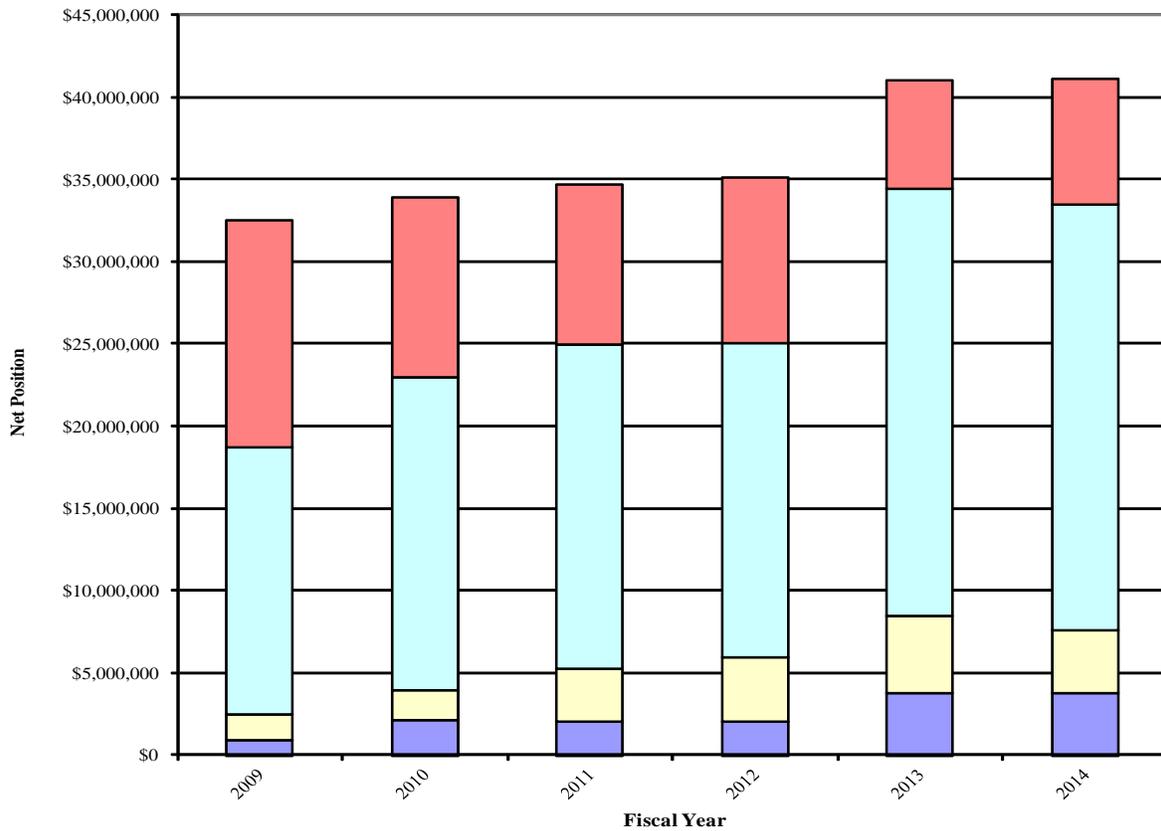
The following statistical information reflects the last six full years of operations since the District’s initial formation in mid-fiscal year 2008.

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	<b><u>Page No.</u></b>
Financial Trends These schedules contain information to help the reader understand how the District’s financial performance and well-being have changed over time.	47
Revenue Capacity These schedules contain information to help the reader assess the District’s most significant own-source revenue, water sales.	55
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.	59
Demographic Information This schedule offers demographic indicators to help the reader understand the environment within which the District’s financial activities take place.	60
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.	62

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

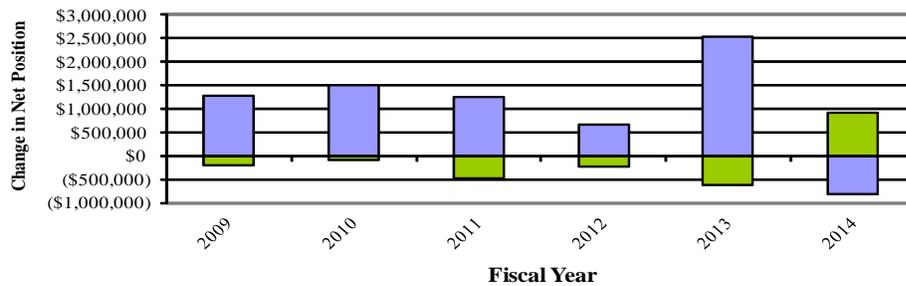
	Fiscal Year					
	2009	2010	2011	2012	2013	2014
<b>Governmental activities</b>						
Invested in capital assets, net of related debt	\$ 951,513	2,104,045	2,062,298	2,020,112	3,799,590	3,770,219
Unrestricted	1,540,852	1,890,749	3,183,847	3,903,170	4,652,758	3,853,719
<b>Total governmental activities net position</b>	<b>2,492,365</b>	<b>3,994,794</b>	<b>5,246,145</b>	<b>5,923,282</b>	<b>8,452,348</b>	<b>7,623,938</b>
<b>Business-type activities</b>						
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
Unrestricted	13,826,316	10,954,452	9,684,849	10,094,958	6,568,039	7,600,621
<b>Total business-type activities net position</b>	<b>30,021,138</b>	<b>29,925,706</b>	<b>29,447,399</b>	<b>29,211,729</b>	<b>32,587,256</b>	<b>33,506,661</b>
<b>Primary government</b>						
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
Unrestricted	15,367,168	12,845,201	12,868,696	13,998,128	11,220,797	11,454,340
<b>Total primary government net position</b>	<b>\$ 32,513,503</b>	<b>33,920,500</b>	<b>34,693,544</b>	<b>35,135,011</b>	<b>41,039,604</b>	<b>41,130,599</b>



Source: Phelan Pinon Hills Community Service District audited financial statements

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

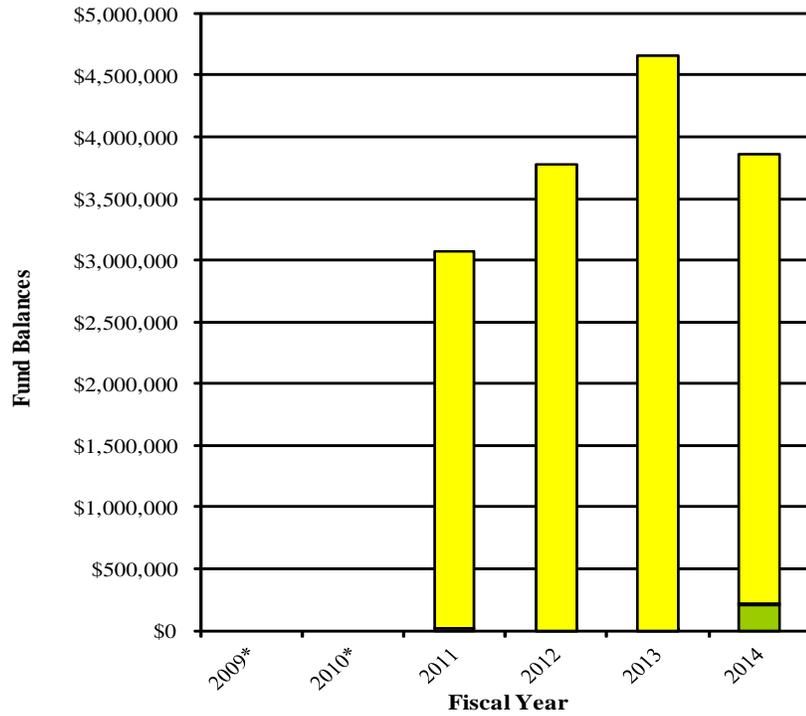
	Fiscal Year					
	2009	2010	2011	2012	2013	2014
<b>Expenses:</b>						
Governmental activities:						
General government	\$ -	-	-	-	-	73,381
Parks and Recreation	191,489	229,139	274,856	240,564	1,259,421	433,697
Street Lighting	16,753	13,963	12,867	13,567	13,643	13,489
Solid Waste	-	-	-	-	450	2,173
Total 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>
Business-type activities:						
Water enterprise	5,864,190	4,620,366	4,757,100	4,454,157	5,032,281	5,121,970
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>
<b>Program Revenues:</b>						
Governmental activities:						
Charges for services:						
General government	-	-	-	-	-	-
Parks and Recreation	19,109	142,601	20,622	67,186	25,199	13,065
Street Lighting	-	-	-	-	-	-
Solid Waste	-	-	-	-	-	-
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>
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
Assessments	283,142	219,623	324,650	355,749	303,841	299,818
Capital grants and contributions	80,698	176,546	151,582	39,514	-	-
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>
<b>Net (Expense)/Revenue:</b>						
Governmental activities	(189,133)	199,499	332,899	(186,945)	1,523,685	(509,675)
Business-type activities	(1,050,603)	(583,449)	(673,304)	(502,745)	(865,960)	(846,670)
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>
<b>General Revenues and Other Changes in Net Position:</b>						
Governmental activities:						
Property taxes	1,373,294	1,108,201	907,485	843,931	845,706	374,864
Investment income	9,390	11,191	10,967	20,151	16,555	11,667
Other income	85,300	183,538	-	-	144,527	294,734
Transfers in (out)	-	-	-	-	(1,385)	(1,000,000)
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>
Business-type activities:						
Property taxes	-	14,631	-	-	-	562,080
Investment income	455,757	147,916	81,866	51,390	29,110	13,924
Other income	390,367	325,470	113,131	215,685	209,846	190,071
Transfers in (out)	-	-	-	-	1,385	1,000,000
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>
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>
<b>Changes in Net Position:</b>						
Governmental activities	1,278,851	1,502,429	1,251,351	677,137	2,529,088	(828,410)
Business-type activities	(204,479)	(95,432)	(478,307)	(235,670)	(625,619)	919,405
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>



Source: Phelan Pinon Hills Community Service District audited financial statements

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

		Fiscal Year					
		2009*	2010*	2011	2012	2013	2014
General Fund: **							
Assigned	\$	-	-	-	-	-	-
Unassigned		-	-	-	-	-	204,907
<b>Total general fund</b>	\$	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>204,907</b>
All Other Governmental Funds:							
Assigned	\$	-	-	10,252	2,942	5,900	6,632
Unassigned		-	-	3,053,971	3,770,767	4,650,780	3,648,960
<b>Total all other governmental funds</b>	\$	<b>-</b>	<b>-</b>	<b>3,064,223</b>	<b>3,773,709</b>	<b>4,656,680</b>	<b>3,655,592</b>

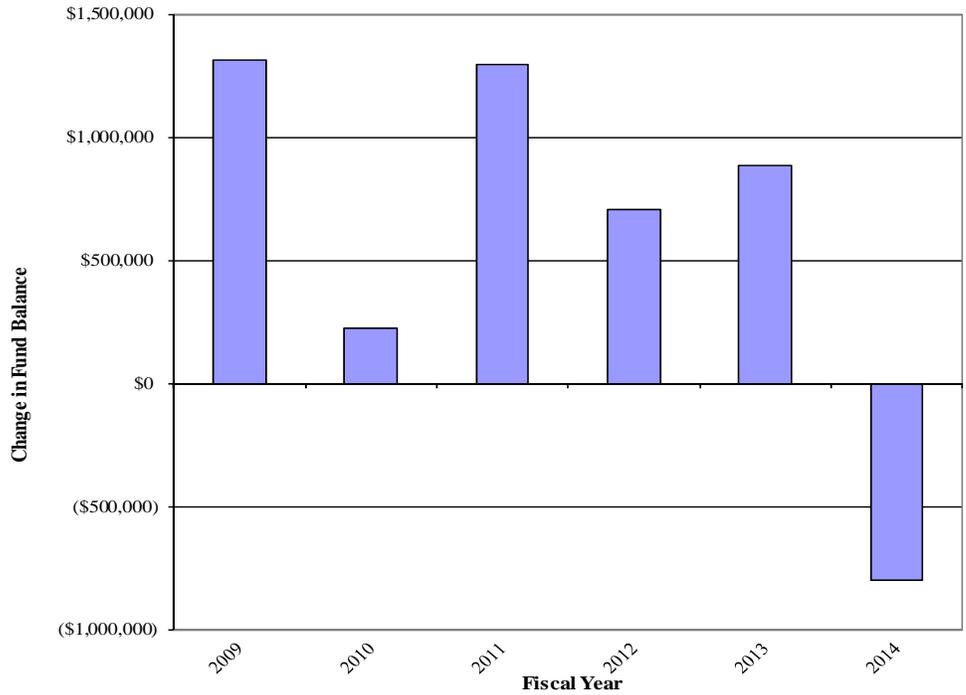


**Note:** \* Governmental Accounting Standards Board No. 54 - *Fund Balance Reporting and Governmental Fund Type Definition* was adopted in 2011.  
 \*\* Reprting for the General Fund was initiated in fiscal year 2014.

**Source:** Phelan Pinon Hills Community Service District audited financial statements

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

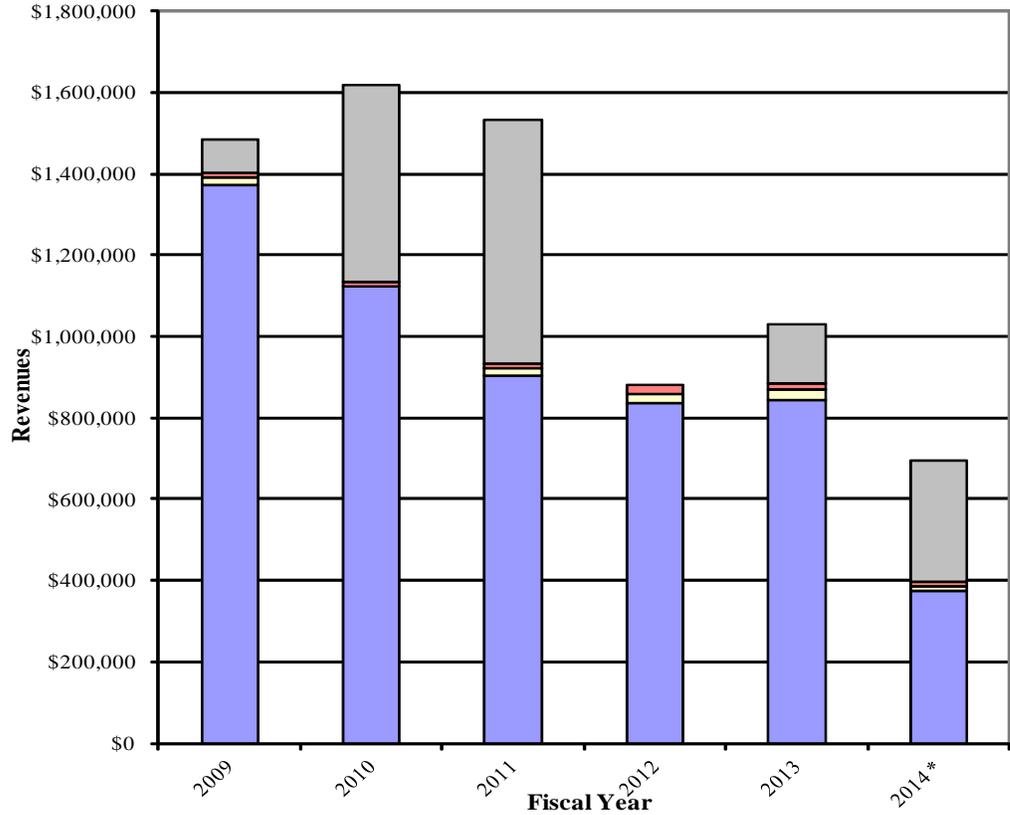
	Fiscal Year					
	2009	2010	2011	2012	2013	2014
Revenues	\$ 1,487,093	1,619,131	1,535,598	881,727	1,031,987	694,330
Expenditures	173,263	1,392,126	239,232	172,241	145,631	492,511
Excess of revenues over (under) expenditures	1,313,830	227,005	1,296,366	709,486	886,356	201,819
Other Financing Sources (Uses)						
Proceeds from long-term debt	-	-	-	-	-	-
Operating transfers in	-	-	-	-	-	-
Operating transfers out	-	-	-	-	(1,385)	(1,000,000)
Total Other Financing Sources (Uses)	-	-	-	-	(1,385)	(1,000,000)
<b>Net change in fund balances</b>	<b>\$ 1,313,830</b>	<b>227,005</b>	<b>1,296,366</b>	<b>709,486</b>	<b>884,971</b>	<b>(798,181)</b>



Source: Phelan Pinon Hills Community Service District audited financial statements

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

	Fiscal Year					
	2009	2010	2011	2012	2013	2014 *
Property taxes	\$ 1,373,294	1,124,402	904,009	837,927	845,706	374,864
Charges for services	19,109	-	20,622	23,649	25,199	13,065
Interest	9,390	11,191	10,967	20,151	16,555	11,667
Other	85,300	483,538	600,000	-	144,527	294,734
<b>Total governmental revenues</b>	<b>\$ 1,487,093</b>	<b>1,619,131</b>	<b>1,535,598</b>	<b>881,727</b>	<b>1,031,987</b>	<b>694,330</b>

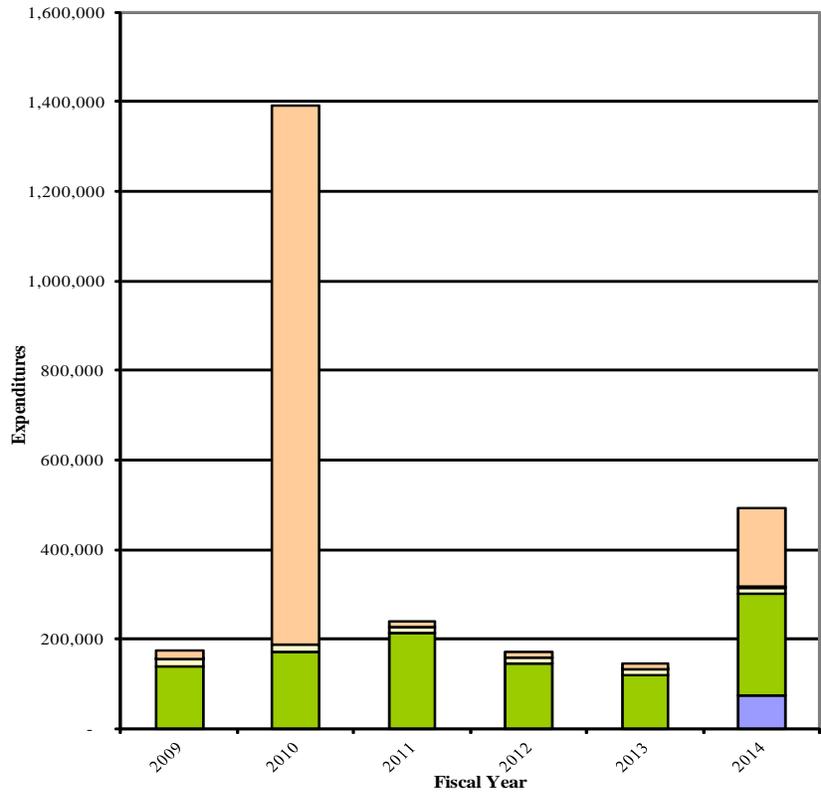


**Note:** In 2014, the District allocated \$562,080 in property tax revenues to the Water Enterprise Fund.

**Source:** Phelan Pinon Hills Community Service District audited financial statements

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

	Fiscal Year					
	2009	2010	2011	2012	2013	2014
General government *	-	-	-	-	-	73,381
Parks and Recreation	138,427	171,845	213,497	145,107	117,895	227,373
Street Lighting	16,753	13,963	12,867	13,567	13,643	13,489
Solid Waste **	-	-	-	-	450	2,173
Capital outlay	18,083	1,206,318	12,868	13,567	13,643	176,095
<b>Total governmental expenditures</b>	<b>\$ 173,263</b>	<b>\$ 1,392,126</b>	<b>\$ 239,232</b>	<b>\$ 172,241</b>	<b>\$ 145,631</b>	<b>\$ 492,511</b>



**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 Six 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%

**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 Six 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

**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 Six Fiscal Years**

<u>Commodity Charge</u>		March 2008 -			
<u>Tiered</u>	<u>Tier (HCF)</u>	<u>Feb. 2013</u>	<u>March 1, 2013</u>	<u>January1, 2014</u>	
Tier 1	0-25	\$ na	1.69	1.89	
Tier 2	25.01+	na	1.95	2.18	
Tier 1	0-14	1.81	na	na	
Tier 2	14.01-80	2.01	na	na	
Tier 3	80.01+	20.80	na	na	

<u>Bi-Monthly Meter Charge</u>		March 2008 -			
		<u>Feb. 2013</u>	<u>March 1, 2013</u>	<u>January1, 2014</u>	
3/4"	\$	26.02	31.37	33.75	
1"		37.20	41.65	44.81	
1.5"		64.20	67.35	72.45	
2"		93.50	98.19	105.63	
3"		159.64	170.14	183.05	
4"		245.64	272.94	293.64	
6"		453.10	529.93	570.12	
8"		669.24	838.32	901.90	

**Source:** Phelan Pinon Hills Community Service District billing records

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

**Customer by Type**

<b>Connection Type</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Residential	6,698	6,708	6,709	6,712	6,714	6,719
Commercial	50	50	50	50	51	51
Industrial	-	-	-	-	3	4
Other	2	2	2	2	-	-
<b>Total</b>	<b>6,750</b>	<b>6,760</b>	<b>6,761</b>	<b>6,764</b>	<b>6,768</b>	<b>6,774</b>

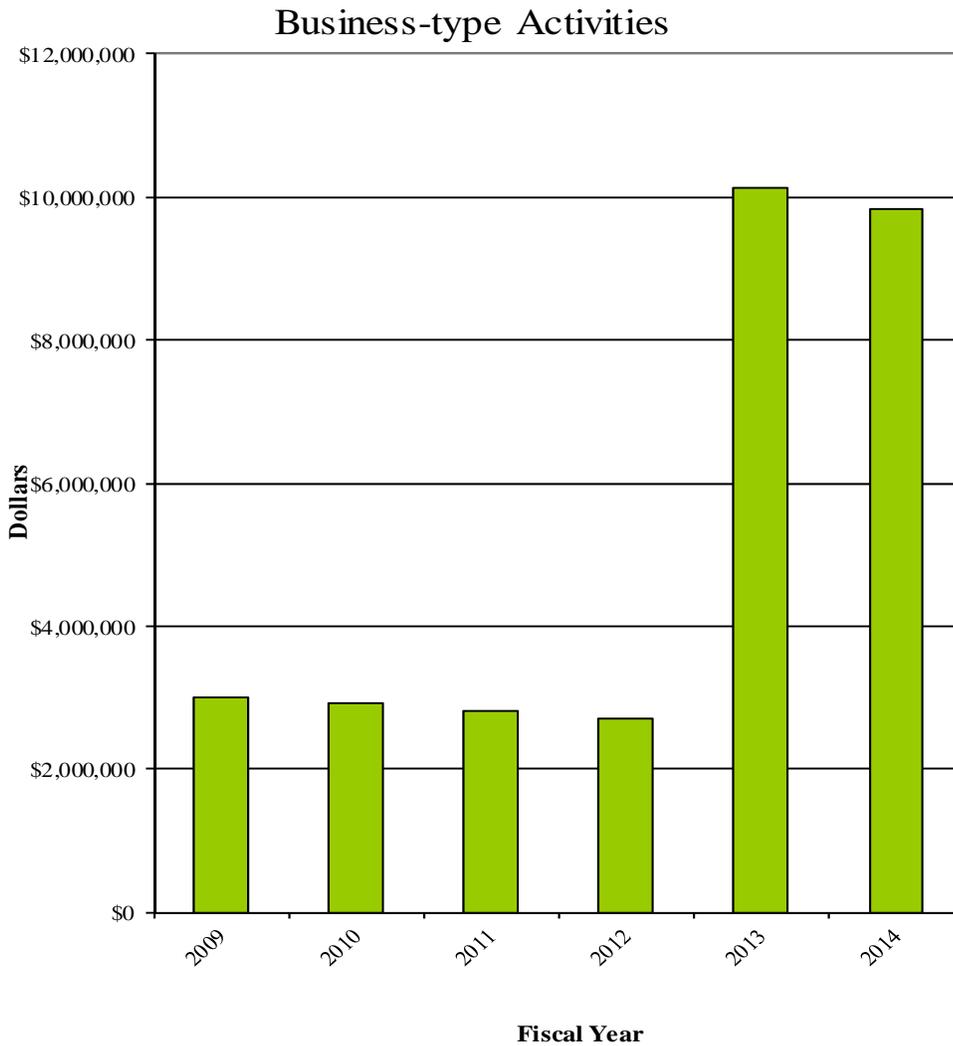
**Ten Largest System Users**

<b>Customer</b>	<b>Percent of System Use</b>	<b>Percent of System Revenues</b>	<b>Customer Type</b>
Snowline JUSD	4.59%	2.87%	Commercial
County Roads	0.34%	0.24%	Industrial / Other
Myong Cha (Grace) Park	0.24%	0.16%	Residential
Ji Yoon Lee	0.20%	0.13%	Residential
Wool Hee Jun	0.20%	0.13%	Residential
Janice Chung	0.18%	0.12%	Residential
John & Martha Browne	0.17%	0.11%	Residential
Hae Li Lee	0.16%	0.11%	Residential
Mike Navarre	0.15%	0.10%	Residential
Hui Ok Lee	0.14%	0.10%	Residential
Totals	<b>6.37%</b>	<b>4.07%</b>	

**Source:** Phelan Pinon Hills Community Service District billing records

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

<b>Fiscal Year</b>	<b>Business-type Activities</b>	<b>Total Debt</b>	<b>Per Capita</b>	<b>As a Share of Personal Income</b>	
				<b>Total</b>	<b>Business-type Activities</b>
2009	\$ 3,014,016	3,014,016	139.87	0.49%	0.49%
2010	2,913,976	2,913,976	135.06	0.50%	0.50%
2011	2,810,444	2,810,444	130.11	0.45%	0.45%
2012	2,717,596	2,717,596	125.73	0.42%	0.42%
2013	10,121,499	10,121,499	468.05	1.58%	1.58%
2014	9,845,414	9,845,414	454.94	1.55%	1.55%



**Source:** Phelan Pinon Hills Community Service District audited financial statements

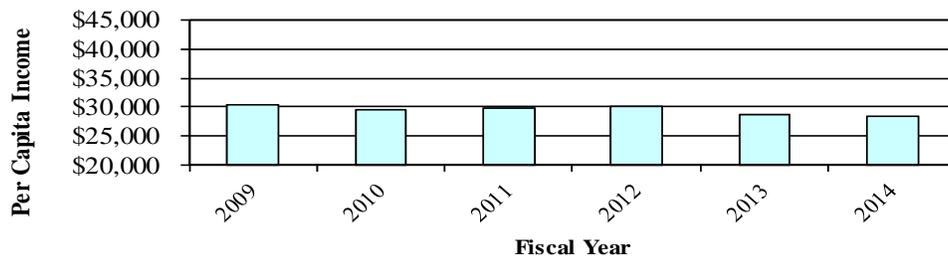
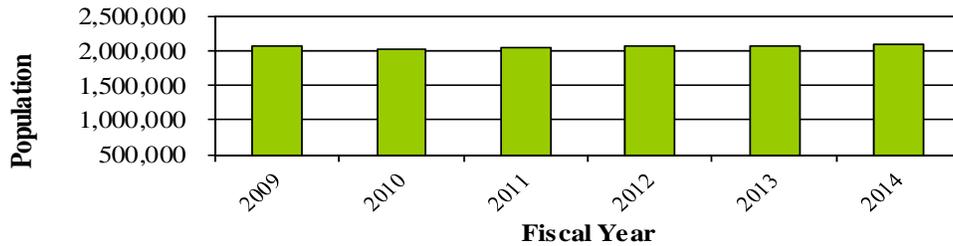
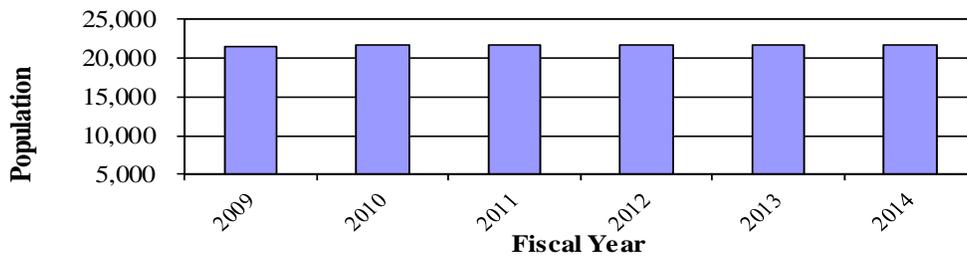
**Phelan Pinon Hills Community Services District  
Debt Service Ratio  
Last Six Fiscal Years**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Gross Revenues:						
Water Fund Revenues	\$ 5,579,013	4,348,388	4,127,211	4,178,972	4,405,277	4,281,124
Property Tax Revenue	-	-	-	-	-	529,510
Total Revenue	<u>5,579,013</u>	<u>4,348,388</u>	<u>4,127,211</u>	<u>4,178,972</u>	<u>4,405,277</u>	<u>4,810,634</u>
Operating Expenses:						
Water Fund Expenses	(5,864,190)	(4,620,366)	(4,757,100)	(4,454,156)	(5,032,281)	(4,980,281)
Less Depreciation	<u>886,786</u>	<u>1,058,281</u>	<u>1,245,913</u>	<u>1,292,064</u>	<u>1,214,772</u>	<u>1,231,723</u>
Total Water Fund Expenses	<u>(4,977,404)</u>	<u>(3,562,085)</u>	<u>(3,511,187)</u>	<u>(3,162,092)</u>	<u>(3,817,509)</u>	<u>(3,748,558)</u>
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>1,062,076</u>
Senior and Parity Debt Service						
2002 Water Facilities	231,311	231,021	230,721	209,792	199,366	199,077
2012 Water Rights Acquisition	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,240</u>	<u>268,852</u>
Combined Total Annual Debt	<u>\$ 231,311</u>	<u>231,021</u>	<u>230,721</u>	<u>209,792</u>	<u>225,605</u>	<u>467,930</u>
Debt Service Coverage (times)	2.60	3.40	2.67	4.85	2.61	2.27

**Source:** Phelan Pinon Hills Community Service District audited financial statements

## Phelan Pinon Hills Community Services District Demographic and Economic Statistics Last Six Fiscal Years

Year	County of San Bernardino <sup>(2)</sup>				
	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



**Sources:** California Department of Finance and California Labor Market Info

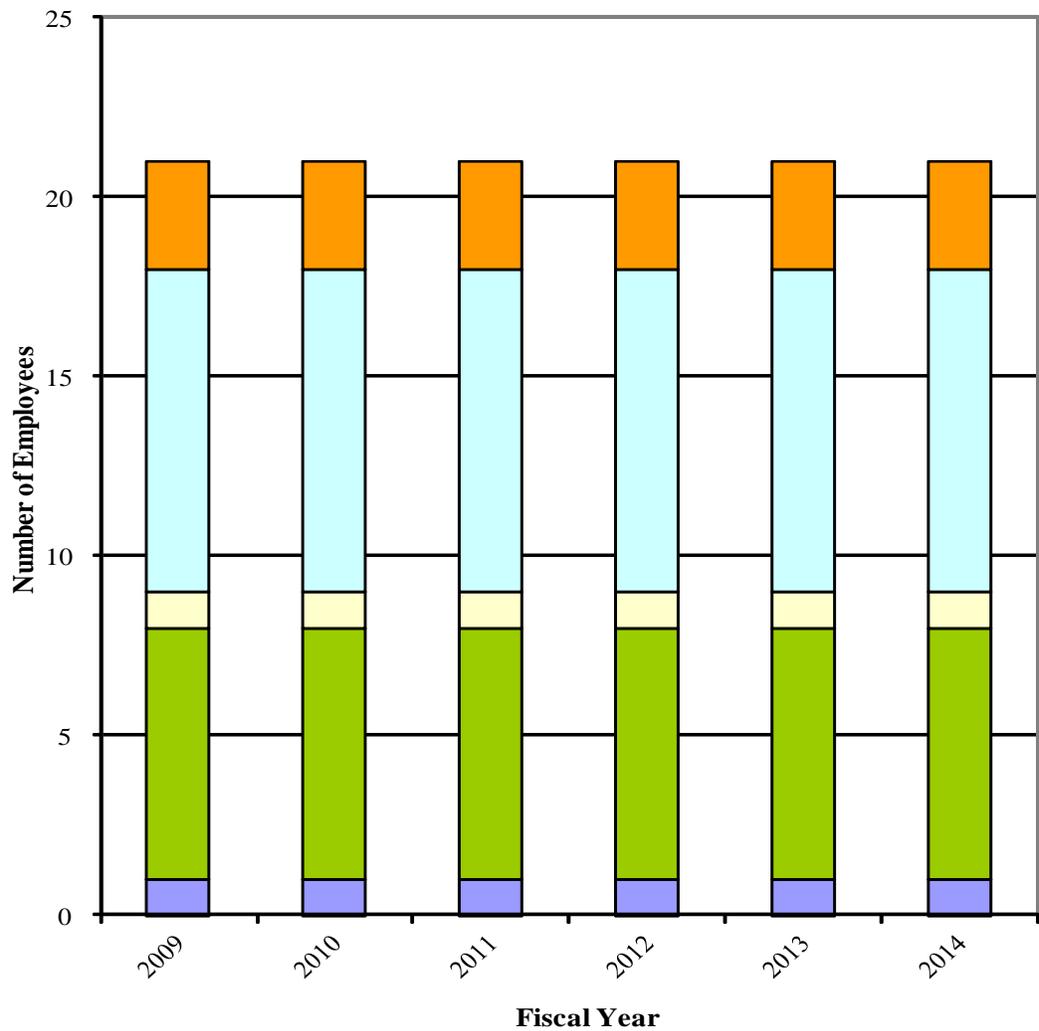
**Notes:**

- (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.

**Phelan Pinon Hills Community Services District  
Operating Indicators – By Function  
Last Ten Fiscal Years**

**Agency Employees by Department**

Department	2009	2010	2011	2012	2013	2014
General Manager	1	1	1	1	1	1
Administration	7	7	7	7	7	7
Engineering	1	1	1	1	1	1
Water Operations	9	9	9	9	9	9
Parks & Recreation	3	3	3	3	3	3
Street Lighting	0	0	0	0	0	0
Solid Waste	0	0	0	0	0	0
	<u>21</u>	<u>21</u>	<u>21</u>	<u>21</u>	<u>21</u>	<u>21</u>



**Phelan Pinon Hills Community Services District  
Miscellaneous Statistics  
June 30, 2014**

**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)	6,774

**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	2,925
Number of Commercial Customers	75

**Misc. Statistical Information**

Population	19,200
Service Area	128 square miles
Employees	19 Full Time, 2 Part Time
Enterprise Fund Budget 2014/2015	\$5,334,693
Government Fund Budget 2014/2015	\$444,750
Capital Budget 2014/2015	\$1,114,000

# **Report on Compliance and Internal Controls**





Charles Z. Fedak, CPA, MBA  
Paul J. Kaymark, CPA  
Christopher J. Brown, CPA

# Charles Z. Fedak & Company

Certified Public Accountants  
An Accountancy Corporation

6081 Orange Avenue  
Cypress, California 90630  
(714) 527-1818  
(562) 598-6565  
FAX (714) 527-9154  
EMAIL [czfco@czfcpa.com](mailto:czfco@czfcpa.com)  
WEB [www.czfcpa.com](http://www.czfcpa.com)

## **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, 2014, 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 30, 2014.

### **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.

*Charles Z. Fedak & Company CPAs - An Accountancy Corporation*

**Charles Z. Fedak & Company, CPAs - An Accountancy Corporation**  
Cypress, California  
November 30, 2014