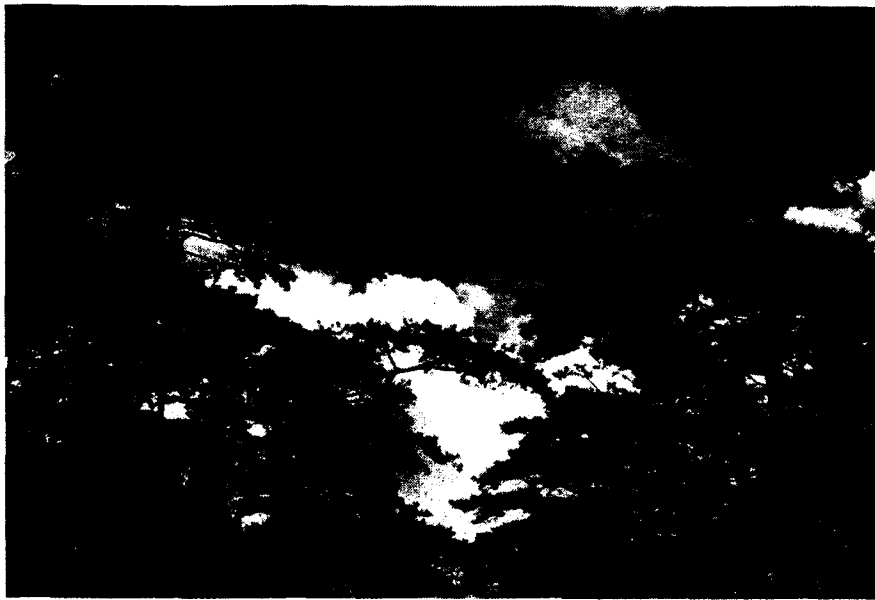


**MAJESTIC PINES
COMMUNITY SERVICES DISTRICT
COUNTY OF SAN DIEGO
JULIAN, CALIFORNIA**

**AUDIT REPORT
June 30, 2014**



presented by

*Douglas R. Ashbrook, CPA
San Diego, CA*

**MAJESTIC PINES
COMMUNITY SERVICES DISTRICT
TABLE OF CONTENTS
June 30, 2014**

	<u>Page No.</u>
INTRODUCTORY SECTION	
Table of Contents	i
<u>FINANCIAL SECTION</u>	
Independent Auditor's Report	1 - 2
Management's Discussion and Analysis	3 - 8
<u>Financial Statements</u>	
Balance Sheet	9
Statement of Revenues, Expenses, and Changes in Net Assets	10
Statement of Revenues and Expenses - Budget vs. Actual	11
Statement of Cash Flows	12-13
Notes to the Financial Statements	14-19
<u>SUPPLEMENTARY INFORMATION SECTION</u>	
Organization	20

Douglas R. Asfibrook, CPA

Auditing, Taxation, Consulting

Member: American Institute of Certified Public Accountants and California Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Majestic Pines Community Services District
Julian, California

I have audited the accompanying financial statements of Majestic Pines Community Services District (the "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 basis 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the State Controller's *Minimum Audit Requirements for California Special Districts*. Those standards require that I 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, I 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.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Majestic Pines Community Services District as of June 30, 2014 and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller and state regulations governing special districts.

Report on Summarized Comparative Information

I have previously audited Majestic Pines Community Services District's 2013 financial statements, and I expressed an unmodified audit opinion on those audited financial statements in my report dated October 3, 2013. In my opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Emphasis of Matters

As discussed in Note 9 to the basic financial statements, during the year ended June 30, 2014, the District adopted new accounting guidance, Governmental Accounting Standards Board's Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*". My opinion is not modified with respect to this matter.

Other Matter

My audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Management's Discussion and Analysis on pages 3 through 8 is presented for purposes of additional analysis to supplement the basic financial statements and is not a required part of the 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to certain limited procedures applied in the audit of the financial statements and certain additional procedures, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. It also included comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

January 14, 2015

 SM Digitally signed by Douglas Ashbrook
DN: cn=Douglas Ashbrook,
o=Douglas R. Ashbrook, CPA, PC,
email=dracpa@stan.rr.com, c=US

Douglas R. Ashbrook, CPA

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of Majestic Pines Community Services District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2014. Readers are encouraged to read this section in conjunction with the audited financial statements and their accompanying notes.

The District's Operations – an Overview

The District operates under the authority of the California Water Code and engages in activities classified as "proprietary." These activities are accounted for much like that of a private business and use the full accrual method of accounting for transactions. The major activities include production and treatment of groundwater and the sale and delivery of water to domestic accounts. The District also owns and operates vehicles and other equipment and machinery to support the various operating activities.

Recent Events – Economic Downturn

The rate increase enacted last year has resulted in us being able to continue to set aside the reserves necessary to continue infrastructure improvements and rehabilitation. Our Whispering Pines reservoir project is an area where these added funds will be utilized. This structure is in dire need of replacement and preliminary work is currently under way. Also, the implementation of other fees such as the account transfer, returned check fee, lock-off fee, etc. has helped to offset some of the expenses related to delinquent account handling. The negative economic conditions still persist and foreclosures are still an issue, but we seem to have been able to lessen the impact of this with the measures taken. Due to some negative feedback from a few customers, some modification of these additional fees may be enacted in the future.

FINANCIAL HIGHLIGHTS

Revenues

Combined revenues for the fiscal year totaled \$474,633 compared to a prior year of \$491,369. This is a decrease of 3.41%. Table 1-1 presents a comparison of revenues by category for the two fiscal years 2013/14 and 2012/13.

Expenses

Combined expenses for the fiscal year totaled \$404,950 compared to a prior year of \$429,433. This is a decrease of 5.70%. Table 1-1 presents a comparison of expenses by category for the two fiscal years 2013/14 and 2012/13.

Water Sales

Water Sales totaled \$198,552, a decrease of 0.66% from the prior year. Ready-to-Serve sales totaled \$247,113 does not vary from the prior year sales amount. Economic conditions continue to affect water sales. Foreclosures, and the slow transition to new owners, require homes to remain vacant longer and this continues to affect the bottom line.

Table 1-1

**Majestic Pines Community Services District
Combined Revenues and Expenses by Category
For Fiscal Years Ended June 30, 2014 and 2013**

	<u>2013/2014</u>		<u>2012/2013</u>		<u>Increase/(Decrease)</u>	
	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% Change</u>
Revenues						
Water Sales	\$ 198,552	41.83%	\$ 199,866	40.68%	\$ (1,314)	-0.66%
Ready to Serve Sales	247,113	52.06%	247,118	50.29%	(5)	0.00%
Standby Charges	12,403	2.61%	12,779	2.60%	(376)	-2.94%
New Meters	600	0.13%	9,500	1.93%	(8,900)	-93.68%
Miscellaneous	40	0.01%	178	0.04%	(138)	-77.46%
Late Charges	7,195	1.52%	8,017	1.63%	(822)	-10.25%
Other Non-Operating	8,731	1.84%	13,913	2.83%	(5,182)	-37.25%
Total Revenues	<u>\$ 474,633</u>	<u>100.00%</u>	<u>\$ 491,369</u>	<u>100.00%</u>	<u>\$ (16,736)</u>	<u>-3.41%</u>
Expenses						
Administrative	\$ 36,225	8.99%	\$ 41,278	9.61%	\$ (5,054)	-12.24%
Operations	42,490	10.55%	37,554	8.75%	4,936	13.14%
Depreciation & Amort.	70,588	17.52%	72,081	16.79%	(1,493)	-2.07%
Electricity	22,224	5.52%	19,524	4.55%	2,700	13.83%
Payroll & Benefits	209,037	51.89%	237,150	55.22%	(28,112)	-11.85%
Other Non-Operating	22,269	5.53%	21,846	5.09%	423	1.94%
Total Expenses	<u>\$ 402,833</u>	<u>100.00%</u>	<u>\$ 429,433</u>	<u>100.00%</u>	<u>\$ (26,600)</u>	<u>-6.19%</u>
Income/(Loss)	71,800		61,936		9,864	15.93%
Net Position-Beginning of Year	<u>1,763,559</u>		<u>1,701,623</u>		<u>61,936</u>	<u>3.64%</u>
Net Position-End of Year	<u>\$ 1,835,359</u>		<u>\$ 1,763,559</u>		<u>\$ 71,800</u>	<u>4.07%</u>

Capital Expenditures

The District has decided that Grants are not available to us for our Whispering Pines Reservoir project, and we will continue to need to set aside reserves in order to deal with the issue. This will delay the beginning of the project, but will also enable the District to complete the project without the need for borrowing as much as previously thought. In the long run, this seems to be a more practical method of funding compared to the USDA loans investigated last year. Recent inspection of the structure indicates we should anticipate construction of a new reservoir within the next two years, or so.

Depreciation Expense

Depreciation expense was decreased by 2.07% in the past fiscal year due to some assets being fully depreciated.

Operating Expenses

Operating expenses are higher this year. Costs for maintaining the system are higher and are expected to remain that way. A slight increase in electricity costs are due to incremental in SDG&E rates. Over all, the cost of running the system is rising and we must continue to look for ways to cut costs anywhere possible in anticipation of these increases.

Net Position

The District's net position increased by \$71,800 ending the fiscal year June 30, 2014 with a balance of \$1,835,359. This is an increase of 4.07% over the prior year and can be illustrated from the following table (1-2) that compares the various categories of assets, liabilities and net position for the two fiscal years ending June 30, 2013 and 2014.

Table 1-2

**Majestic Pines Community Services District
Net Position
June 30, 2014 and 2013**

	2013/2014	2012/2013	Increase/(Decrease)	
			Amount	% Change
Assets				
Current Assets	\$ 783,478	\$ 707,995	\$ 75,484	10.66%
Restricted Assets	123,699	111,207	12,492	11.23%
Capital Assets	<u>1,393,952</u>	<u>1,422,346</u>	<u>(28,394)</u>	<u>-2.00%</u>
Total Assets	\$ <u>2,301,129</u>	\$ <u>2,241,547</u>	\$ <u>59,582</u>	<u>2.66%</u>
Liabilities				
Current Liabilities	\$ 42,391	\$ 41,609	\$ 781	1.88%
Non-Current Liabilities	<u>423,379</u>	<u>436,379</u>	<u>(13,000)</u>	<u>-2.98%</u>
Total Liabilities	465,770	477,988	(12,219)	-2.56%
Net Position				
Non-spendable	965,118	980,362	(15,244)	-1.55%
Restricted	123,699	111,207	12,492	11.23%
Unassigned	<u>746,542</u>	<u>671,990</u>	<u>74,553</u>	<u>11.09%</u>
Total Net Position	<u>1,835,359</u>	<u>1,763,559</u>	<u>71,800</u>	<u>4.07%</u>
Total Liabilities and Net Position	\$ <u>2,301,129</u>	\$ <u>2,241,547</u>	\$ <u>59,582</u>	<u>2.66%</u>

Changes in Financial Condition of the District

The following denotes explanations for some of the major changes between fiscal years, as compared in the Net Position, table 1-2 above:

Current assets increased by \$75,484 and Restricted Assets increased by \$12,492 from last year. Further information regarding restrictions and commitments associated with net position can be identified in Note 1 to the financial statements.

Non-Current Liabilities

Non-current liabilities decreased by \$12,000 due to principal payment on the USDA capital improvement loan. Also see Note 4 to the financial statements regarding debt issuances and outstanding balances.

Capital Assets

Net of accumulated depreciation, the District reported capital assets of \$1,393,952 in the fiscal year 2013/14 compared to \$1,422,346 in fiscal year 2012/13. A comparison of the change is provided below (table 1-3) by major category. The net change of \$42,194 in Buildings, Improvements and Equipment consists of new water tank project costs started during the year. Also, see Note 6 to the financial statements for further information regarding capital assets.

Table 1-3

**Majestic Pines Community Services District
Capital Assets
For Fiscal Years Ended June 30, 2014 and 2013**

	<u>2013/2014</u>	<u>2012/2013</u>	Increase/(Decrease)	
			<u>Change</u>	<u>%</u>
Land	\$ 98,528	\$ 98,528	\$ -	0.00%
Water Rights	15,000	15,000	-	0.00%
Buildings, Improvements, & Equipment	<u>2,819,003</u>	<u>2,776,809</u>	42,194	1.52%
Total Capital Assets	2,932,531	2,890,337	42,194	1.46%
Less Accumulated Depreciation & Amortization	<u>1,538,579</u>	<u>1,467,991</u>	70,588	4.81%
Net Capital Assets	<u>\$ 1,393,952</u>	<u>\$ 1,422,346</u>	<u>\$ (28,394)</u>	<u>-2.00%</u>

District Actual vs. Budget

Table (1-4) compares revenues and expenses of the District compared to budgeted and/or projected figures used by the District to monitor performance during the year. Overall change to net assets was budgeted at a positive \$81,072 vs. an actual increase of \$71,800.

Table 1-4

**Majestic Pines Community Services District
Actual vs Budget
2013/2014**

	<u>Actual</u>	<u>Budget</u>	<u>Variance to Budget</u>	<u>% Variance</u>
REVENUES				
Water Sales	\$ 198,552	\$ 195,000	\$ 3,552	1.82%
Ready to Serve Sales	247,113	245,000	2,113	0.86%
Standby Charges	12,403	12,223	180	1.47%
New Meters	600	9,500	(8,900)	-93.68%
Miscellaneous	40	200	(160)	-80.00%
Late Charges	7,195	7,500	(305)	-4.07%
Other Non-Operating	8,731	7,690	1,041	13.54%
Total Revenues	<u>\$ 474,633</u>	<u>\$ 477,113</u>	<u>\$ (2,480)</u>	<u>-0.52%</u>
EXPENSES				
Administrative	\$ 36,225	\$ 44,550	\$ (8,325)	-18.69%
Operations	42,490	50,700	(8,210)	-16.19%
Electricity	22,224	22,000	224	1.02%
Payroll & Benefits	209,037	206,800	2,237	1.08%
Depreciation & Amortization	70,588	49,572	21,016	42.39%
Other Non-Operating	22,269	22,419	(150)	-0.67%
Total Expenses	<u>402,833</u>	<u>396,041</u>	<u>6,792</u>	<u>1.71%</u>
Income/(Loss)	<u>\$ 71,800</u>	<u>\$ 81,072</u>	<u>\$ (9,272)</u>	<u>-11.44%</u>

Major Budget Variances

The following denotes explanations for some of the major variances between actual and budget for the table above (table 1-4).

Water Sales increased 1.82% (\$195,000 budgeted vs. \$198,552 actual. Standby Charges experienced a 1.47% increase due to rate increases. Revenues were about .52% lower overall than was budgeted, while expenses were about 1.71% more than was budgeted. Payroll Benefits were 1.08% over budget, Depreciation expense 42.39% over budget, and Electricity being 1.02% over budget.

Contacting the District's Financial Management

This financial report is designed to provide Majestic Pines Community Services District's elected officials, citizens, customers, and creditors with a general overview of the District's finances and to demonstrate the District's accountability of the money it receives. If you have any questions regarding this report or need additional financial information, please contact the District's Manager.

Majestic Pines Community Services District
Statement of Net Position
June 30, 2014
(with prior year data for comparison purposes only)

ASSETS

	Year ended June 30	
	2014	2013
<u>Current assets:</u>		
Cash in operating fund	\$ 61,806	\$ 61,414
Cash in general fund	494,150	404,054
Investment in certificates of deposit	110,354	110,163
Accounts receivable	99,329	101,485
Prepaid insurance	3,751	3,733
Prepaid legal/other	895	895
Inventory	2,793	14,830
Total Current assets	773,078	696,575
<u>Non-current assets:</u>		
<u>Restricted assets</u>		
Investments in standby fund certificate of deposit	87,583	36,049
Customer deposits	10,400	11,420
Investment in capital improvement reserve	36,116	75,158
Total restricted assets	134,099	122,627
<u>Capital assets:</u>		
Land	98,528	98,528
Water rights, net of accumulated amortization of \$7,292	7,708	8,333
Buildings, improvements & equipment	2,819,003	2,776,809
Less: accumulated depreciation	(1,531,287)	(1,461,324)
Net capital assets	1,393,952	1,422,346
Total non-current assets	1,528,051	1,544,973
TOTAL ASSETS	\$ 2,301,129	\$ 2,241,547

LIABILITIES

LIABILITIES

Current Liabilities:

Accounts payable	\$ 1,444	\$ 3,561
Payroll liabilities	12,092	9,024
Customer deposits	10,400	11,420
Current portion of long-term debt	13,000	12,000
Accrued interest payable	5,455	5,605
Total current liabilities	42,391	41,609

Non-current liabilities:

Bonds and loans payable		
Capital improvement loan, net of current portion - USDA	423,379	436,379
Total non-current liabilities	423,379	436,379
TOTAL LIABILITIES	465,770	477,988

NET POSITION

Investment in capital assets net of related debt	965,118	980,362
Restricted	134,099	122,627
Unrestricted	736,142	660,570
TOTAL NET POSITION	\$ 1,835,359	\$ 1,763,559

See accompanying notes and independent auditor's report

Majestic Pines Community Services District
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2014
(with prior year data for comparison purposes only)

	Year ended June 30	
	2014	2013
<u>OPERATING REVENUES:</u>		
Water sales	\$ 198,552	\$ 199,866
Ready to serve sales	247,113	247,118
Standby charges	12,403	12,779
New meters	600	9,500
Miscellaneous income	40	178
Late charges	7,195	8,017
Total operating revenues	465,902	477,456
<u>OPERATING EXPENSES:</u>		
Administrative		
Insurance	5,345	11,070
Dues & fees	8,493	8,526
Legal & professional	9,031	8,940
Supplies	2,588	2,379
Telephone & radio	6,284	5,588
Postage	3,786	3,001
Other	698	1,776
Automobile	3,954	4,580
Chemicals	4,772	4,178
Contingencies	435	3,092
Contractors	3,627	10,136
Depreciation & amortization	70,588	72,081
Electricity	22,224	19,524
Equipment rent & repair	2,369	3,347
Payroll	158,006	182,551
Payroll taxes & benefits	46,921	50,068
Tools & parts	19,773	4,293
Water testing	7,560	7,929
Workers comp insurance	4,110	4,531
Total operating expenses	380,564	407,587
Operating income/(loss)	85,338	69,869
<u>NON-OPERATING REVENUE (EXPENSES):</u>		
Property Tax Assessments	-	-
Interest income	542	623
Other non-operational revenue	6,189	5,721
Gain on sale of assets	2,000	7,569
Interest expense-USDA	(22,269)	(22,731)
Interest Expense-San Diego County	-	-
Interest expense-Bank of West	-	886
Total non-operating revenues (expenses)	(13,538)	(7,933)
Change in net position	71,800	61,936
Net position, beginning of year	1,763,559	1,701,623
Net position, end of year	\$ 1,835,359	\$ 1,763,559

See accompanying notes and independent auditor's report

Majestic Pines Community Services District
Statement of Revenues and Expenses - Budget vs. Actual
For the Fiscal Year Ended June 30, 2014

	Actual	Budget	Variance Favorable (Unfavorable)
<u>OPERATING REVENUES:</u>			
Water sales	\$ 198,552	\$ 195,000	\$ 3,552
Ready to serve sales	247,113	245,000	2,113
Standby charges	12,403	12,223	180
New meters	600	9,500	(8,900)
Miscellaneous income	40	200	(160)
Late charges	7,195	7,500	(305)
Total operating revenues	465,902	469,423	(3,521)
 <u>OPERATING EXPENSES:</u>			
Administrative			
Insurance	5,345	13,500	8,155
Dues & fees	8,493	9,000	507
Legal & Professional	9,031	7,200	(1,831)
Supplies	2,588	3,500	912
Telephone & radio	6,284	5,800	(484)
Postage	3,786	3,500	(286)
Other	698	2,050	1,352
Automobile	3,954	5,350	1,396
Chemicals	4,772	4,800	28
Contingencies	435	3,250	2,815
Contractors	3,627	15,000	11,373
Depreciation & amortization	70,588	49,572	(21,016)
Electricity	22,224	22,000	(224)
Equipment rent & repair	2,369	4,100	1,731
Payroll	158,006	148,000	(10,006)
Payroll taxes & benefits	46,921	58,800	11,879
Tools & parts	19,773	10,200	(9,573)
Water testing	7,560	8,000	440
Workers comp insurance	4,110	-	(4,110)
Total operating expenses	380,564	373,622	(6,942)
Operating income/(loss)	85,338	95,801	(10,463)
 <u>NON-OPERATING REVENUES (EXPENSES):</u>			
Interest income	542	850	(308)
Other non-operational revenue	6,189	5,340	849
Gain on sale of assets	2,000	1,500	500
Interest expense-USDA	(22,269)	(22,419)	150
Total non-operating revenues (expenses)	(13,538)	(14,729)	1,191
Change in net position	\$ 71,800	\$ 81,072	\$ (9,272)

See accompanying notes and independent auditor's report

Majestic Pines Community Services District
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2014
(with prior year data for comparison purposes only)

	Year ended June 30	
	2014	2013
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Receipts from customers	\$ 455,616	\$ 461,268
Standby charges collected	12,403	12,779
Miscellaneous Income	40	178
Payments to employees	(201,859)	(232,630)
Payments to suppliers	(72,923)	(88,383)
Payments for utilities	(22,224)	(19,524)
	171,052	133,687
Net cash provided by (used for) operating activities		
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>		
Principal paid on capital debt	(12,000)	(21,096)
Interest paid on capital debt	(22,419)	(22,134)
Other Non Operating Income	6,189	5,721
Gain on Sale of Assets	2,000	7,569
Purchases of capital assets	(42,194)	2,768
	(68,424)	(27,172)
Net cash provided by (used for) capital and related financing activities		
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Interest on investments	542	623
Purchase of investments	(12,682)	(11,479)
	(12,140)	(10,856)
Net cash provided by (used for) investing activities		
Net Increase (Decrease) in Cash and Cash Equivalents		
	90,488	95,658
Cash and Cash Equivalents, Beginning of year	465,468	369,810
Cash and Cash Equivalents, End of year	\$ 555,956	\$ 465,468
<u>RECONCILIATION OF CASH TO STATEMENT OF NET POSITION:</u>		
Cash in Operating Fund	61,806	61,414
Cash in General Fund	494,150	404,054
	555,956	465,468
CASH BALANCE AT END OF YEAR	\$ 555,956	\$ 465,468

See accompanying notes and independent auditor's report

Majestic Pines Community Services District
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2014
(continued)

	Year ended June 30	
	2014	2013
RECONCILIATION OF OPERATING INCOME (LOSS) TO		
<u>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</u>		
Operating income (loss)	\$ 85,338	\$ 69,869
<u>Adjustments to reconcile operating income to net cash provided by operating activities:</u>		
Depreciation & amortization	70,588	72,081
<u>Changes in operation assets and liabilities:</u>		
Decrease (Increase) in Current Assets:		
Accounts receivable	2,157	(4,267)
Customer deposits	1,020	(325)
Prepaid insurance	(18)	(100)
Prepaid expenses	-	(57)
Inventory	12,036	(4,863)
(Decrease) Increase in Current Liabilities:		
Accounts payable	(2,117)	(0)
Customer Deposits	(1,020)	1,360
Payroll liabilities	3,068	(11)
Total Adjustments	<u>85,714</u>	<u>63,818</u>
Net cash provided by (used for) operating activities	<u>\$ 171,052</u>	<u>\$ 133,687</u>

See accompanying notes and independent auditor's report

Majestic Pines Community Services District
Notes to Financial Statements
June 30, 2014

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. *Reporting Entity*

The Majestic Pines Community Services District is located in and around the “Whispering Pines” and “Kentwood in the Pines” areas of Julian in the County of San Diego. The District was formed by the dissolution of the “County Services Area No. 4 – Majestic Pines Water District,” (CSA No. 4) by resolution of the board of Supervisors of the County of San Diego dated October 19, 1993. The reorganization was made pursuant to government Code Section 56761 of the Local Government Reorganization Act of 1985 and created a new community services district independent from the County of San Diego. The objectives of the reorganization were to strengthen local control of the district’s water resources, take advantage of the tax-free borrowing for capital improvements, decrease operating expenses and maximize the benefits to all customers.

The District became the successor to the CSA No. 4 for the purposes of succeeding to all rights, duties, and obligations of that Services Area and consists of all territory formerly of the CSA No. 4, including all property, cash, receivables, and obligations of the former entity.

In 1995, the District formed the Majestic Pines Capital Improvement Corporation (MPCIC), a separate corporation required by the USDA for the Capital Improvement Loan and construction projects completed in 1996/97. The MPCIC is governed by the District’s Board of Directors. The Corporation’s activities are limited to providing for the planning, development, acquisition, construction, improvement, extension, repair, renovation, and/or financing of public buildings, works, projects, facilities, furnishings, and equipment for the benefit or use of the District. All assets, liabilities, revenue and expenses of the Corporation are included in the District’s financial statements.

The District operates as a community water district and provides water services and water storage to about 656 customers in a 1,049-acre area. An elected board of directors makes all policy decisions.

B. *Accounting Policies*

The District accounts for its financial transactions in accordance with the policies and procedures of the State Controller's Office and state regulations governing special districts. The accounting policies of the District conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants. The financial statements have been prepared in accordance with the American Institute of Certified Public Accountants Audit and Accounting Guide, Audits of State and Local Governments and the State Controller’s *Minimum Audit Requirements for California Special Districts*.

C. *Governmental Fund Accounting*

The accounts of the District are reported as a proprietary operation known as an Enterprise fund.

Majestic Pines Community Services District
Notes to Financial Statements
June 30, 2014

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (cont.)

D. Basis of Accounting

The District accounts for its operation in an enterprise fund using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

An enterprise fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for water sales. Operating expenses for the District include services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

E. Budgets and Budgetary Accounting

By state law, the District's governing board must approve a tentative budget no later than July 1 and adopt a final budget no later than September 15. The governing Board approved a budget for 2013-2014 in September 2013.

A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements. These budgets can be revised by the District's governing board and during the year to give consideration to unanticipated revenue and expenditures. It is this final revised budget that is presented in the financial statements.

Formal budgetary integration was employed as a management control device for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

F. Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

G. Property, Plant, and Equipment

Property, plant, and equipment have been recorded at historical cost. Assets that are no longer in use have been "retired" and their values removed from property, plant, and equipment. Depreciation is calculated on a straight-line basis with varying useful lives.

Majestic Pines Community Services District
Notes to Financial Statements
June 30, 2014

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (cont.)

H. *Inventory*

Inventories, which consist primarily of meters, are valued at the lower of cost or market. Cost is determined on the first-in, first-out method.

I. *Restricted Net Assets*

Restricted net assets indicate the assets not appropriate for expenditure or amounts legally segregated for a specific future use. These amounts are not available for appropriation and expenditure at the balance sheet date. Restricted net assets indicate tentative plans for financial resource utilization in a future period. Restrictions have been established as follows:

Standby Fund	\$ 87,583
Customer Deposit Trust	10,400
Capital Improvement Reserve	<u>36,116</u>
Total Restricted Net Assets	<u>\$ 134,099</u>

The Standby Fund consists of fees charged annually for undeveloped properties that have no water meter, but are fronting existing water mains that, at some future time, can supply services to the property. The charge is for properties that are buildable only and is for the purpose of future expansion of facilities and equipment.

NOTE 2 - CASH AND INVESTMENTS

The District voluntarily maintains most of its accounts in one bank. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2014, one of the bank accounts exceeded the insured amount by \$244,150.

NOTE 3 - ACCOUNTS RECEIVABLE

Customers are billed bi-monthly for water sales. The District files a Fixed Charge Special Assessment Report by August 10 every year to the County of San Diego for the annual standby charge for undeveloped properties and to report any delinquent accounts. The County collects the charges and the delinquent accounts for the District through property tax bills. Since the taxes will ultimately be collected through various means, no allowance for uncollectible accounts is deemed necessary. Accounts Receivable as of June 30, 2014 is \$ 99,329.

**Majestic Pines Community Services District
Notes to Financial Statements
June 30, 2014**

NOTE 4 - LONG TERM DEBT PAYABLE – REVENUE BONDS

Certificate of Participation - Capital Improvement Loan - USDA

In 1996, the District obtained a loan from the United States Department of Agriculture Rural Economic and Community Development Department to construct a new water storage facility, pipelines, etc. Construction was completed by June 1997 and draws were taken on the loan from July 1996 through February 1997. The full amount of the loan drawn was \$606,576. The annual percentage rate on the loan is 5% and the maturity date is March 3, 2036. In January 1998, the District returned \$18,197 in unused principal to the USDA. Payment of principal and interest for the next five years is estimated as follows:

Year End June 30,	Principal	Interest Due	Balance
2015	\$ 13,000	\$ 21,819	\$ 423,379
2016	14,000	21,169	409,379
2017	14,000	20,469	395,379
2018	15,000	19,769	380,379
2019	16,000	19,019	364,379
Therafter	<u>364,379</u>	<u>165,353</u>	<u>-</u>
Total	\$ <u>436,379</u>	\$ <u>267,598</u>	\$ <u>-</u>

NOTE 5 - EMPLOYEE BENEFIT PLAN

Plan Description

The District participates in the California Public Employee's Retirement System (CalPERS). CalPERS, an agent multiple-employer public employee defined benefit plan, acts as a common investment and administrative agent for participating public entities within the State of California. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions and state statute and District policies establish all other requirements. Copies of CalPERS' annual financial report may be obtained from their Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Policy

Active plan members are required to contribute 7% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal year 2013-14 is 11.162% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to CalPERS for the fiscal year ending June 30, 2014 was \$17,536.

Majestic Pines Community Services District
Notes to Financial Statements
June 30, 2014

NOTE 6 - PROPERTY, PLANT, AND EQUIPMENT

The summary of changes in property, plant, and equipment is as follows:

	Balance Beginning	Additions	Deletions	Balance Ending
Land	\$ 98,528	\$ -	\$ -	\$ 98,528
Water Rights	15,000	-	-	15,000
Transmission Systems	1,509,296	-	-	1,509,296
Water Plant Improvements	1,142,848	42,194	-	1,185,042
Other Physical Assets	124,666	-	-	124,666
Total	<u>\$ 2,890,337</u>	<u>\$ 42,194</u>	<u>\$ -</u>	<u>\$ 2,932,531</u>

The summary of changes in accumulated depreciation and amortization is as follows:

	Balance Beginning	Additions	Deletions	Balance Ending
Land	\$ -	\$ -	\$ -	\$ -
Water Rights	6,667	625	-	7,292
Transmission Systems	1,017,496	21,274	-	1,038,770
Water Plant Improvements	373,813	44,738	-	418,551
Other Physical Assets	70,015	3,951	-	73,966
Total	<u>\$ 1,467,991</u>	<u>\$ 70,588</u>	<u>\$ -</u>	<u>\$ 1,538,579</u>

NOTE 7 - COMPARATIVE FINANCIAL STATEMENTS

The amounts shown for June 30, 2013 are included to provide a basis for comparison. Accordingly, the amounts are not intended to present all information necessary for a fair presentation in accordance with generally accepted accounting principles. Reclassifications have been made to certain line items, but do not change totals and do not have a material effect on the financial statements.

NOTE 8 - SUBSEQUENT EVENTS

Subsequent events are events or transactions occurring subsequent to the balance sheet date but prior to the issuance of financial statements that have a material effect on the financial statements that would require adjustment to or disclosure in the financial statements. Management has evaluated subsequent events through January 14, 2015, the date on which the financial statements were available to be issued.

**Majestic Pines Community Services District
Organization
June 30, 2014**

The Board of Directors for the fiscal year ended June 30, 2014, is composed of the following members:

<u>NAME</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Kurt Boettcher	President	December 2016
David Grossman	Vice President	December 2014
Kevin Dubler	Treasurer	December 2016
Robert Markart	Secretary	December 2016
Joseph Connolly	Director	December 2014

Administration:

David Shenk	District Manager & Water Treatment Operator
Jorge Rosas	Water Treatment Operator
Karen Hayse	Office Manager / Bookkeeper