

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

**AUDIT REPORT  
June 30, 2016**



*presented by*

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

**MAJESTIC PINES  
COMMUNITY SERVICES DISTRICT  
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June 30, 2016**

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# ***Douglas R. Ashbrook, CPA***

## **Auditing, Taxation, Consulting**

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

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### **INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Majestic Pines Community Services District  
Julian, California

I have audited the accompanying financial statements of the business-type activity of the Majestic Pines Community Services District (the "District") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which 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**

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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Opinion**

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activity of the Majestic Pines Community Services District as of June 30, 2016 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 June 30, 2015 financial statements, and I expressed an unmodified audit opinion on those audited financial statements in my report dated November 6, 2015. In my opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

**Emphasis of a Matter**

As discussed in Note 5 and 6 to the basic financial statements, the District has implemented GASB Statement No. 68, Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No.27, during fiscal year 2016. The adoption of this standard required retrospective application resulting in a \$109,319 reduction of net position as of July 1,2015. My 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 and Schedule of Revenues Budget to Actual comparison information on pages 3 through 8 and Page 27, the California Public Employees' Retirement System Schedules of Majestic Pines Community Services District's Proportionate Share of the Net Pension Liability on page 24, the California Public Employees' Retirement System Schedules of Majestic Pines Community Services District's Contributions on page 25, 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.

January 20, 2017

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, 2016. 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 \$460,697 compared to a prior year of \$468,512. This is a slight decrease of 1.67%. Table 1-1 presents a comparison of revenues by category for the two fiscal years 2015/16 and 2014/15. In November 2016, the district announced water rates will increase 20% in January, 2017.

### **Expenses**

Combined expenses for the fiscal year totaled \$533,704 compared to a prior year of \$420,231. This is an increase of 27%. Table 1-1 presents a comparison of expenses by category for the two fiscal years 2015/16 and 2014/15.

### **Water Sales**

Water Sales totaled \$178,859 a decrease of 8.22% from the prior year. Ready-to-Serve sales totaled \$257,438 an increase of 4.73%. 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, 2016 and 2015**

	<u>2015/2016</u>		<u>2014/2015</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>
<b><u>Revenues</u></b>						
Water Sales	\$ 178,859	37.78%	\$ 194,886	33.43%	\$ (16,027)	-8.22%
Ready to Serve Sales	257,438	54.38%	245,806	42.16%	11,632	4.73%
Standby Charges	12,703	2.68%	12,583	2.16%	120	0.96%
New Meters	10,100	2.13%	-	0.00%	10,100	100.00%
Service Accessories Sale	73	0.02%	-	0.00%	73	100.00%
Miscellaneous	49	0.01%	71	0.01%	(22)	-30.36%
Late Charges	6,698	1.41%	6,557	1.12%	141	2.15%
Other Non-Operating	7,479	1.58%	8,609	1.48%	(1,130)	-13.12%
Total Revenues exclude Grants	<u>473,400</u>	<u>100.00%</u>	<u>468,512</u>	<u>80.36%</u>	<u>4,888</u>	<u>1.04%</u>
Facility improvement grants	-	0.00%	114,528	19.64%	(114,528)	100.00%
Total Revenues	<u>473,400</u>	<u>100.00%</u>	<u>583,040</u>	<u>100.00%</u>	<u>(109,640)</u>	<u>-18.80%</u>
<b><u>Expenses</u></b>						
Administrative	44,486	8.34%	46,641	11.10%	(2,155)	-4.62%
Operations	48,477	9.08%	30,721	7.31%	17,757	57.80%
Depreciation & Amort.	128,845	24.14%	69,368	16.51%	59,477	85.74%
Electricity	24,365	4.57%	26,224	6.24%	(1,859)	-7.09%
Payroll & Benefits	266,537	49.94%	225,620	53.69%	40,916	18.14%
Other Non-Operating	20,994	3.93%	21,656	5.15%	(663)	-3.06%
Total Expenses	<u>533,704</u>	<u>100.00%</u>	<u>420,231</u>	<u>100.00%</u>	<u>113,473</u>	<u>27.00%</u>
Income/(Loss)	(60,305)		162,809		(223,113)	-137.04%
Net Position-Beginning of Year	1,998,168		<u>1,835,359</u>		<u>162,809</u>	<u>8.87%</u>
Prior Period Adjustment	<u>(109,319)</u>					
Net Position-End of Year	<u>\$ 1,828,544</u>		<u>\$ 1,998,168</u>		<u>\$ (169,624)</u>	<u>-8.49%</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 was completed on March 18, 2016.

**Depreciation Expense**

Depreciation expense was increased by 85.74% in the past fiscal year due to a new tank being placed in service.

**Operating Expenses**

Operating expenses are higher this year. Costs for maintaining the system are higher and are expected to remain that way. 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 decreased by \$182,327 ending the fiscal year June 30, 2016 with a balance of \$1,815,841. This is an decrease of 9.12% 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, 2015 and 2016.

**Table 1-2**

**Majestic Pines Community Services District  
Net Position  
June 30, 2016 and 2015**

	<u>2015/2016</u>	<u>2014/2015</u>	<u>Increase/(Decrease)</u>	
			<u>Amount</u>	<u>% Change</u>
<b>Assets</b>				
Current Assets	\$ 474,530	\$ 967,108	\$ (492,578)	-50.93%
Restricted Assets	161,094	147,647	13,447	9.11%
Capital Assets	1,754,899	1,332,309	422,589	31.72%
Deferred Outflows of Resources	34,220	-	34,220	0.00%
<b>Total Assets</b>	<u>\$ 2,424,742</u>	<u>\$ 2,447,064</u>	<u>\$ (22,321)</u>	<u>-0.91%</u>
<b>Liabilities</b>				
Current Liabilities	\$ 47,630	\$ 39,517	\$ 8,112	20.53%
Non-Current Liabilities	541,969	409,379	132,590	32.39%
Deferred Inflows of Resources	6,600	-	6,600	0.00%
Total Liabilities	596,198	448,896	147,302	32.81%
<b>Net Position</b>				
Nonspendable	1,193,812	908,930	284,882	31.34%
Restricted	161,094	147,647	13,447	9.11%
Unassigned	473,638	941,591	(467,952)	-49.70%
Total Net Position	<u>1,828,544</u>	<u>1,998,168</u>	<u>(169,623)</u>	<u>-8.49%</u>
<b>Total Liabilities and Net Position</b>	<u>\$ 2,424,742</u>	<u>\$ 2,447,064</u>	<u>\$ (22,322)</u>	<u>-0.91%</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 decreased by \$492,578 and Restricted Assets increased by \$745 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 increased by \$132,590 due to implementation of GASB Statement No. 68 recognize liability for the District's proportionate share of the net pension liability. Also see Note 5 regarding net pension liability calculation and information relate to pension liability.

**Capital Assets**

Net of accumulated depreciation, the District reported capital assets of \$1,754,899 in the fiscal year 2015/16 compared to \$1,332,309 in fiscal year 2014/15. A comparison of the change is provided below (table 1-3) by major category. The net change of \$551,434 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, 2016 and 2015**

	<u>2015/2016</u>	<u>2014/2015</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>3,378,163</u>	<u>2,826,729</u>	<u>551,434</u>	<u>19.51%</u>
Total Capital Assets	<u>3,491,691</u>	<u>2,940,257</u>	<u>551,434</u>	<u>18.75%</u>
Less Accumulated Depreciation & Amortization	<u>1,736,792</u>	<u>1,607,947</u>	<u>128,845</u>	<u>8.01%</u>
Net Capital Assets	<u>\$ 1,754,899</u>	<u>\$ 1,332,309</u>	<u>\$ 422,589</u>	<u>31.72%</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 \$31,910 vs. an actual at a negative \$73,008 a decrease of \$104,918.

**Table 1-4**

**Majestic Pines Community Services District  
Actual vs Budget  
2015/2016**

	<u>Actual</u>	<u>Budget</u>	<u>Variance to Budget</u>	<u>% Variance</u>
<b>REVENUES</b>				
Water Sales	\$ 178,859	\$ 175,398	\$ 3,461	1.97%
Ready to Serve Sales	257,438	245,000	12,438	5.08%
Standby Charges	12,703	12,500	203	1.62%
New Meters	10,100	9,500	600	6.32%
Service Accessories Sales	73	75	(2)	-2.67%
Miscellaneous	49	100	(51)	-50.51%
Late Charges	6,698	6,200	498	8.03%
Other Non-Operating	7,479	5,410	2,069	38.25%
Total Revenues exclude Grants	<u>473,400</u>	<u>454,183</u>	<u>19,217</u>	<u>4.23%</u>
Facility improvement grants	<u>-</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>
Total Revenues	<u>473,400</u>	<u>454,183</u>	<u>19,217</u>	<u>4.23%</u>
<b>EXPENSES</b>				
Administrative	44,486	55,750	(11,264)	-20.20%
Operations	48,477	40,432	8,045	19.90%
Electricity	24,365	25,500	(1,135)	-4.45%
Payroll & Benefits	266,537	229,619	36,918	16.08%
Depreciation & Amortization	128,845	49,572	79,273	159.91%
Other Non-Operating	20,994	21,400	(406)	-1.90%
Total Expenses	<u>533,704</u>	<u>422,273</u>	<u>111,431</u>	<u>26.39%</u>
Income/(Loss)	<u>\$ (60,305)</u>	<u>\$ 31,910</u>	<u>\$ (92,215)</u>	<u>-288.98%</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 1.97% (\$175,398 budgeted vs. \$178,859 actual. Ready to Serve Sales experienced a 5.08% increase due to rate increases. Revenues were about 1.43% higher overall than was budgeted, while expenses were about 26.39% more than was budgeted. Payroll Benefits were 16.08% over budget, Depreciation expense 159.91% over budget, and Operations being 19.90% 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, 2016  
(with prior year data for comparison purposes only)

ASSETS

	Year ended June 30	
	2016	2015
<u>Current assets:</u>		
Cash in operating fund	\$ 40,456	\$ 53,973
Cash in general fund	213,538	706,245
Savings reserve	110,755	110,477
Accounts receivable	101,129	88,049
Prepaid insurance	3,364	3,510
Prepaid legal/other	895	895
Inventory	4,393	3,960
Total Current assets	474,530	967,108
<u>Non-current assets:</u>		
<u>Restricted assets</u>		
Investments in standby fund certificate of deposit	113,104	100,154
Customer deposits	11,788	11,359
Investment in capital improvement reserve	36,202	36,134
Total restricted assets	161,094	147,647
<u>Capital assets:</u>		
Land	98,528	98,528
Water rights, net of accumulated amortization of \$8,542	6,458	7,083
Buildings, improvements & equipment	3,378,163	2,826,729
Less: accumulated depreciation	(1,728,250)	(1,600,030)
Net capital assets	1,754,899	1,332,309
Total non-current assets	1,915,993	1,479,956
TOTAL ASSETS	2,390,522	2,447,064
Deferred Outflows of Resources:		
Deferred pensions	34,220	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 2,424,742	\$ 2,447,064

LIABILITIES

<u>LIABILITIES</u>		
<u>Current Liabilities:</u>		
Accounts payable	\$ 1,227	\$ 994
Payroll liabilities	16,138	7,992
Customer deposits	11,147	11,239
Current portion of long-term debt	14,000	14,000
Accrued interest payable	5,117	5,292
Total current liabilities	47,630	39,517
<u>Non-current liabilities:</u>		
Bonds and loans payable		
Capital improvement loan, net of current portion - USDA	395,379	409,379
Net pension liability	146,590	-
Total non-current liabilities	541,969	409,379
Deferred Inflows of Resources:		
Deferred pensions	6,600	-
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	596,199	448,896

NET POSITION

Investment in capital assets net of related debt	1,193,812	908,930
Restricted	161,094	147,647
Unrestricted	473,638	941,591
TOTAL NET POSITION	\$ 1,828,544	\$ 1,998,168

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, 2016  
(with prior year data for comparison purposes only)

	Year ended June 30	
	2016	2015
<b><u>OPERATING REVENUES:</u></b>		
Water sales	\$ 178,859	\$ 194,886
Ready to serve sales	257,438	245,806
Standby charges	12,703	12,583
New meters	10,100	-
Service Accessories Sales	73	-
Miscellaneous income	49	71
Late charges	6,698	6,557
Total operating revenues	465,921	459,903
<b><u>OPERATING EXPENSES:</u></b>		
Administrative		
Advertising	-	1,930
Insurance	9,653	10,194
Dues & fees	9,719	8,748
Legal & professional	8,915	8,618
Supplies	3,555	3,428
Telephone & radio	6,603	6,069
Postage	2,666	4,992
Other	3,376	2,662
Automobile	2,787	5,728
Chemicals	4,212	4,169
Contingencies	1,159	1,091
Contractors	19,796	6,063
Depreciation & amortization	128,845	69,368
Electricity	24,365	26,224
Equipment rent & repair	1,789	1,879
Payroll	179,352	165,564
Payroll taxes & benefits	72,737	55,851
Pension expenses	9,651	-
Tools & parts	11,774	4,190
Water testing	6,960	7,600
Workers comp insurance	4,797	4,206
Total operating expenses	512,710	398,575
Operating income/(loss)	(46,790)	61,328
<b><u>NON-OPERATING REVENUE (EXPENSES):</u></b>		
Interest income	1,615	498
Other non-operational revenue	5,864	8,111
Facility Improvement Grants	-	114,528
Interest expense-USDA	(20,994)	(21,656)
Total non-operating revenues (expenses)	(13,515)	101,481
Change in net position	(60,305)	162,809
Net position, beginning of year	1,998,168	1,835,359
Prior Period Adjustment (Note 10)	(109,319)	-
Net position, end of year	\$ 1,828,544	\$ 1,998,168

See accompanying notes and independent auditor's report

**Majestic Pines Community Services District**  
**Statement of Cash Flows**  
For the Fiscal Year Ended June 30, 2016  
(with prior year data for comparison purposes only)

	Year ended June 30	
	2016	2015
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Receipts from customers	\$ 439,567	\$ 458,409
Standby charges collected	12,703	12,583
Miscellaneous Income	49	71
Payments to employees	(200,072)	(225,514)
Payments to suppliers	(141,686)	(82,943)
Payments for utilities	(24,365)	(26,224)
	86,196	136,382
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u>		
Other Non Operating Income	5,864	122,639
	5,864	122,639
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>		
Principal paid on capital debt	(14,000)	(13,000)
Interest paid on capital debt	(21,169)	(21,819)
Purchases of capital assets	(551,434)	(7,726)
	(586,603)	(42,544)
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Interest on investments	1,615	498
Proceeds from investments	278	110,477
Purchase of investments	(13,296)	(12,713)
	(11,403)	98,263
Net Increase (Decrease) in Cash and Cash Equivalents	(505,946)	314,738
Cash and Cash Equivalents, Beginning of year	870,694	555,956
Cash and Cash Equivalents, End of year	\$ 364,749	\$ 870,694
<u>RECONCILIATION OF CASH TO STATEMENT OF NET POSITION:</u>		
Cash in Operating Fund	\$ 40,456	\$ 53,973
Cash in Savings reserve	110,755	110,477
Cash in General Fund	213,538	706,245
CASH BALANCE AT END OF YEAR	\$ 364,749	\$ 870,694

See accompanying notes and independent auditor's report

**Majestic Pines Community Services District**  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2016  
(continued)

	Year ended June 30	
	2016	2015
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO</b>		
<b><u>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</u></b>		
Operating income (loss)	\$ (46,790)	\$ 61,328
Adjustments to reconcile operating income to net cash <u>provided by operating activities:</u>		
Depreciation & amortization	128,845	69,368
<u>Changes in operation assets and liabilities:</u>		
Decrease (Increase) in:		
Accounts receivable	(13,081)	11,280
Customer deposits	(429)	(959)
Prepaid insurance	146	242
Deferred outflows of resources	(34,220)	-
Inventory	(434)	(1,166)
(Decrease) Increase in :		
Accounts payable	233	(450)
Customer Deposits	(91)	839
Payroll liabilities	8,146	(4,099)
Net pension liability	37,271	-
Deferred inflows of resources	6,600	-
Total Adjustments	132,986	75,054
Net cash provided by (used for) operating activities	\$ 86,196	\$ 136,382

See accompanying notes and independent auditor's report

**Majestic Pines Community Services District**  
**Notes to Financial Statements**  
**June 30, 2016**

**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, 2016**

**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 2015-2016 in September 2015.

A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements. Budgets can be revised by the District's governing board during the year to give consideration to unanticipated revenue and expenditures. There were no revisions in the original budget adopted and it is this budget that is presented in the financial statements and supplementary information.

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, 2016**

**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	\$ 113,104
Customer Deposit Trust	11,788
Capital Improvement Reserve	<u>36,202</u>
Total Restricted Net Assets	<u>\$ 161,094</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.

**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, 2016, none of the bank accounts exceeded the insured amount.

**Majestic Pines Community Services District**  
**Notes to Financial Statements**  
**June 30, 2016**

**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, 2016 is \$101,129.

**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
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
2021	17,000	17,369	330,379
Thereafter	330,379	129,765	-
Total	\$ 409,379	\$ 224,610	\$ -

Long-term liability activity for the year ended June 30, 2016 was as follows:

Loans & long-term liabilities	Beginning Balance	Additions	Reductions	Ending Balance
Capital improvement loan, net of current portion-USDA	\$ 409,379	\$ -	\$ (14,000)	\$ 395,379
Pension Liability	0	146,590	0	146,590
Total non-current liabilities:	\$ 409,379	\$ 146,590	\$ (14,000)	\$ 541,969

**Majestic Pines Community Services District**  
**Notes to Financial Statements**  
**June 30, 2016**

**NOTE 5 - DEFINED BENEFIT PENSION PLAN (cont.)**

Plan Description

The District participates in the California Public Employee's Retirement System (CalPERS). CalPERS, an agent cost-sharing 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 provide 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. Eligible employees hired after January 1, 2013 that are considered new members as defined by the Public Employees' Pension Reform Act (PEPRA) are participating in the PEPRA Miscellaneous Plan. CalPERS issues publicly available reports that include a full description of the pension plans that can be found the CalPERS website. 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 2015-16 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, 2016 were \$18,405.

Pension Liabilities, Pension Expenses and Deferred Outflow/Inflow of Resources Related to Pensions

As of June 30, 2016, the District reported net pension liabilities for its proportionate shares of the net pension liability as follows:

Net position, at July 1, 2015, as originally stated	\$1,998,168
Decrease in net position due to net pension liability	<u>(109,319)</u>
Net position, at July 1, 2015, restated	<u><u>\$1,888,849</u></u>

Actuarial Assumptions

For the measurement period ended June, 2016, the total pension liability was determined by rolling forward the June 30, 2015 total pension liability determined in the June 30, 2015 actuarial accounting valuation. The June 30, 2016 total pension liability was based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75 thereafter

**Majestic Pines Community Services District**  
**Notes to Financial Statements**  
**June 30, 2016**

**NOTE 5 - DEFINED BENEFIT PENSION PLAN (cont)**

All other actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. Further details of the Experience Study can be found on the CalPERS' website.

The District's proportion of the net pension liability was based on a projection of their long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability as of June 30, 2014 and 2015 was as follows:

	<u>Miscellaneous</u>
Proportion - June 30, 2014	0.00398%
Proportion - June 30, 2015	0.00398%
Change - Increase (Decrease)	<u>0.00000%</u>

For the year ended June 30, 2016, the District recognized pension expense of \$9,651. At June 30, 2016 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension Contributions subsequent to measurement date	\$ -	\$ -
Changes of Assumptions	-	(6,444)
Differences between Expected and Actual Experience	681	(156)
Change in Proportion		-
Differences in actual contribution and proportionate share of contribution	-	-
Net differences between Projected and Actual Earnings on Investments	33,539	
Total	<u>\$ 34,220</u>	<u>\$ (6,600)</u>

Deferred outflows of resources and deferred inflows of resources above represent the unamortized portion of change to net pension liability to be recognized in future periods in a systematic and rational manner. There were no changes to benefit terms that applied to all members of the Public Agency Pool.

**Majestic Pines Community Services District**  
**Notes to Financial Statements**  
**June 30, 2016**

**NOTE 5 – DEFINED BENEFIT PENSION PLAN (cont)**

\$34,220 reported as deferred outflows of resources will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Amounts reported as deferred outflows and deferred inflow of resources related to pensions will be recognized in future pension expense as follows:

Measurement Periods Ended June 30:	Deferred Outflows/(Inflows) of Resources
2017	\$1,611
2018	2,252
2019	15,070
2020	8,687
2021	-
Thereafter	-
	\$27,620

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of the discount rate for public agency plans (including PERF C), the amortization and smoothing periods recently adopted by the Board were used. Based on the testing of the rate plans, the tests revealed the assets would not run out. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for PERF C. The crossover test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained on CalPERS’ website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension fund (Public Employees’ Retirement Fund) cash flows. Using historical returns of all the funds’ asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The long-term expected real rates of return by asset class can be found in CalPERS’ Comprehensive Annual Financial Report for the fiscal year ended June 30, 2016.

**Majestic Pines Community Services District**  
**Notes to Financial Statements**  
**June 30, 2016**

**NOTE 5 - DEFINED BENEFIT PENSION PLAN (cont)**

*Sensitivity of Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*

The following presents the District's proportionate share of the net pension liability, calculated using the discount rate as well as the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% point lower or 1% higher than the current rate:

	<u>Miscellaneous</u>
1% Decrease	6.65%
Net Pension Liability	\$ 228,383
	7.65%
Current Discount Rate	7.65%
Net Pension Liability	\$ 146,590
	8.65%
1% Increase	8.65%
Net Pension Liability	\$ 78,992
	78,992

**NOTE 6 - POST-EMPLOYMENT HEALTH CARE BENEFITS**

*Plan Description and Funding Policy*

The district provides retiree medical, dental and vision coverage to current and future eligible retirees and their spouse under the Public Employees' Medical and Hospital Care Act (PEMHCA). The plan provides for the district to contribute 5% of the cost of health insurance premium for eligible retirees and spouse through the offering of health insurance contracts with CalPERS.

The contribution requirements of plan members and the District are established and may be amended by the District and its board of directors. While employed, the district pays 100% of the cost of the premium for eligible active employees. The amount the district is required to contribute depends on the cost of the health plan. The district contracts with PERS for medical insurance.

The district does not participate in the CERBT – California Employers Retirement Benefit Trust, a cost-sharing multiple-employer retirement benefit plan. Hence, the District does not have any obligation to pre-fund any Post Retirement Health Benefits and therefore no post-retirement benefit obligation. The only obligation the District has for these types of benefits is to pay 5% of the monthly premium for retirees for a health insurance policy offered thru CalPERS upon employee retirement. The employee pays the balance of their own health care premium when they retire. If the Employee cannot fund their portion of the health care premium, the employers obligation ends.

**Majestic Pines Community Services District**  
**Notes to Financial Statements**  
**June 30, 2016**

**NOTE 7 - PROPERTY, PLANT, AND EQUIPMENT**

The summary of changes in property, plant, and equipment at June 30, 2016 is as follows:

	Beginning Balance	Additions	Retirement	Ending Balance
Capital assets, non-depreciable:				
Land	\$ 98,528	\$ -	\$ -	\$ 98,528
Total capital assets, non-depreciable	<u>98,528</u>	<u>-</u>	<u>-</u>	<u>98,528</u>
Capital assets, depreciable/amortizable				
Water Rights	15,000	-	-	15,000
Building, improvements & equipment	2,826,729	551,434	-	3,378,163
Total capital assets, depreciable/amortizable	<u>2,841,729</u>	<u>551,434</u>	<u>-</u>	<u>3,393,163</u>
Less accumulated depreciation for:				
Water Rights	(7,917)	(625)	-	(8,542)
Building, improvements & equipment	(1,600,030)	(128,220)	-	(1,728,250)
Total accumulated depreciation	<u>(1,607,947)</u>	<u>(128,845)</u>	<u>-</u>	<u>(1,736,792)</u>
Net capital assets	<u>\$ 1,332,310</u>	<u>\$ 422,589</u>	<u>\$ -</u>	<u>\$ 1,754,899</u>

**NOTE 8 - COMPARATIVE FINANCIAL STATEMENTS**

The amounts shown for June 30, 2015 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 9 - 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 17, 2017, the date on which the financial statements were available to be issued.

**Majestic Pines Community Services District**  
**Notes to Financial Statements**  
**June 30, 2016**

**Note 10 – PRIOR PERIOD ADJUSTMENT**

*Net Pension Liability*

Implementation of GASB Statement No. 68 recognizes a liability for the District's proportionate share of the net pension liability of all employers for benefits provided through the California Public Employees' Retirement System (CalPERS). Additionally, the District is required to recognize pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate shares of collective pension expense and collective deferred outflows or resources and deferred inflows of resources related to pensions. The following table presents the effect of the prior period adjustment on the June 30, 2016 financial statement balances.

Net position, at July 1, 2015, as originally stated	\$1,998,168
Decrease in net position due to net pension liability	<u>(109,319)</u>
Net position, at July 1, 2015, restated	<u><u>\$1,888,849</u></u>

## **REQUIRED SUPPLEMENTARY INFORMATION**

A Cost-Sharing Multiple-Employer Defined Benefit Pension Plan  
As of June 30, 2016. (Last 10 Years\*)

California Public Employees' Retirement System  
Schedule of Majestic Pines Community Services District's  
Proportionate Share of The Net Pension Liability

	Miscellaneous 2015	Miscellaneous 2016
Proportion of the net pension liability	0.00398%	0.00422%
Proportion share of the net pension liability	\$109,319	\$146,590
Covered-employee payroll	\$149,364	\$163,655
Proportionate share of the net pension liability as a percentage of Covered-employee payroll	73.19%	89.57%
Plan fiduciary net position as a percentage of the total pension liability	82.74%	78.15%

Notes to Schedule:

\*Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.

A Cost-Sharing Multiple-Employer Defined Benefit Pension Plan  
As of June 30, 2016. (Last 10 Years\*)

California Public Employees' Retirement System  
Schedule of Majestic Pines Community Services District's Contributions

	Miscellaneous 2015	Miscellaneous 2016
Contractually required contribution (Actuarially determined)	\$16,798	\$18,405
Contribution in relation to the actuarially determined contributions	\$16,798	\$18,405
Contribution deficiency(excess)	-	-
Covered-employee payroll	\$149,364	\$163,655
Contributions as a percentage of covered-employee payroll	11.25%	11.25%
Notes to Schedule:		
Valuation date:	6/30/2013	6/30/2014

\*Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.

**Majestic Pines Community Services District**  
Schedule of Revenues and Expenses - Budget vs. Actual  
For the Fiscal Year Ended June 30, 2016

	Actual	Original & Final Budget	Variance Favorable (Unfavorable)
<b><u>OPERATING REVENUES:</u></b>			
Water sales	\$ 178,859	\$ 175,398	\$ 3,461
Ready to serve sales	257,438	245,000	12,438
Standby charges	12,703	12,500	203
New meters	10,100	9,500	600
Service Accessories Sales	73	75	(2)
Miscellaneous income	49	100	(51)
Late charges	6,698	6,200	498
Total operating revenues	465,921	448,773	17,148
 <b><u>OPERATING EXPENSES:</u></b>			
Administrative			
Advertising	-	200	200
Insurance	9,653	14,400	4,747
Dues & fees	9,719	9,000	(719)
Legal & Professional	8,915	12,550	3,635
Supplies	3,555	3,600	45
Telephone & radio	6,603	6,200	(403)
Postage	2,666	5,200	2,534
Other	3,376	4,600	1,224
Automobile	2,787	5,000	2,213
Chemicals	4,212	3,900	(312)
Contingencies	1,159	1,300	141
Contractors	19,796	12,000	(7,796)
Depreciation & amortization	128,845	49,572	(79,273)
Electricity	24,365	25,500	1,135
Equipment rent & repair	1,789	3,700	1,911
Payroll	179,352	162,454	(16,898)
Payroll taxes & benefits	72,737	67,165	(5,572)
Pension expenses	9,651	-	(9,651)
Tools & parts	11,774	6,732	(5,042)
Water testing	6,960	7,800	840
Workers comp insurance	4,797	-	(4,797)
Total operating expenses	512,710	400,873	(111,837)
Operating income/(loss)	(46,790)	47,900	(94,690)
 <b><u>NON-OPERATING REVENUES (EXPENSES):</u></b>			
Interest income	1,615	300	1,315
Other non-operational revenue	5,864	4,910	954
Gain on sale of assets	-	200	(200)
Interest expense-USDA	(20,994)	(21,400)	406
Total non-operating revenues (expenses)	(13,515)	(15,990)	2,475
Change in net position	\$ (60,305)	\$ 31,910	\$ (92,215)

See accompanying notes and independent auditor's report

**Majestic Pines Community Services District  
Organization  
June 30, 2016**

The Board of Directors for the fiscal year ended June 30, 2016, is composed of the following members:

<u>NAME</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Kurt Boettcher	President	December 2016
Joseph Connolly	Vice President	December 2018
Dennis Taylor	Treasurer	December 2018
Robert Markart	Secretary	December 2016
Kevin Dubler	Director	December 2016

Administration:

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