

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

AUDIT REPORT
June 30, 2015



presented by

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

**MAJESTIC PINES
COMMUNITY SERVICES DISTRICT
TABLE OF CONTENTS
June 30, 2015**

	<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, 2015, 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, 2015 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 2014 financial statements, and I expressed an unmodified audit opinion on those audited financial statements in my report dated January 14, 2015. In my opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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.

November 6, 2015

 SM Digitally signed by Douglas
Ashbrook
DN: cn=Douglas Ashbrook,
o=Douglas R. Ashbrook, CPA, ou,
email=dra@peyanrr.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, 2015. 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 – Water Conservation

We anticipate reduced revenue for the next fiscal year due to State mandated water conservation that affects all water districts in California. Because over 50% of our fees are fixed, and because our customers don't have lawns in this rural environment, we only anticipate a small revenue decrease. Predicted heavy rains this next winter could also have a negative effect on revenue.

FINANCIAL HIGHLIGHTS

Revenues

Combined revenues for the fiscal year totaled \$468,512 compared to a prior year of \$474,633. This is a slight decrease of 1.29%. Table 1-1 presents a comparison of revenues by category for the two fiscal years 2014/15 and 2013/14. The District also received \$114,528 grants revenue for facility improvement to be spent within a year.

Expenses

Combined expenses for the fiscal year totaled \$420,231 compared to a prior year of \$402,833. This is an increase of 4.32%. Table 1-1 presents a comparison of expenses by category for the two fiscal years 2014/15 and 2013/14.

Water Sales

Water Sales totaled \$194,886, a decrease of 1.85% from the prior year. Ready-to-Serve sales totaled \$245,806 a decrease of 0.53%. 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, 2015 and 2014**

	<u>2014/2015</u>		<u>2013/2014</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	\$ 194,886	33.43%	\$ 198,552	41.83%	\$ (3,665)	-1.85%
Ready to Serve Sales	245,806	42.16%	247,113	52.06%	(1,307)	-0.53%
Standby Charges	12,583	2.16%	12,403	2.61%	180	1.45%
New Meters	-	0.00%	600	0.13%	(600)	-100.00%
Miscellaneous	71	0.01%	40	0.01%	31	77.68%
Late Charges	6,557	1.12%	7,195	1.52%	(638)	-8.87%
Other Non-Operating	8,609	1.48%	8,731	1.84%	(122)	-1.40%
Total Revenues exclude Grants	\$ 468,512	80.36%	\$ 474,633	100.00%	\$ (6,121)	-1.29%
Facility improvement grants	114,528	19.64%	-	0.00%	114,528	100.00%
Total Revenues	583,040	100.00%	474,633	100.00%	108,407	22.84%
Expenses						
Administrative	\$ 46,641	11.10%	\$ 36,225	8.99%	\$ 10,417	28.76%
Operations	30,721	7.31%	42,490	10.55%	(11,770)	-27.70%
Depreciation & Amort.	69,368	16.51%	70,588	17.52%	(1,220)	-1.73%
Electricity	26,224	6.24%	22,224	5.52%	4,000	18.00%
Payroll & Benefits	225,620	53.69%	209,037	51.89%	16,583	7.93%
Other Non-Operating	21,656	5.15%	22,269	5.53%	(613)	-2.75%
Total Expenses	\$ 420,231	100.00%	\$ 402,833	100.00%	\$ 17,398	4.32%
Income/(Loss)	162,809		71,800		91,008	126.75%
Net Position-Beginning of Year	<u>1,835,359</u>		<u>1,763,559</u>		<u>71,800</u>	<u>4.07%</u>
Net Position-End of Year	\$ <u>1,998,168</u>		\$ <u>1,835,359</u>		\$ <u>162,809</u>	<u>8.87%</u>

Capital Expenditures

The District applied for a grant through the County of San Diego Neighborhood Reinvestment Program and was awarded \$114,528 on 12/02/2014 to replace the existing Whispering Pines Reservoir with a 266,400 gallon bolted steel tank at the same site. This grant, along with existing savings, allowed the District to start this project immediately. The new tank will be completed by the end of 2015.

Depreciation Expense

Depreciation expense was decreased by 1.73% 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 \$162,809 ending the fiscal year June 30, 2015 with a balance of \$1,998,168. This is an increase of 8.87% 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, 2014 and 2015.

Table 1-2

**Majestic Pines Community Services District
Net Position
June 30, 2015 and 2014**

	<u>2014/2015</u>	<u>2013/2014</u>	<u>Increase/(Decrease)</u>	
			<u>Amount</u>	<u>% Change</u>
Assets				
Current Assets	\$ 967,108	\$ 773,078	\$ 194,030	25.10%
Restricted Assets	147,647	134,099	13,549	10.10%
Capital Assets	<u>1,332,309</u>	<u>1,393,952</u>	<u>(61,643)</u>	<u>-4.42%</u>
Total Assets	\$ <u>2,447,064</u>	\$ <u>2,301,129</u>	\$ <u>145,936</u>	<u>6.34%</u>
Liabilities				
Current Liabilities	\$ 39,517	\$ 42,391	\$ (2,873)	-6.78%
Non-Current Liabilities	<u>409,379</u>	<u>423,379</u>	<u>(14,000)</u>	<u>-3.31%</u>
Total Liabilities	448,896	465,770	(16,873)	-3.62%
Net Position				
Nonspendable	908,930	965,118	(56,188)	-5.82%
Restricted	147,647	134,099	13,549	10.10%
Unassigned	<u>941,591</u>	<u>736,142</u>	<u>205,448</u>	<u>27.91%</u>
Total Net Position	<u>1,998,168</u>	<u>1,835,359</u>	<u>162,809</u>	<u>8.87%</u>
Total Liabilities and Net Position	\$ <u>2,447,064</u>	\$ <u>2,301,129</u>	\$ <u>145,936</u>	<u>6.34%</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 \$194,030 and Restricted Assets increased by \$13,549 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 \$14,000 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 \$1,332,309 in the fiscal year 2014/15 compared to \$1,393,952 in fiscal year 2013/14. A comparison of the change is provided below (table 1-3) by major category. The net change of \$7,726 in Buildings, Improvements and Equipment consists of capitalized new water tank project costs expensed 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, 2015 and 2014**

	<u>2014/2015</u>	<u>2013/2014</u>	<u>Increase/(Decrease)</u>	
			<u>Change</u>	<u>%</u>
Land	\$ 98,528	\$ 98,528	-	0.00%
Water Rights	15,000	15,000	-	0.00%
Buildings, Improvements, & Equipment	<u>2,826,729</u>	<u>2,819,003</u>	<u>7,726</u>	<u>0.27%</u>
Total Capital Assets	<u>2,940,257</u>	<u>2,932,531</u>	<u>7,726</u>	<u>0.26%</u>
Less Accumulated Depreciation & Amortization	<u>1,607,947</u>	<u>1,538,579</u>	<u>69,368</u>	<u>4.51%</u>
Net Capital Assets	<u>\$ 1,332,309</u>	<u>\$ 1,393,952</u>	<u>\$ (61,643)</u>	<u>-4.42%</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 \$76,485 vs. an actual increase of \$162,809.

Table 1-4

**Majestic Pines Community Services District
Actual vs Budget
2014/2015**

	<u>Actual</u>	<u>Budget</u>	<u>Variance to Budget</u>	<u>% Variance</u>
REVENUES				
Water Sales	\$ 194,886	\$ 196,000	\$ (1,114)	-0.57%
Ready to Serve Sales	245,806	246,500	(694)	-0.28%
Standby Charges	12,583	12,300	283	2.30%
New Meters	0	9,500	(9,500)	-100.00%
Miscellaneous	71	100	(29)	-28.93%
Late Charges	6,557	7,000	(443)	-6.33%
Other Non-Operating	8,609	6,075	2,534	41.71%
Total Revenues exclude Grants	<u>\$ 468,512</u>	<u>\$ 477,475</u>	<u>\$ (8,963)</u>	<u>-1.88%</u>
Facility improvement grants	<u>114,528</u>	<u>0</u>	<u>114,528</u>	<u>100.00%</u>
Total Revenues	<u>583,040</u>	<u>477,475</u>	<u>105,565</u>	<u>22.11%</u>
EXPENSES				
Administrative	\$ 46,641	\$ 45,150	\$ 1,491	3.30%
Operations	30,721	48,750	(18,029)	-36.98%
Electricity	26,224	22,800	3,424	15.02%
Payroll & Benefits	225,620	212,299	13,321	6.27%
Depreciation & Amortization	69,368	49,572	19,796	39.93%
Other Non-Operating	21,656	22,419	(763)	-3.40%
Total Expenses	<u>420,231</u>	<u>400,990</u>	<u>19,241</u>	<u>4.80%</u>
Income/(Loss)	<u>\$ 162,809</u>	<u>\$ 76,485</u>	<u>\$ 86,324</u>	<u>112.86%</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 decreased 0.57% (\$196,000 budgeted vs. \$194,886 actual. Standby Charges experienced a 2.30% increase due to rate increases. Revenues were about 1.88% lower overall than was budgeted, while expenses were about 4.80% more than was budgeted. Payroll Benefits were 6.27% over budget, Depreciation expense 39.93% over budget, and Electricity being 15.02% 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, 2015
(with prior year data for comparison purposes only)

ASSETS

	Year ended June 30	
	2015	2014
<u>Current assets:</u>		
Cash in operating fund	\$ 53,973	\$ 61,806
Cash in general fund	706,245	494,150
Investment in certificates of deposit	-	110,354
Savings reserve	110,477	-
Accounts receivable	88,049	99,329
Prepaid insurance	3,510	3,751
Prepaid legal/other	895	895
Inventory	3,960	2,793
Total Current assets	967,108	773,078
<u>Non-current assets:</u>		
<u>Restricted assets</u>		
Investments in standby fund certificate of deposit	100,154	87,583
Customer deposits	11,359	10,400
Investment in capital improvement reserve	36,134	36,116
Total restricted assets	147,647	134,099
<u>Capital assets:</u>		
Land	98,528	98,528
Water rights, net of accumulated amortization of \$7,917	7,083	7,708
Buildings, improvements & equipment	2,826,729	2,819,003
Less: accumulated depreciation	(1,600,030)	(1,531,287)
Net capital assets	1,332,309	1,393,952
Total non-current assets	1,479,956	1,528,051
TOTAL ASSETS	2,447,064	2,301,129

LIABILITIES

LIABILITIES

<u>Current Liabilities:</u>		
Accounts payable	\$ 994	\$ 1,444
Payroll liabilities	7,992	12,092
Customer deposits	11,239	10,400
Current portion of long-term debt	14,000	13,000
Accrued interest payable	5,292	5,455
Total current liabilities	39,517	42,391
<u>Non-current liabilities:</u>		
Bonds and loans payable		
Capital improvement loan, net of current portion - USDA	409,379	423,379
Total non-current liabilities	409,379	423,379
TOTAL LIABILITIES	448,896	465,770

NET POSITION

Investment in capital assets net of related debt	908,930	965,118
Restricted	147,647	134,099
Unrestricted	941,591	736,142
TOTAL NET POSITION	\$ 1,998,168	\$ 1,835,359

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, 2015
(with prior year data for comparison purposes only)

	Year ended June 30	
	2015	2014
<u>OPERATING REVENUES:</u>		
Water sales	\$ 194,886	\$ 198,552
Ready to serve sales	245,806	247,113
Standby charges	12,583	12,403
New meters	-	600
Miscellaneous income	71	40
Late charges	6,557	7,195
Total operating revenues	<u>459,903</u>	<u>465,902</u>
<u>OPERATING EXPENSES:</u>		
Administrative		
Advertising	1,930	-
Insurance	10,194	5,345
Dues & fees	8,748	8,493
Legal & professional	8,618	9,031
Supplies	3,428	2,588
Telephone & radio	6,069	6,284
Postage	4,992	3,786
Other	2,662	698
Automobile	5,728	3,954
Chemicals	4,169	4,772
Contingencies	1,091	435
Contractors	6,063	3,627
Depreciation & amortization	69,368	70,588
Electricity	26,224	22,224
Equipment rent & repair	1,879	2,369
Payroll	165,564	158,006
Payroll taxes & benefits	55,851	46,921
Tools & parts	4,190	19,773
Water testing	7,600	7,560
Workers comp insurance	4,206	4,110
Total operating expenses	<u>398,575</u>	<u>380,564</u>
Operating income/(loss)	<u>61,328</u>	<u>85,338</u>
<u>NON-OPERATING REVENUE (EXPENSES):</u>		
Interest income	498	542
Other non-operational revenue	8,111	6,189
Facility Improvement Grants	114,528	-
Gain on sale of assets	-	2,000
Interest expense-USDA	(21,656)	(22,269)
Total non-operating revenues (expenses)	<u>101,481</u>	<u>(13,538)</u>
Change in net position	162,809	71,800
Net position, beginning of year	<u>1,835,359</u>	<u>1,763,559</u>
Net position, end of year	<u>\$ 1,998,168</u>	<u>\$ 1,835,359</u>

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, 2015

	Actual	Budget	Variance Favorable (Unfavorable)
<u>OPERATING REVENUES:</u>			
Water sales	\$ 194,886	\$ 196,000	\$ (1,114)
Ready to serve sales	245,806	246,500	(694)
Standby charges	12,583	12,300	283
New meters	-	9,500	(9,500)
Miscellaneous income	71	100	(29)
Late charges	6,557	7,000	(443)
Total operating revenues	<u>459,903</u>	<u>471,400</u>	<u>(11,497)</u>
<u>OPERATING EXPENSES:</u>			
Administrative			
Advertising	1,930	150	(1,780)
Insurance	10,194	11,000	806
Dues & fees	8,748	9,000	252
Legal & Professional	8,618	10,000	1,382
Supplies	3,428	3,000	(428)
Telephone & radio	6,069	6,300	231
Postage	4,992	3,500	(1,492)
Other	2,662	2,200	(462)
Automobile	5,728	5,150	(578)
Chemicals	4,169	4,800	631
Contingencies	1,091	800	(291)
Contractors	6,063	15,000	8,937
Depreciation & amortization	69,368	49,572	(19,796)
Electricity	26,224	22,800	(3,424)
Equipment rent & repair	1,879	4,550	2,671
Payroll	165,564	163,115	(2,449)
Payroll taxes & benefits	55,851	49,184	(6,667)
Tools & parts	4,190	9,950	5,760
Water testing	7,600	8,500	900
Workers comp insurance	4,206	-	(4,206)
Total operating expenses	<u>398,575</u>	<u>378,571</u>	<u>(20,004)</u>
Operating income/(loss)	<u>61,328</u>	<u>92,829</u>	<u>(31,501)</u>
<u>NON-OPERATING REVENUES (EXPENSES):</u>			
Interest income	498	300	198
Other non-operational revenue	8,111	5,275	2,836
Facility Improvement Grants	114,528	-	114,528
Gain on sale of assets	-	500	(500)
Interest expense-USDA	(21,656)	(22,419)	763
Total non-operating revenues (expenses)	<u>101,481</u>	<u>(16,344)</u>	<u>117,825</u>
Change in net position	<u>\$ 162,809</u>	<u>\$ 76,485</u>	<u>\$ 86,324</u>

See accompanying notes and independent auditor's report

Majestic Pines Community Services District
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2015
(with prior year data for comparison purposes only)

	Year ended June 30	
	2015	2014
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Receipts from customers	\$ 458,409	\$ 455,615
Standby charges collected	12,583	12,403
Miscellaneous Income	71	40
Payments to employees	(225,514)	(201,859)
Payments to suppliers	(82,943)	(72,923)
Payments for utilities	(26,224)	(22,224)
	136,382	171,052
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>		
Principal paid on capital debt	(13,000)	(12,000)
Interest paid on capital debt	(21,819)	(22,419)
Other Non Operating Income	122,639	6,189
Gain on Sale of Assets	-	2,000
Purchases of capital assets	(7,726)	(42,194)
	80,094	(68,424)
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Interest on investments	498	542
Proceeds from investments	110,477	-
Purchase of investments	(12,713)	(12,682)
	98,263	(12,140)
Net Increase (Decrease) in Cash and Cash Equivalents	314,738	90,488
Cash and Cash Equivalents, Beginning of year	555,956	465,468
Cash and Cash Equivalents, End of year	\$ 870,694	\$ 555,956
<u>RECONCILIATION OF CASH TO STATEMENT OF NET POSITION:</u>		
Cash in Operating Fund	53,973	61,806
Cash in Savings reserve	110,477	-
Cash in General Fund	706,245	494,150
CASH BALANCE AT END OF YEAR	\$ 870,694	\$ 555,956

See accompanying notes and independent auditor's report

Majestic Pines Community Services District
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2015
(continued)

	Year ended June 30	
	2015	2014
RECONCILIATION OF OPERATING INCOME (LOSS) TO		
<u>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</u>		
Operating income (loss)	\$ 61,328	\$ 85,338
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation & amortization	69,368	70,588
<u>Changes in operation assets and liabilities:</u>		
Decrease (Increase) in Current Assets:		
Accounts receivable	11,280	2,157
Customer deposits	(959)	1,020
Prepaid insurance	242	(18)
Prepaid expenses	-	-
Inventory	(1,166)	12,036
(Decrease) Increase in Current Liabilities:		
Accounts payable	(450)	(2,117)
Customer Deposits	839	(1,020)
Payroll liabilities	(4,099)	3,068
Total Adjustments	75,054	85,714
Net cash provided by (used for) operating activities	\$ 136,382	\$ 171,052

See accompanying notes and independent auditor's report

Majestic Pines Community Services District
Notes to Financial Statements
June 30, 2015

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, 2015

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 2014-2015 in August 2014.

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, 2015

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 appropriable 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	\$ 100,154
Customer Deposit Trust	10,359
Savings Reserve	110,477
Capital Improvement Reserve	<u>36,134</u>
Total Restricted Net Assets	<u>\$ 258,124</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.

J. *Deferred Outflows/Inflows of Resources*

In addition to assets, the statement of net position will sometimes report separate sections for “*deferred outflows of resource*” which represent consumption of net position that is applicable to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for “*deferred inflows of resources*” which represent acquisition of net position that is applicable to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.

The District does not have any deferred inflows or outflows of resources as of June 30, 2015 or June 30, 2014.

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, 2015, one of the bank accounts exceeded the insured amount by \$456,245.

Majestic Pines Community Services District
Notes to Financial Statements
June 30, 2015

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, 2015 is \$ 88,359.

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
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
2020	17,000	18,219	347,379
Therafter	<u>347,379</u>	<u>165,353</u>	-
Total	<u>\$ 423,379</u>	<u>\$ 263,998</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.

Majestic Pines Community Services District
Notes to Financial Statements
June 30, 2015

NOTE 5 - EMPLOYEE BENEFIT PLAN (cont)

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 2014-15 is 11.246% 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, 2015 were \$16,044.

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	1,185,042	7,726	-	1,192,767
Other Physical Assets	124,666	-	-	124,666
Total	<u>\$ 2,932,531</u>	<u>\$ 7,726</u>	<u>\$ -</u>	<u>\$ 2,940,257</u>

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

	Balance Beginning	Additions	Deletions	Balance Ending
Land	\$ -	\$ -	\$ -	\$ -
Water Rights	7,292	625	-	7,917
Transmission Systems	1,038,770	21,274	-	1,060,044
Water Plant Improvements	418,551	44,327	-	462,878
Other Physical Assets	73,966	3,140	-	77,106
Total	<u>\$ 1,538,579</u>	<u>\$ 69,366</u>	<u>\$ -</u>	<u>\$ 1,607,945</u>

NOTE 7 - COMPARATIVE FINANCIAL STATEMENTS

The amounts shown for June 30, 2014 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.

Majestic Pines Community Services District
Notes to Financial Statements
June 30, 2015

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 November 6, 2015, the date on which the financial statements were available to be issued.