



Phelan Piñon Hills Community Services District

Annual Financial Report

For the Fiscal Year Ended June 30, 2013



Phelan Piñon Hills Community Services District

List of Elected and Appointed Officials

June 30, 2013

Elected Officials

BOARD OF DIRECTORS

<u>Title</u>	<u>Director</u>	<u>Term Expires</u>
President	Charlie Johnson	December 2013
Vice-President	Alex Brandon	December 2015
Director	Mark Roberts	December 2013
Director	Joe Fahrlender	December 2015
Director	Al Morrissette	December 2013

Appointed Official

General Manager

Don Bartz

Phelan Piñon Hills Community Services District

4176 Warbler Road

Phelan, California 92371

(760) 868-1212 www.pphcsd.org



Phelan Piñon Hills Community Services District
Annual Financial Report
For the Fiscal Year Ended June 30, 2013

**Phelan Piñon Hills Community Services District
Annual Financial Report
For the Fiscal Year Ended June 30, 2013**

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Financial Section



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Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Phelan Piñon Hills Community Services District (District) as of and for the year ended June 30, 2013, 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, 2013, 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

Emphasis of Matter

As described in Note 1 to the financial statements, in 2013, the Agency adopted new accounting guidance, GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. Our opinion is not modified with respect to this matter.

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 3 through 6 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.

Charles Z. Fedak & Company CPAs - An Accountancy Corporation

Charles Z. Fedak & Company, CPAs – An Accountancy Corporation
Cypress, California
November 6, 2013

**Phelan Piñon Hills Community Services District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013**

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, 2013. 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 16.81%, or \$5,904,615 to \$41,039,626 in 2013, which was comprised of a \$1,903,469 increase from operations, and a one-time prior period adjustment in the amount of \$4,001,146 related to the recognition of water rights transferred to the District by the County of San Bernardino.
- Total revenues increased 59.41% or \$3,059,509 in 2013, due primarily to a \$2,772,000 increase in capital contributions in the parks fund, and an increase in service revenues in the amount of \$114,653 for the sanitation fund and \$254,422 for the water fund.
- Total expenses increased by 33.93% or \$1,597,507 in 2013, due primarily to a increase in parks fund expenses of \$1,018,857 related to the write-down of certain contributed assets and a \$578,124 increase in water fund expenses from fiscal year 2012.

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), deferred outflows of resources and the obligations to creditors (liabilities) and deferred inflows of resources. It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. 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, 2013**

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 16 through 31.

Government-wide Financial Analysis

Statement of Net Position

The following table is a summary of the statement of net assets at June 30, 2013.

	Condensed Statements of Net Position					
	Governmental Activities		Business-type Activities		Total District	
	2013	2012	2013	2012	2013	2012
Assets:						
Current and other assets	\$ 4,706,365	3,780,219	7,030,598	10,693,888	11,736,963	14,474,107
Non-current assets	-	132,403	-	-	-	132,403
Capital assets, net	<u>3,799,590</u>	<u>2,020,112</u>	<u>36,140,716</u>	<u>21,834,367</u>	<u>39,940,306</u>	<u>23,854,479</u>
Total assets	<u>8,505,955</u>	<u>5,932,734</u>	<u>43,171,314</u>	<u>32,528,255</u>	<u>51,677,269</u>	<u>38,460,989</u>
Liabilities:						
Current liabilities	50,635	7,981	706,379	682,592	757,014	690,573
Non-current liabilities	<u>2,950</u>	<u>1,471</u>	<u>9,877,679</u>	<u>2,633,934</u>	<u>9,880,629</u>	<u>2,635,405</u>
Total liabilities	<u>53,585</u>	<u>9,452</u>	<u>10,584,058</u>	<u>3,316,526</u>	<u>10,637,643</u>	<u>3,325,978</u>
Net position:						
Net investment in capital assets	3,799,590	2,020,112	26,019,217	19,116,771	29,818,807	21,136,883
Unrestricted	<u>4,652,780</u>	<u>3,903,170</u>	<u>6,568,039</u>	<u>10,094,958</u>	<u>11,220,819</u>	<u>13,998,128</u>
Total net position	<u>\$ 8,452,370</u>	<u>5,923,282</u>	<u>32,587,256</u>	<u>29,211,729</u>	<u>41,039,626</u>	<u>35,135,011</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 and deferred outflows of resources of the District exceeded liabilities and deferred inflows of resources by \$41,039,626 as of June 30, 2013. Compared to prior year, net position of the District increased 16.81% or \$5,904,615. The District's net position is made-up of two components: (1) net investment in capital assets and (2) unrestricted net assets.

**Phelan Piñon Hills Community Services District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013**

Statement of Activities

The following table is a summary of the statement of activities for the year ended June 30, 2013.

	Condensed Statements of Activities					
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total District</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Revenues:						
Program revenues:						
Charges for services	\$ 169,726	67,186	4,166,321	3,911,899	4,336,047	3,979,085
Capital grants and contributions	2,772,000	-	-	39,514	2,772,000	39,514
General revenues:						
Property taxes	845,706	843,931	-	-	845,706	843,931
Interest earnings	16,555	20,151	29,110	51,390	45,665	71,541
Other	-	-	209,846	215,684	209,846	215,684
Total revenues	<u>3,803,987</u>	<u>931,268</u>	<u>4,405,277</u>	<u>4,218,487</u>	<u>8,209,264</u>	<u>5,149,755</u>
Expenses:						
Parks and recreation	1,259,421	240,564	-	-	1,259,421	240,564
Street lighting	13,643	13,567	-	-	13,643	13,567
Solid waste	450	-	-	-	450	-
Water	-	-	5,032,281	4,454,157	5,032,281	4,454,157
Total expenses	<u>1,273,514</u>	<u>254,131</u>	<u>5,032,281</u>	<u>4,454,157</u>	<u>6,305,795</u>	<u>4,708,288</u>
Transfers from(to) other funds	<u>(1,385)</u>	<u>-</u>	<u>1,385</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net position	<u>2,529,088</u>	<u>677,137</u>	<u>(625,619)</u>	<u>(235,670)</u>	<u>1,903,469</u>	<u>441,467</u>
Net position, beginning of year	5,923,282	5,246,145	29,211,729	29,447,399	35,135,011	34,693,544
Prior period adjustment	-	-	4,001,146	-	4,001,146	-
Net position, end of year	<u>\$ 8,452,370</u>	<u>5,923,282</u>	<u>32,587,256</u>	<u>29,211,729</u>	<u>41,039,626</u>	<u>35,135,011</u>

Net Position increased 16.81%, or \$5,904,615 to \$41,039,626 in 2013, which was comprised of a \$1,903,469 increase from operations, and a one-time prior period adjustment in the amount of \$4,001,146 related to the recognition of water rights transferred to the District by the County of San Bernardino.

Total revenues increased 59.41%, or \$3,059,509 in 2013 due primarily to a \$2,772,000 increase in capital contributions in the parks fund, and an increase in service revenues in the amount of \$114,653 for the sanitation fund and \$254,422 for the water fund.

Total expenses increased by 33.93% or \$1,597,507 in 2013 due primarily to a increase in parks fund expenses of \$1,018,857 related to the write-down of certain contributed assets and a \$578,124 increase in water fund expenses from fiscal year 2012.

Capital Asset Administration

	Capital Assets					
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total District</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Capital assets:						
Non-depreciable assets	\$ 2,716,853	1,254,716	17,881,182	2,849,816	20,598,035	4,104,532
Depreciable assets	<u>2,452,849</u>	<u>1,069,849</u>	<u>35,940,821</u>	<u>35,427,882</u>	<u>38,393,670</u>	<u>36,497,731</u>
Total capital assets	5,169,702	2,324,565	53,822,003	38,277,698	58,991,705	40,602,263
Accumulated depreciation	<u>(1,370,112)</u>	<u>(304,453)</u>	<u>(17,681,287)</u>	<u>(16,466,515)</u>	<u>(19,051,399)</u>	<u>(16,770,968)</u>
Total capital assets, net	<u>\$ 3,799,590</u>	<u>2,020,112</u>	<u>36,140,716</u>	<u>21,811,183</u>	<u>39,940,306</u>	<u>23,831,295</u>

**Phelan Piñon Hills Community Services District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013**

Capital Asset Administration, continued

At the end of fiscal year 2013, the District's investment in capital assets amounted to \$39,940,306 (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

	Long-term Debt					
	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Long-term debt:						
Long-term debt	\$ -	-	10,121,499	2,717,596	10,121,499	2,717,596

Long-term debt increased in 2013 due a \$7,500,000 loan related to the acquisition of water rights that was off-set by regular debt payments. The long-term debt position of the District is more fully analyzed in Note 6 to the basic financial statements.

Conditions Affecting Current Financial Position

Management is unaware of any conditions, which could have a significant impact on the District's current financial position, net assets or operating results in terms of past, present and future.

Requests for Information

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's Administrative Services Manager at 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, 2013

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Current assets:			
Cash and cash equivalents (note 2)	\$ 4,682,183	5,872,393	10,554,576
Accrued interest receivable	-	171	171
Accounts receivable – water sales and services	-	759,957	759,957
Accounts receivable – other	9,872	7,215	17,087
Property taxes and assessments receivable	14,310	187,444	201,754
Materials and supplies inventory	-	168,109	168,109
Prepaid expenses and other assets	-	35,309	35,309
Total current assets	<u>4,706,365</u>	<u>7,030,598</u>	<u>11,736,963</u>
Non-current assets:			
Capital assets – not being depreciated (note 4)	2,716,852	17,881,182	20,598,034
Capital assets – being depreciated, net (note 4)	1,082,738	18,259,534	19,342,272
Total non-current assets	<u>3,799,590</u>	<u>36,140,716</u>	<u>39,940,306</u>
Total assets	<u>8,505,955</u>	<u>43,171,314</u>	<u>51,677,269</u>
Current liabilities:			
Accounts payable and accrued expenses	42,650	221,999	264,649
Accrued salaries and related payables	4,945	61,075	66,020
Customer deposits and deferred revenue	90	5,160	5,250
Accrued interest on long-term debt	-	109,793	109,793
Long-term liabilities – due within one year:			
Compensated absences (note 5)	2,950	32,266	35,216
Long-term debt (note 6)	-	276,086	276,086
Total current liabilities	<u>50,635</u>	<u>706,379</u>	<u>757,014</u>
Non-current liabilities:			
Long-term liabilities – due in more than one year:			
Compensated absences (note 5)	2,950	32,266	35,216
Long-term debt (note 6)	-	9,845,413	9,845,413
Total non-current liabilities	<u>2,950</u>	<u>9,877,679</u>	<u>9,880,629</u>
Total liabilities	<u>53,585</u>	<u>10,584,058</u>	<u>10,637,643</u>
Net position:			
Net investment in capital assets (note 8)	3,799,590	26,019,217	29,818,807
Unrestricted (note 9)	4,652,780	6,568,039	11,220,819
Total net position	<u>\$ 8,452,370</u>	<u>32,587,256</u>	<u>41,039,626</u>

See accompanying notes to the basic financial statements

Phelan Piñon Hills Community Services District
Statement of Activities
For the Fiscal Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:						
Parks and recreation	\$ 1,259,421	25,199	2,772,000	1,537,778	-	1,537,778
Street lighting	13,643	-	-	(13,643)	-	(13,643)
Solid waste	450	144,527	-	144,077	-	144,077
Total governmental	1,273,514	169,726	2,772,000	1,668,212	-	1,668,212
Business-type activities:						
Water	5,032,281	4,166,321	-	-	(865,960)	(865,960)
Total business-type	5,032,281	4,166,321	-	-	(865,960)	(865,960)
Total	\$ 6,305,795	4,336,047	2,772,000	1,668,212	(865,960)	802,252
		General revenues:				
		Property taxes		\$ 845,706	-	845,706
		Interest earnings		16,555	29,110	45,665
		Other		-	209,846	209,846
		Total general revenues		862,261	238,956	1,101,217
		Transfers from(to) other funds		(1,385)	1,385	-
		Change in net position		2,529,088	(625,619)	1,903,469
		Net position, beginning of year		5,923,282	29,211,729	35,135,011
		Prior period adjustment (note 3)		-	4,001,146	4,001,146
		Net position, end of year		\$ 8,452,370	32,587,256	41,039,626

See accompanying notes to the basic financial statements

Phelan Piñon Hills Community Services District
Balance Sheets – Governmental Funds
June 30, 2013

	<u>Parks and Recreation</u>	<u>Street Lighting</u>	<u>Solid Waste</u>	<u>Total Governmental Activities</u>
Assets:				
Cash and cash equivalents	\$ 4,682,183	-	-	4,682,183
Accounts receivable – services	1,320	-	8,552	9,872
Property taxes and assessments receivable	<u>14,310</u>	<u>-</u>	<u>-</u>	<u>14,310</u>
Total assets	<u><u>4,697,813</u></u>	<u><u>-</u></u>	<u><u>8,552</u></u>	<u><u>4,706,365</u></u>
Liabilities:				
Accounts payable and accrued expenses	42,650	-	-	42,650
Accrued wages and related payables	4,945	-	-	4,945
Deferred revenue	<u>90</u>	<u>-</u>	<u>-</u>	<u>90</u>
Total liabilities	<u><u>47,685</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>47,685</u></u>
Fund balance:				
Assigned	5,900	-	-	5,900
Unassigned	<u>4,644,228</u>	<u>-</u>	<u>8,552</u>	<u>4,652,780</u>
Total fund balance	<u><u>4,650,128</u></u>	<u><u>-</u></u>	<u><u>8,552</u></u>	<u><u>4,658,680</u></u>
Total liabilities and fund balance	<u><u>\$ 4,697,813</u></u>	<u><u>-</u></u>	<u><u>8,552</u></u>	<u><u>4,706,365</u></u>

Phelan Piñon Hills Community Services District
Reconciliation of the Balance Sheets of Governmental Funds to the Statement of Net Position
June 30, 2013

Reconciliation:

Fund balance of governmental funds	\$	4,658,680
Amounts reported for governmental activities in the statement of net assets 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 assets includes those capital assets among the assets of the District as a whole.		3,799,590
Long-term liabilities applicable to the District are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities both current and long-term, are reported in the Statement of Net Assets as follows:		<u>(5,900)</u>
Net assets of governmental activities	\$	<u><u>8,452,370</u></u>

See accompanying notes to the basic financial statements

Phelan Piñon Hills Community Services District
Statements of Revenues, Expenditures and Changes in Fund Balances– Governmental Funds
For the Fiscal Year Ended June 30, 2013

	Parks and Recreation	Street Lighting	Solid Waste	Total Governmental Activities
Revenues:				
Charges for services	\$ 25,199	-	144,527	169,726
Property taxes	845,706	-	-	845,706
Investment earnings	16,555	-	-	16,555
Total revenues	<u>887,460</u>	<u>-</u>	<u>144,527</u>	<u>1,031,987</u>
Expenditures:				
Parks and recreation	117,895	-	-	117,895
Street lighting	-	13,643	-	13,643
Solid waste	-	-	450	450
Capital outlay	13,643	-	-	13,643
Total expenditures	<u>131,538</u>	<u>13,643</u>	<u>450</u>	<u>145,631</u>
Net income(loss)	<u>755,922</u>	<u>(13,643)</u>	<u>144,077</u>	<u>886,356</u>
Other financing sources(uses):				
Transfers in(out)	120,497	13,643	(135,525)	(1,385)
Total other financing sources	120,497	13,643	(135,525)	(1,385)
Change in fund balance	<u>876,419</u>	<u>-</u>	<u>8,552</u>	<u>884,971</u>
Fund balance, beginning of year	<u>3,773,709</u>	<u>-</u>	<u>-</u>	<u>3,773,709</u>
Fund balance, end of year	<u>\$ 4,650,128</u>	<u>-</u>	<u>8,552</u>	<u>4,658,680</u>

Phelan Piñon Hills Community Services District
Reconciliation of the Statements of Revenues, Expenditures and Changes in Fund Balance of
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2013

Net changes in fund balance of total governmental funds	\$	884,971
Amounts reported for governmental activities in the statement of activities are different because:		
Some revenues reported in the Statement of Activities are not considered current financial resources and therefore are not reported as revenues in the government funds as follows:		
Capital contributions - land and property		2,772,000
Governmental funds do not report certain long-term revenues as current. However, in the statement of activities, revenue is recognized when earned as follows:		
Net change in tax revenues and receipts		(138,318)
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		73,137
Depreciation expense		(1,065,659)
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>2,957</u>
Change in net assets of governmental activities	\$	<u><u>2,529,088</u></u>

See accompanying notes to the basic financial statements

Phelan Piñon Hills Community Services District
Statement of Net Position – Enterprise Fund
June 30, 2013

	Water Enterprise
Current assets:	
Cash and cash equivalents	\$ 5,872,393
Accrued interest receivable	171
Accounts receivable – water sales and services	759,957
Accounts receivable – other	7,215
Property taxes and assessments receivable	187,444
Materials and supplies inventory	168,109
Prepaid expenses and other assets	35,309
Total current assets	7,030,598
Non-current assets:	
Capital assets – not being depreciated	17,881,182
Capital assets – being depreciated, net	18,259,534
Total non-current assets	36,140,716
Total assets	43,171,314
Current liabilities:	
Accounts payable and accrued expenses	221,999
Accrued salaries and related payables	61,075
Customer deposits and deferred revenue	5,160
Accrued interest on long-term debt	109,793
Long-term liabilities – due within one year:	
Compensated absences	32,266
Long-term debt	276,086
Total current liabilities	706,379
Non-current liabilities:	
Long-term liabilities – due in more than one year:	
Compensated absences	32,266
Long-term debt	9,845,413
Total non-current liabilities	9,877,679
Total liabilities	10,584,058
Net position:	
Net investment in capital assets	26,019,217
Unrestricted	6,568,039
Total net position	\$ 32,587,256

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, 2013

	Water Enterprise
Operating revenues:	
Water consumption sales	\$ 2,348,324
Monthly meter service charge	1,470,116
Special assessment	303,841
Other charges and services	44,040
Total operating revenues	4,166,321
Operating expenses:	
Source of supply – water related purchases	32,259
Pumping – utilities	719,491
Transmission and distribution	488,855
General and administrative	2,319,418
Total operating expenses	3,560,023
Operating income before depreciation	606,298
Depreciation	(1,214,772)
Operating loss	(608,474)
Non-operating revenues(expenses):	
Interest earnings	29,110
Interest expense – long-term debt	(190,513)
Other non-operating revenues	209,846
Other non-operating expenses	(66,973)
Total non-operating revenues, net	(18,530)
Net loss before capital contributions	(627,004)
Transfers from(to) other funds	1,385
Change in net position	(625,619)
Net position, beginning of year	29,211,729
Prior period adjustment (note 3)	4,001,146
Net position, end of year	\$ 32,587,256

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, 2013

	<u>Water</u> <u>Enterprise</u>
Cash flows from operating activities:	
Cash receipts from customers	\$ 4,089,135
Cash paid to employees	(1,229,162)
Cash paid to vendors and suppliers	(2,638,611)
Net cash provided by operating activities	<u>221,362</u>
Cash flows from non-capital financing activities:	
Other non-operating revenues	<u>209,846</u>
Net cash provided by non-capital financing activities	<u>209,846</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(10,952,003)
Proceeds from issuance of debt	7,361,250
Principal payments on long-term debt	(96,097)
Interest payments on long-term debt	(80,720)
Net cash used in capital and financing activities	<u>(3,767,570)</u>
Cash flows from investing activities:	
Interest earnings	<u>28,939</u>
Net cash provided by investing activities	<u>28,939</u>
Net increase in cash	(3,517,269)
Cash and cash equivalents, beginning of year	<u>9,389,662</u>
Cash and cash equivalents, end of year	\$ <u><u>5,872,393</u></u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	<u>(608,474)</u>
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	1,214,772
Other non-operating expenses	(66,973)
Changes in assets and liabilities:	
(Increase)decrease in assets:	
Accounts receivable – water sales and services	47,883
Accounts receivable – other	2,333
Property taxes and assessments receivable	(127,402)
Materials and supplies inventory	(73,103)
Prepaid expenses and other assets	107,927
Increase(decrease) in liabilities:	
Accounts payable and accrued expenses	(45,888)
Accrued salaries and related payables	(134,740)
Customer deposits and deferred revenue	(48,009)
Compensated absences	(46,964)
Total adjustments	<u>829,836</u>
Net cash provided by operating activities	\$ <u><u>221,362</u></u>

See accompanying notes to the basic financial statements

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements
June 30, 2013

(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

Accounting Pronouncements

The financial statements of the District are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) issued by the Governmental accounting Standards Board (GASB) applicable to governmental entities that use proprietary fund accounting, including:

Governmental Accounting Standards Board Statement No. 60 – Accounting and Financial Reporting for Service Concession Arrangements. This standard addresses how to account for and report service concession arrangements, a type of public-private or public-public partnership that state and local governments are increasingly entering into.

Governmental Accounting Standards Board Statement No. 61 – The Financial Reporting Entity, Omnibus. This standard is designed to improve financial reporting for governmental entities by amending the requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 34, *Basic Financial Statement and Management’s Discussion and Analysis for State and local Governments*.

Governmental Accounting Standards Board Statement No. 62 – Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The objective of this Statement is to incorporate into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants’ (AICPA) Committee on Accounting Procedure.

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements
June 30, 2013

Note 1 – Summary of Significant Accounting Policies, (continued)

B. Basis of Accounting and Measurement Focus, continued

Accounting Pronouncements, continued

Hereinafter, these pronouncements collectively are referred to as the “FASB and AICPA pronouncements.” This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement.

Governmental Accounting Standards Board Statement No. 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This standard is designed to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

Governmental Accounting Standards Board Statement No. 65 – Items Previously Reported as Assets and Liabilities. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Net Position

The District follows the financial reporting requirements of the GASB and reports net position under the following classifications:

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”.

Financial Reporting

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

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

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements
June 30, 2013

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

B. Basis of Accounting and Measurement Focus, continued

Government-wide Financial Statements

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

Fund Financial Statements

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

Governmental funds are accounted for on a spending or *current financial resources* measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under modified accrual basis of accounting, revenues are recognized in the accounting period in which they become measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60-days after year-end) are recognized when due. The primary sources susceptible to accrual for the District are property tax, interest earnings, investment revenue and operating and capital grant revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. However, exceptions to this rule include principal and interest on debt, which are recognized when due.

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

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

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements
June 30, 2013

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

B. Basis of Accounting and Measurement Focus, continued

Fund Financial Statements, continued

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

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

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

The funds of the financial reporting entity are described below:

Governmental Funds

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.

Sanitation – This fund is used to account for sanitation collection 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, 2013

(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, 2013

(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. This is also the classification for residual funds in the District’s special revenue funds.
- **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, 2013

(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:

	2013
Cash on hand	\$ 300
Deposits held with financial institutions	10,272,545
Deposits held with California Local Agency Investment Fund (LAIF)	281,731
Total	\$ 10,554,576

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

Deposits held with California Local Agency Investment Fund (LAIF)	278 days
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Authorized Deposits and Investments

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

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2013

(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% of the District's total depository and investment portfolio as of June 30, 2013.

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2013

(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 following adjustments were made to the financial statements:

	Business-Type Activities
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:

	Balance 2012	Additions	Deletions/ Transfers	Balance 2013
Non-depreciable assets:				
Land	\$ 1,180,743	1,389,000	-	2,569,743
Construction in progress	73,973	73,137	-	147,110
Total non-depreciable assets	1,254,716	1,462,137	-	2,716,853
Depreciable assets:				
Land improvements	1,057,004	1,383,000	-	2,440,004
Equipment	12,845	-	-	12,845
Total depreciable assets	1,069,849	1,383,000	-	2,452,849
Accumulated depreciation:				
Land improvements	(301,188)	(1,065,017)	-	(1,366,205)
Equipment	(3,265)	(642)	-	(3,907)
Total accumulated depreciation	(304,453)	(1,065,659)	-	(1,370,112)
Total depreciable assets, net	765,396	317,341	-	1,082,737
Total capital assets, net	\$ 2,020,112			3,799,590

Major governmental capital asset additions during fiscal year 2013 include additions to land in the amount of \$1,389,000, land improvements in the amount of \$1,383,000 related to contributed capital, and construction in progress in the amount of \$73,137.

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2013

(4) Capital Assets, continued

Business-type Activities:

Changes in capital assets for the year were as follows:

	<u>Balance 2012</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2013</u>
Non-depreciable assets:				
Land	\$ 779,824	-	-	779,824
Water rights	-	14,760,033	-	14,760,033
Construction in progress	<u>2,069,992</u>	<u>389,274</u>	<u>(117,941)</u>	<u>2,341,325</u>
Total non-depreciable assets	<u>2,849,816</u>	<u>15,149,307</u>	<u>(117,941)</u>	<u>17,881,182</u>
Depreciable assets:				
Building	533,013	30,252	-	563,265
Transmission and distribution mains	17,200,389	-	-	17,200,389
Reservoirs	4,187,496	-	-	4,187,496
Pumping Station	4,114,808	-	-	4,114,808
Wells	4,817,288	87,689	-	4,904,977
Tanks	1,463,404	-	-	1,463,404
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>679,242</u>	<u>394,998</u>	<u>-</u>	<u>1,074,240</u>
Total depreciable assets	<u>35,427,882</u>	<u>512,939</u>	<u>-</u>	<u>35,940,821</u>
Accumulated depreciation:				
Transmission and distribution mains	(10,061,646)	(392,234)	-	(10,453,880)
Reservoirs	(1,825,731)	(154,151)	-	(1,979,882)
Pumping Station	(2,295,644)	(105,599)	-	(2,401,243)
Wells	(929,861)	(140,099)	-	(1,069,960)
Tanks	(239,467)	(39,440)	-	(278,907)
Hydrants and telemetry control	(188,394)	(1,123)	-	(189,517)
Meters	(432,258)	(192,114)	-	(624,372)
Planning and development	(32,211)	(32,211)	-	(64,422)
Vehicles and equipment	<u>(461,303)</u>	<u>(157,801)</u>	<u>-</u>	<u>(619,104)</u>
Total accumulated depreciation	<u>(16,466,515)</u>	<u>(1,214,772)</u>	<u>-</u>	<u>(17,681,287)</u>
Total depreciable assets, net	<u>18,961,367</u>	<u>(701,833)</u>	<u>-</u>	<u>18,259,534</u>
Total capital assets, net	<u>\$ 21,811,183</u>	<u>14,447,474</u>	<u>(117,941)</u>	<u>36,140,716</u>

Major enterprise fund capital asset additions during fiscal year 2013 include additions to non-depreciable water rights in the amount of \$14,760,033, and construction in progress in the amount of \$389,274. Additions to depreciable assets include building in the amount of \$30,252, wells in the amount of \$87,689, and vehicles and equipment in the amount of \$394,998.

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2013

(5) Compensated Absences

Compensated absences comprise unpaid vacation leave that accrue when benefits are fully vested and are determined annually. Compensated absences turn-over each year, therefore, the compensated absence balance of the District is considered a current liability on the Statements of Net Assets.

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

<u>Balance</u> <u>2012</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance</u> <u>2013</u>	<u>Due Within</u> <u>One Year</u>	<u>Due in more</u> <u>than one year</u>
\$ 57,430	134,996	(121,994)	70,432	35,216	35,216

(6) Long-term Debt

Changes in long-term debt were as follows:

	<u>Balance</u> <u>2012</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>2013</u>
CIEDB - 02-033	\$ 2,717,596	-	(96,097)	2,621,499
CIEDB - 12-101	-	7,500,000	-	7,500,000
Total loan payable	2,717,596	7,500,000	(96,097)	10,121,499
Less: current portion	(96,097)			(276,086)
Total non-current portion	\$ 2,621,499			9,845,413

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

The San Bernardino County Special District County Service Area 70, Zone L, entered into an Installment Sale Agreement (Agreement) dated December 17, 2002, with the California Infrastructure and Economic Development Bank (CIEDB) to fund water system improvements in County Service Area 70, Zone L - Water Tank Project. According to the Agreement, the CIEDB is expected to issue a total amount of \$5,001,000 in Infrastructure State Revolving Fund Program Revenue Bonds (Bonds) to the San Bernardino County Special District County Service Area 70, Zone L, on a reimbursement basis. The San Bernardino County Special District County Service Area 70, Zone L, has agreed to make installment payments to the CIEDB on the Bonds, secured by a pledge of first lien on all the pledged net system revenue and all amounts in the San Bernardino County Special District County Service Area 70, Zone L.

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

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

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2013

(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>
2014	\$ 99,461	91,752	191,213
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
2019-2023	633,557	322,608	956,165
2024-2028	752,348	203,718	956,066
2029-2032	702,239	62,512	764,751
Totals	2,621,499	1,011,550	3,633,049
Less: current portion	(99,461)		
Total non-current	\$ 2,522,038		

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 1st, with principal and interest payments due each August 1st.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 176,625	169,728	346,353
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
2019-2023	1,035,324	694,694	1,730,018
2024-2028	1,159,423	569,175	1,728,598
2029-2033	1,298,397	428,607	1,727,004
2034-2038	1,454,031	271,203	1,725,234
2037-2042	1,628,317	94,902	1,723,219
Totals	7,500,000	2,865,361	10,365,361
Less: current portion	(176,625)		
Total non-current	\$ 7,323,375		

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2013

(7) Defined Benefit Pension Plan

Plan Description

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

Funding Policy

The contribution rate for plan members in the CalPERS 2.5% at 55 Risk Pool Retirement Plan is 8% of their annual covered salary. The Agency makes these contributions required of Agency employees on their behalf and for their account. Also, the Agency is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The required employer contribution rates are equal to the annual pension costs (APC) percentage of payroll for fiscal year 2013 as noted below. The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS. For fiscal year 2013, the Agencies annual contribution for CalPERS and were equal to the Agencies required and actual contribution for each fiscal year as follows:

Three Year Funding Information:

<u>Year</u>	<u>Cost (APC)</u>	<u>Contributed</u>	<u>Obligation</u>	<u>of Payroll</u>
2011	\$ 170,288	100%	-	10.309%
2012	162,051	100%	-	10.309%
2013	272,624	100%	-	11.553%

(8) Net Investment in Capital Assets

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
The balance consists of the following:			
Capital assets – not being depreciated	\$ 2,716,852	17,881,182	20,598,034
Capital assets – being depreciated, net	1,082,738	18,259,534	19,342,272
Long-term debt – current portion	-	(276,086)	(276,086)
Long-term debt – long-term portion	-	(9,845,413)	(9,845,413)
Total	<u>\$ 3,799,590</u>	<u>26,019,217</u>	<u>29,818,807</u>

(9) Unrestricted Net Position

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Net position is designated as follows:			
Parks and recreation	\$ 4,644,228	-	4,644,228
Street lighting	-	-	-
Sanitation	8,552	-	8,552
Materials and supplies inventory	-	168,109	168,109
Prepaid expenses and other assets	-	35,309	35,309
Water operations and capital replacement	-	6,364,621	6,364,621
Total	<u>\$ 4,652,780</u>	<u>6,568,039</u>	<u>11,220,819</u>

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2013

(10) 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). A detailed schedule of fund balances and their funding composition at June 30, 2013, is as follows:

Fund Balance Category		
Assigned:		
Compensated absences	\$	5,900
Unassigned fund balance:		4,652,780
Total fund balance	\$	4,658,680

(11) 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, 2013, 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 2013. 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, 2013.

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2013

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2013, that have effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 66

In March 2012, the GASB issued Statement No. 66 – Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The impact of the implementation of this Statement to the Authority’s financial statements has not been assessed at this time.

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 Authority’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 Authority’s financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 70

In April 2013, the GASB issued Statement No. 70 – Accounting and Financial Reporting for Non-exchange Guarantees. Provisions of this Statement require that governments that extend non-exchange financial guarantees to recognize a liability when qualitative factors and historic data, if any, indicate that it is more likely than not that the government will be required to make a payments on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows related to the guarantee expected to be incurred. When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range.

Phelan Piñon Hills Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2013

(13) 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.

(14) Subsequent Event

Events occurring after June 30, 2013 have been evaluated for possible adjustment to the financial statements or disclosure as of November 6, 2013, which is the date the financial statements were available to be issued.

Report on Compliance and Internal Controls



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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

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, 2013 and 2012, 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 6, 2013.

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 6, 2013