

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

**AUDIT REPORT  
June 30, 2019**



*presented by*

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

**MAJESTIC PINES  
COMMUNITY SERVICES DISTRICT  
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June 30, 2019**

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

## **Auditing, Taxation, Consulting**

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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, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

#### **Management's Responsibility for the Financial Statements**

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

#### **Auditor's Responsibility**

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, 2019 and the respective changes in financial position and cash flows for the year then ended in accordance 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, 2018 financial statements, and I expressed an unmodified audit opinion on those audited financial statements in my report dated August 28, 2019. In my opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

**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 31, the California Public Employees' Retirement System Schedule of Majestic Pines Community Services District's Proportionate Share of the Net Pension Liability on page 27, the California Public Employees' Retirement System Schedule of Majestic Pines Community Services District's Contributions on page 28, the Other Postemployment Benefit Plan Schedule of Funding Progress on page 29, 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.

October 26, 2020

Douglas R. Ashbrook, CPA

**MAJESTIC PINES COMMUNITY SERVICES DISTRICT  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
June 30, 2019**

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, 2019. 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.

**FINANCIAL HIGHLIGHTS**

**Revenues**

Combined revenues for the fiscal year totaled \$551,258 compared to a prior year of \$548,147. This almost equal to prior year, with an increase of only 0.57%. Table 1-1 presents a comparison of revenues by category for the two fiscal years 2018/19 and 2017/18. The District last increased water rates by 20% in January, 2017.

**Expenses**

Combined expenses for the fiscal year totaled \$597,849 compared to a prior year of \$618,120. This is a decrease of 3.28%. Table 1-1 presents a comparison of expenses by category for the two fiscal years 2018/19 and 2017/18.

**Water Sales**

Water sales totaled \$248,843 a decrease of 1.18% from the prior year. Ready-to-Serve sales totaled \$267,759 an increase of 2.03%. Weather plays a large role in customer water usage, making water sales difficult to forecast year to year.

**MAJESTIC PINES COMMUNITY SERVICES DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2019**

**Table 1-1**

**Majestic Pines Community Services District  
Combined Revenues and Expenses by Category  
For Fiscal Years Ended June 30, 2019 and 2018**

|                                | <u>2018/2019</u>    |                   | <u>2017/2018</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                    | \$ 248,843          | 45.14%            | \$ 251,823          | 45.94%            | \$ (2,980)                 | -1.18%          |
| Ready to Serve Sales           | 267,759             | 48.57%            | 262,419             | 47.87%            | 5,340                      | 2.03%           |
| New Meters                     | 14,000              | 2.54%             | 25,000              | 4.56%             | (11,000)                   | -44.00%         |
| Miscellaneous                  | 314                 | 0.06%             | -                   | 0.00%             | 314                        | -               |
| Late Charges                   | 9,228               | 1.67%             | 1,453               | 0.27%             | 7,775                      | 535.00%         |
| Other Non-Operating            | 11,113              | 2.02%             | 7,451               | 1.36%             | 3,661                      | 49.14%          |
| Total Revenues exclude Grants  | <u>551,258</u>      | <u>100.00%</u>    | <u>548,147</u>      | <u>100.00%</u>    | <u>3,111</u>               | <u>0.57%</u>    |
| Total Revenues                 | <u>551,258</u>      | <u>100.00%</u>    | <u>548,147</u>      | <u>100.00%</u>    | <u>3,111</u>               | <u>0.57%</u>    |
| <b><u>Expenses</u></b>         |                     |                   |                     |                   |                            |                 |
| Administrative                 | 50,505              | 8.45%             | 62,606              | 10.13%            | (12,101)                   | -19.33%         |
| Operations                     | 39,751              | 6.65%             | 65,221              | 10.55%            | (25,470)                   | -39.05%         |
| Depreciation & Amort.          | 130,013             | 21.75%            | 130,421             | 21.10%            | (408)                      | -0.31%          |
| Electricity                    | 28,737              | 4.81%             | 28,338              | 4.58%             | 399                        | 1.41%           |
| Payroll & Benefits             | 337,046             | 56.38%            | 298,708             | 48.33%            | 38,337                     | 12.83%          |
| Other Non-Operating            | 11,797              | 1.97%             | 32,827              | 5.31%             | (21,030)                   | -64.06%         |
| Total Expenses                 | <u>597,849</u>      | <u>100.00%</u>    | <u>618,120</u>      | <u>100.00%</u>    | <u>(20,272)</u>            | <u>-3.28%</u>   |
| Income/(Loss)                  | (46,591)            |                   | (69,973)            |                   | 23,382                     | -33.42%         |
| Net Position-Beginning of Year | <u>1,314,382</u>    |                   | <u>1,384,355</u>    |                   | <u>(69,973)</u>            | <u>-5.05%</u>   |
| Net Position-End of Year       | <u>\$ 1,267,791</u> |                   | <u>\$ 1,314,382</u> |                   | <u>\$ (46,590)</u>         | <u>-3.54%</u>   |

**Capital Expenditures**

The District had capital improvement expenditures during the fiscal year 2018/19 of \$75,600. These expenditures are reflected in Construction in Progress and are for improvements to the Kentwood tank. There were no capital expenditures for fiscal year 2017/18.

**Depreciation Expense**

Depreciation and amortization expense of \$130,013 decreased 0.31% from the past fiscal year due to the aging of assets with no new additions during the year.

**MAJESTIC PINES COMMUNITY SERVICES DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2019**

**Operations Expense**

Operations expense decreased by \$25,470 or 39.05% from the past fiscal year due to decreased expense to contractors.

**Total Expenses**

Total expenses were \$20,272 lower than the past fiscal year due to decreased Administrative, Operations and Other Non-Operating expense which offset the increased Payroll and Benefits expense.

**Net Position**

The District's net position decreased by \$46,591 ending the fiscal year June 30, 2019 with a balance of \$1,267,791. This is a decrease of 3.54% 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, 2018 and 2019.

**Table 1-2**

**Majestic Pines Community Services District  
Net Position  
June 30, 2019 and 2018**

|  |                     |                     | <u>Increase/(Decrease)</u> |                 |
|--|---------------------|---------------------|----------------------------|-----------------|
|  | <u>2018/2019</u>    | <u>2017/2018</u>    | <u>Amount</u>              | <u>% Change</u> |
| <b>Assets</b>                                    |                     |                     |                            |                 |
| Current Assets                                   | \$ 604,865          | \$ 537,112          | \$ 67,753                  | 12.61%          |
| Restricted Assets                                | 68,730              | 67,045              | 1,685                      | 2.51%           |
| Capital Assets                                   | 1,644,370           | 1,698,783           | (54,413)                   | -3.20%          |
| Deferred Outflows of Resources                   | 38,328              | 48,570              | (10,242)                   | -21.09%         |
| <b>Total Assets</b>                              | <b>\$ 2,356,293</b> | <b>\$ 2,351,509</b> | <b>\$ 4,784</b>            | <b>0.20%</b>    |
| <b>Liabilities</b>                               |                     |                     |                            |                 |
| Current Liabilities                              | \$ 64,786           | \$ 53,928           | \$ 10,858                  | 20.14%          |
| Non-Current Liabilities                          | 948,232             | 921,770             | 26,462                     | 2.87%           |
| Deferred Inflows of Resources                    | 75,484              | 61,430              | 14,054                     | 22.88%          |
| <b>Total Liabilities</b>                         | <b>1,088,502</b>    | <b>1,037,128</b>    | <b>51,374</b>              | <b>4.95%</b>    |
| <b>Net Position</b>                              |                     |                     |                            |                 |
| Investment in capital assets net of related debt | 1,279,991           | 1,313,604           | (33,613)                   | -2.56%          |
| Restricted                                       | 68,730              | 67,045              | 1,685                      | 2.51%           |
| Unrestricted                                     | (80,930)            | (66,267)            | (14,663)                   | 22.13%          |
| <b>Total Net Position</b>                        | <b>1,267,791</b>    | <b>1,314,382</b>    | <b>(46,591)</b>            | <b>-3.54%</b>   |
| <b>Total Liabilities and Net Position</b>        | <b>\$ 2,356,293</b> | <b>\$ 2,351,509</b> | <b>\$ 4,784</b>            | <b>0.20%</b>    |

**MAJESTIC PINES COMMUNITY SERVICES DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2019**

**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 \$4,784 from last year primarily as a result of increases to cash.

Current liabilities increased by \$10,858 due to an increase in payroll liabilities.

Non-Current Liabilities increased by \$26,462 due to increases in the Other Post-Employment Benefits (OPEB) and Net Pension liabilities.

Deferred Inflows of Resources increased by \$14,054 while Deferred Outflows decreased \$10,242 due to adjustments based on the actuarial reports for the District's OPEB and Pension plans.

**Capital Assets**

Net of accumulated depreciation, the District reported capital assets of \$1,644,370 in the fiscal year 2018/19 compared to \$1,698,783 in fiscal year 2017/18. A comparison of the change is provided below (table 1-3) by major category. The net change of (\$54,413) is due to additions to construction in progress of \$75,600 less depreciation and amortization expense of \$130,013. Also, see Note 7 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, 2019 and 2018**

|  | <u>2018/2019</u>    | <u>2017/2018</u>    | <u>Increase/(Decrease)</u> |               |
|--|---------------------|---------------------|----------------------------|---------------|
|  |                     |                     | <u>Change</u>              | <u>%</u>      |
| Land   | \$ 98,528           | \$ 98,528           | \$ -                       | 0.00%         |
| Construction In Progress                     | 75,600              | -                   | 75,600                     | -             |
| Water Rights                                 | 15,000              | 15,000              | -                          | 0.00%         |
| Buildings, Improvements, & Equipment         | 3,600,467           | 3,600,467           | 0                          | 0.00%         |
| Total Capital Assets                         | <u>3,789,595</u>    | <u>3,713,995</u>    | <u>75,600</u>              | <u>2.04%</u>  |
| Less Accumulated Depreciation & Amortization | <u>2,145,225</u>    | <u>2,015,212</u>    | <u>130,013</u>             | <u>6.45%</u>  |
| Net Capital Assets                           | <u>\$ 1,644,370</u> | <u>\$ 1,698,783</u> | <u>\$ (54,413)</u>         | <u>-3.20%</u> |

**MAJESTIC PINES COMMUNITY SERVICES DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2019**

**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 \$66,420 vs. an actual at a negative \$46,591, a decrease of \$113,011.

**Table 1-4**

**Majestic Pines Community Services District  
Actual vs Budget  
2018/2019**

|                                    | <u>Actual</u>      | <u>Budget</u>    | <u>Variance<br/>to Budget</u> | <u>% Variance</u> |
|------------------------------------|--------------------|------------------|-------------------------------|-------------------|
| <b>REVENUES</b>                    |                    |                  |                               |                   |
| Water Sales                        | \$ 248,843         | \$ 265,000       | \$ (16,157)                   | -6.10%            |
| Ready to Serve Sales               | 267,759            | 262,000          | 5,759                         | 2.20%             |
| New Meters                         | 14,000             | 12,000           | 2,000                         | 16.67%            |
| Service Accessories Sales          | -                  | 75               | (75)                          | -100.00%          |
| Miscellaneous                      | 314                | 50               | 264                           | 528.36%           |
| Late Charges                       | 9,228              | 6,500            | 2,728                         | 41.97%            |
| Other Non-Operating                | 11,113             | 6,780            | 4,333                         | 63.90%            |
| Total Revenues                     | <u>551,258</u>     | <u>552,405</u>   | <u>(1,147)</u>                | <u>-0.21%</u>     |
| <b>EXPENSES</b>                    |                    |                  |                               |                   |
| Administrative                     | 50,505             | 57,900           | (7,395)                       | -12.77%           |
| Operations                         | 39,751             | 55,700           | (15,949)                      | -28.63%           |
| Electricity                        | 28,737             | 29,472           | (735)                         | -2.49%            |
| Payroll & Benefits                 | 337,046            | 260,663          | 76,383                        | 29.30%            |
| Depreciation & Amortization        | 130,013            | 49,572           | 80,441                        | 162.27%           |
| Other Non-Operating                | 11,797             | 32,678           | (20,881)                      | -63.90%           |
| Total Expenses                     | <u>597,849</u>     | <u>485,985</u>   | <u>111,864</u>                | <u>23.02%</u>     |
| Income/(Loss)                      | \$ <u>(46,591)</u> | \$ <u>66,420</u> | \$ <u>(113,011)</u>           | <u>-170.15%</u>   |
| Capital Projects Revenue (Expense) | -                  | (66,420)         | 66,420                        | -100.00%          |
| Income/(Loss)                      | <u>\$ (46,591)</u> | <u>\$ \$ -</u>   | <u>\$ (46,591)</u>            |                   |

**MAJESTIC PINES COMMUNITY SERVICES DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2019**

**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 6.10% (\$265,000 budgeted vs. \$248,843 actual. Ready to Serve Sales experienced a 2.20% increase due to rate increases. Total Revenues were almost on budget with a variance of only 0.21%, while expenses were about 23.02% more than was budgeted. Payroll and Benefits were 29.30% over budget, Depreciation and Amortization expenses were 162.27% over budget, while Operations expense were 28.63% under budget and Other Non-Operating Expense were 63.90% under 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, 2019**  
**(with prior year data for comparison purposes only)**

| <u>ASSETS</u>  |              | Year ended June 30 |  |
|--|--------------|--------------------|--|
|  | 2019         | 2018               |  |
| <u>Current assets:</u>                                   |              |                    |  |
| Cash in operating fund                                   | \$ 43,215    | \$ 73,002          |  |
| Cash in general fund                                     | 323,876      | 229,779            |  |
| Savings reserve  | 110,986      | 110,950            |  |
| Accounts receivable                                      | 103,045      | 110,879            |  |
| Prepaid insurance  | 2,804        | 2,804              |  |
| Prepaid interest   | 4,555        | -                  |  |
| Prepaid expense  | 895          | 895                |  |
| Inventory  | 15,489       | 8,803              |  |
| Total Current assets                                     | 604,865      | 537,112            |  |
| <u>Non-current assets:</u>                               |              |                    |  |
| <u>Restricted assets</u>                                 |              |                    |  |
| Investments in standby fund certificate of deposit       | 18,003       | 17,998             |  |
| Customer deposits  | 14,480       | 12,800             |  |
| Investment in capital improvement reserve                | 36,247       | 36,247             |  |
| Total restricted assets                                  | 68,730       | 67,045             |  |
| <u>Capital assets:</u>                                   |              |                    |  |
| Land   | 98,528       | 98,528             |  |
| Water rights, net of accumulated amortization of \$9,792 | 4,583        | 5,208              |  |
| Buildings, improvements & equipment                      | 3,600,467    | 3,600,467          |  |
| Construction in progress                                 | 75,600       | -                  |  |
| Less: accumulated depreciation                           | (2,134,808)  | (2,005,420)        |  |
| Net capital assets                                       | 1,644,370    | 1,698,783          |  |
| Total non-current assets                                 | 1,713,100    | 1,765,828          |  |
| TOTAL ASSETS   | 2,317,965    | 2,302,939          |  |
| <u>Deferred Outflows of Resources:</u>                   |              |                    |  |
| Pension related amounts                                  | 28,117       | 34,723             |  |
| Other postemployment benefits related amounts            | 10,211       | 13,847             |  |
| Total deferred outflows of resources                     | 38,328       | 48,570             |  |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES          | \$ 2,356,293 | \$ 2,351,509       |  |
| <u>LIABILITIES</u>                                       |              |                    |  |
| <u>LIABILITIES</u>                                       |              |                    |  |
| <u>Current Liabilities:</u>                              |              |                    |  |
| Accounts payable   | \$ -         | \$ -               |  |
| Payroll liabilities                                      | 33,306       | 20,328             |  |
| Customer deposits  | 14,480       | 12,800             |  |
| Current portion of long-term debt                        | 17,000       | 16,000             |  |
| Accrued interest payable                                 | -            | 4,800              |  |
| Total current liabilities                                | 64,786       | 53,928             |  |
| <u>Non-current liabilities:</u>                          |              |                    |  |
| Capital improvement loan, net of current portion - USDA  | 347,379      | 364,379            |  |
| Net pension liability                                    | 177,238      | 162,304            |  |
| Net other postemployment benefit liability               | 423,615      | 395,087            |  |
| Total non-current liabilities                            | 948,232      | 921,770            |  |
| <u>Deferred Inflows of Resources:</u>                    |              |                    |  |
| Pension related amounts                                  | 16,600       | 15,647             |  |
| Net other postemployment benefit related amounts         | 58,884       | 45,783             |  |
| Total deferred inflows of resources                      | 75,484       | 61,430             |  |
| TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES      | 1,088,502    | 1,037,128          |  |
| <u>NET POSITION</u>                                      |              |                    |  |
| Investment in capital assets net of related debt         | 1,279,991    | 1,313,604          |  |
| Restricted   | 68,730       | 67,045             |  |
| Unrestricted   | (80,930)     | (66,267)           |  |
| TOTAL NET POSITION                                       | \$ 1,267,791 | \$ 1,314,382       |  |

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, 2019**  
**(with prior year data for comparison purposes only)**

|   | Year ended June 30 |              |
|---|--------------------|--------------|
|   | 2019               | 2018         |
| <b><u>OPERATING REVENUES:</u></b>               |                    |              |
| Water sales                                     | \$ 248,843         | \$ 251,823   |
| Ready to serve sales                            | 267,759            | 262,419      |
| New meters                                      | 14,000             | 25,000       |
| Miscellaneous income                            | 314                | -            |
| Late charges                                    | 9,228              | 1,453        |
| Total operating revenues                        | 540,145            | 540,696      |
| <b><u>OPERATING EXPENSES:</u></b>               |                    |              |
| Administrative                                  |                    |              |
| Insurance                                       | 6,797              | 11,025       |
| Dues & fees                                     | 14,352             | 17,446       |
| Legal & professional                            | 21,186             | 18,722       |
| Supplies  | 1,683              | 3,339        |
| Telephone & radio                               | 5,151              | 5,125        |
| Postage   | (527)              | 5,244        |
| Other   | 1,863              | 1,706        |
| Automobile                                      | 5,402              | 5,640        |
| Chemicals                                       | 11,137             | 6,374        |
| Contractors                                     | 7,802              | 38,134       |
| Depreciation & amortization                     | 130,013            | 130,421      |
| Electricity                                     | 28,737             | 28,338       |
| Equipment rent & repair                         | 1,145              | 644          |
| Payroll   | 165,737            | 155,294      |
| Payroll taxes & benefits                        | 92,455             | 61,346       |
| Pension expenses                                | 22,493             | 15,699       |
| Other Postemployment Benefit Expenses           | 55,476             | 60,413       |
| Tools & parts                                   | 5,590              | 5,973        |
| Water testing                                   | 8,675              | 8,455        |
| Workers comp insurance                          | 885                | 5,956        |
| Total operating expenses                        | 586,052            | 585,293      |
| Operating income/(loss)                         | (45,907)           | (44,598)     |
| <b><u>NON-OPERATING REVENUE (EXPENSES):</u></b> |                    |              |
| Interest income                                 | 139                | 142          |
| Other non-operational revenue                   | 10,974             | 7,309        |
| Interest expense-USDA                           | (9,264)            | (29,091)     |
| Bank Charge                                     | (2,534)            | (3,252)      |
| Other non-operational expense                   | -                  | (484)        |
| Total non-operating revenues (expenses)         | (685)              | (25,376)     |
| Change in net position                          | (46,591)           | (69,973)     |
| Net position, beginning of year                 | 1,314,382          | 1,384,355    |
| Net position, end of year                       | \$ 1,267,791       | \$ 1,314,382 |

See accompanying notes and independent auditor's report

**Majestic Pines Community Services District**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2019**  
**(with prior year data for comparison purposes only)**

|  | Year ended June 30 |            |
|--|--------------------|------------|
|  | 2019               | 2018       |
| <u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>                             |                    |            |
| Receipts from customers  | \$ 547,666         | \$ 536,793 |
| Miscellaneous Income   | 314                | -          |
| Payments to employees  | (187,697)          | (156,101)  |
| Payments to suppliers  | (165,554)          | (211,002)  |
| Payments for utilities   | (28,737)           | (28,338)   |
| Net cash provided by (used for) operating activities                     | 165,991            | 141,352    |
| <u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u>                  |                    |            |
| Other Non Operating Income   | 10,974             | 7,309      |
| Net cash provided by (used for) noncapital financing activities          | 10,974             | 7,309      |
| <u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>         |                    |            |
| Principal paid on capital debt   | (16,000)           | (15,000)   |
| Interest paid on capital debt  | (18,618)           | (29,278)   |
| Bank Fees and other non-operating expense                                | (2,534)            | (3,736)    |
| Purchases of capital assets  | (75,600)           | -          |
| Net cash provided by (used for) capital and related financing activities | (112,752)          | (48,014)   |
| <u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>                             |                    |            |
| Interest on investments  | 139                | 142        |
| Purchase of investments  | (5)                | (277)      |
| Net cash provided by (used for) investing activities                     | 134                | (135)      |
| Net Increase (Decrease) in Cash and Cash Equivalents                     | 64,346             | 100,512    |
| Cash and Cash Equivalents, Beginning of year                             | 413,731            | 313,219    |
| Cash and Cash Equivalents, End of year                                   | \$ 478,077         | \$ 413,731 |
| <u>RECONCILIATION OF CASH TO STATEMENT OF NET POSITION:</u>              |                    |            |
| Cash in Operating Fund   | \$ 43,215          | \$ 73,002  |
| Cash in Savings reserve  | 110,986            | 110,950    |
| Cash in General Fund   | 323,876            | 229,779    |
| CASH BALANCE AT END OF YEAR  | \$ 478,077         | \$ 413,731 |

See accompanying notes and independent auditor's report

**Majestic Pines Community Services District**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2019**  
**(continued)**

|  | Year ended June 30 |             |
|--|--------------------|-------------|
|  | 2019               | 2018        |
| <b>RECONCILIATION OF OPERATING INCOME (LOSS) TO</b>  |                    |             |
| <b><u>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</u></b>                                |                    |             |
| Operating income (loss)  | \$ (45,907)        | \$ (44,598) |
| <u>Adjustments to reconcile operating income to net cash provided by operating activities:</u> |                    |             |
| Depreciation & amortization  | 130,013            | 130,421     |
| <u>Changes in operation assets and liabilities:</u>  |                    |             |
| <u>Decrease (Increase) in:</u>   |                    |             |
| Accounts receivable  | 7,835              | (4,544)     |
| Customer deposits  | (1,680)            | (600)       |
| Prepaid expense  | -                  | 560         |
| Deferred outflows of resources   | 10,242             | 2,124       |
| Inventory  | (6,686)            | (3,792)     |
| <u>(Decrease) Increase in :</u>  |                    |             |
| Accounts payable   | -                  | -           |
| Customer Deposits  | 1,680              | 1,241       |
| Payroll liabilities  | 12,978             | 398         |
| Net pension liability  | 14,934             | (7,669)     |
| Net Other Postemployment Benefit Liability   | 28,528             | 14,630      |
| Deferred inflows of resources  | 14,054             | 53,180      |
| Total Adjustments  | 211,897            | 185,950     |
| Net cash provided by (used for) operating activities   | \$ 165,991         | \$ 141,352  |

See accompanying notes and independent auditor's report

**Majestic Pines Community Services District**  
**Notes to Financial Statements**  
**June 30, 2019**

**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 693 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*.

**Majestic Pines Community Services District**  
**Notes to Financial Statements**  
**June 30, 2019**

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (cont.)**

***C. Governmental Fund Accounting***

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

***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 2018-2019 in September 2018.

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.

**Majestic Pines Community Services District**  
**Notes to Financial Statements**  
**June 30, 2019**

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (cont.)**

**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.

**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:

**Restricted Net Assets**

|                             |    |                      |
|-----------------------------|----|----------------------|
| Standby Fund                | \$ | 18,003               |
| Customer Deposit Trust      |    | 14,480               |
| Capital Improvement Reserve |    | <u>36,247</u>        |
| Total Restricted Assets     | \$ | <u><u>68,730</u></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. It is the District’s policy to first apply restricted resources when expenses are incurred for purposes for which both restricted and unrestricted resources are available.

**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.

**Majestic Pines Community Services District**  
**Notes to Financial Statements**  
**June 30, 2019**

**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, 2019, District accounts exceeded the insured amount by \$228,077.

**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, 2019 is \$103,045.

**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 remainder of the loan term is estimated as follows:

| Year End<br>June 30, | Principal  | Interest Due | Balance    |
|----------------------|------------|--------------|------------|
| 2021                 | \$ 17,000  | \$ 17,369    | \$ 330,379 |
| 2022                 | 18,000     | 16,519       | 312,379    |
| 2023                 | 19,000     | 15,619       | 293,379    |
| 2024                 | 20,000     | 14,669       | 273,379    |
| 2025                 | 21,000     | 13,669       | 252,379    |
| 2026-2030            | 122,000    | 51,544       | 130,379    |
| 2031-2035            | 130,379    | 17,744       | -          |
| Total                | \$ 347,379 | \$ 147,133   | \$ -       |

**Majestic Pines Community Services District**  
**Notes to Financial Statements**  
**June 30, 2019**

**NOTE 4 - LONG TERM DEBT PAYABLE – REVENUE BONDS (cont.)**

Long-term liability activity for the year ended June 30, 2019 was as follow:

|  | <u>Beginning<br/>Balance</u> | <u>Additions</u> | <u>Reductions</u>  | <u>Ending<br/>Balance</u> |
|--|------------------------------|------------------|--------------------|---------------------------|
| Capital improvement loan,<br>net of current portion-USDA | \$ 364,379                   | \$ -             | \$ (17,000)        | \$ 347,379                |
| Net Pension Liability                                    | 162,304                      | 22,493           | (7,559)            | 177,238                   |
| Net Other Postemployment-<br>Benefit Liability           | 395,087                      | 62,584           | (34,056)           | 423,615                   |
| Total non-current liabilities                            | <u>\$ 921,770</u>            | <u>\$ 85,077</u> | <u>\$ (58,615)</u> | <u>\$ 948,232</u>         |

**NOTE 5 - DEFINED BENEFIT PENSION PLAN**

*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 Q Street, Sacramento, CA 95811.

*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 2018-19 is 7.634% of annual payroll for employees hired before January 1, 2013 who are eligible to retire at age 60 and 6.842% for employees hired on or after January 1, 2013 who are eligible to retire at age 62. The contribution requirements of the plan members are established by state statute. Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on July 1 following notice of a change in the rate. Funding contributions for the plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the fiscal year ending June 30, 2019, the District’s contributions to CalPERS were \$22,998.

**Majestic Pines Community Services District**  
**Notes to Financial Statements**  
**June 30, 2019**

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

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

As of June 30, 2019, the District reported net pension liabilities for its proportionate shares of the net pension liability as follows:

|               |  |
|---------------|--|
|               | Proportionate share<br>of net pension liability<br>June 30, 2019 |
| Miscellaneous | \$ 177,238   |

The District’s net pension liability for the plan is measured as the proportionate share of the net pension liability. The net pension liability of the plan at June 30, 2018 is measured as of June 30, 2019, and the total pension liability for the plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018 rolled forward to June 30, 2019 using standard update procedures.

Actuarial Assumptions

For the measurement period ended June 30, 2019, the total pension liability was determined by rolling forward the June 30, 2018 total pension liability determined in the June 30, 2018 actuarial accounting valuation. The June 30, 2018 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                           |
| <b>Actuarial Assumptions</b>     |   |
| Discount Rate                    | 7.15%   |
| Inflation                        | 2.50%   |
| 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 2.50% until Purchasing Power Protection Allowance Floor on Purchasing Power applies |

All other actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011. Further details of the Experience Study can be found on the CalPERS’ website.

**Majestic Pines Community Services District**  
**Notes to Financial Statements**  
**June 30, 2019**

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

*Actuarial Assumptions (cont.)*

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 for all plans with an actuarial valuation date of June 30, 2018 and 2019 was as follows:

|                            | <b>Miscellaneous</b> |
|----------------------------|----------------------|
| Proportion - June 30, 2018 | 0.00431%             |
| Proportion - June 30, 2019 | 0.00443%             |
| Change                     | -0.00012%            |

For the year ended June 30, 2019, the District recognized pension expense of \$22,493. At June 30, 2019 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | Deferred Outflows<br>of Resources | Deferred<br>Inflows of |
|---|-----------------------------------|------------------------|
| Pension Contributions subsequent to measurement date                            | \$ -                              | \$ -                   |
| Changes of Assumptions  | 8,452                             | (2,996)                |
| Differences between Expected and Actual Experience                              | 12,310                            | (954)                  |
| Change in Employer's Proportion   | 7,355                             |                        |
| Differences between actual contribution and proportionate share of contribution | -                                 | (9,552)                |
| and Actual Earnings on Investments  | -                                 | (3,099)                |
| <b>Total</b>  | <b>\$ 28,117</b>                  | <b>\$ (16,600)</b>     |

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, 2019**

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

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 | Deferred<br>Outflows/(Inflows)<br>of Resources |
|---------------------------|--|
| June 30:                  |  |
| 2020                      | \$ 13,260                                      |
| 2021                      | (3,525)  |
| 2022                      | 1,153  |
| 2023                      | 626  |
| 2024                      | -  |
| Thereafter                | -  |
|                           | \$ 11,515                                      |

Changes of Assumptions

In 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There were no changes in the discount rate.

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent and reflects the long-term expected rate of return for the plan net of investment expenses and without reduction for administrative expenses. 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 adopted by the Board in 2013 were used. For the plan, the crossover test was performed for a miscellaneous agent plan selected as being more at risk of failing the crossover test and resulting in a discount rate that would be different from the long-term expected rate of return on pension investments. Based on the testing of the 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 can be found on CalPERS' at <https://www.calpers.ca.gov/page/employers/actuarial-services/gasb>.

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, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension 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+ 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 for each fund. The expected rate of return was set by calculating the

**Majestic Pines Community Services District**  
**Notes to Financial Statements**  
**June 30, 2019**

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

*Discount Rate (cont.)*

rounded 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 equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses. The expected real rates of return by asset class can be found in CalPERS' Comprehensive Annual Financial Report for the fiscal year ended June 30, 2017.

*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:

|                                   | Discount Rate -1% | Current Discount Rate | Discount Rate +1% |
|-----------------------------------|-------------------|-----------------------|-------------------|
|                                   | 6.15%             | 7.15%                 | 8.15%             |
| Risk Pool's Net Pension Liability | \$ 284,300        | \$ 177,238            | \$ 88,867         |

**NOTE 6 - POSTEMPLOYMENT HEALTH CARE BENEFITS**

*Plan Description and Funding Policy*

In fiscal year 2017 the District started to provide retiree medical coverage to current and future eligible retirees and their spouse under the Public Employees' Medical and Hospital Care Act (PEMHCA), a single-employer defined benefit Other Post-Employment Benefit (OPEB) plan. The plan provides for the District to contribute the full cost of health insurance premiums for eligible employees that retire directly from the District through either a service or disability retirement under CalPERS. Eligible employees' surviving spouses are also eligible for benefits. Benefits continue through the employees or spouse's lifetime. The Plan is administered by the District's Board of Directors. The District Board of Directors has the authority to establish and amend the benefit terms. PEMCHA offers health insurance through CalPERS. A copy of CalPERS annual financial report may be obtained from their Executive Office, 400 Q Street, Sacramento, CA 95811. The District has not commenced prefunding and its funding policy is to pay OPEB benefit payments as they become due. The District has not set aside funds in an irrevocable trust at this time. The Board reserves the authority to review and amend this funding policy from time to time, in order to ensure that the funding policy continues to best suit the circumstances of the District.

*Benefits Provided*

The Plan provides healthcare benefits for retirees and surviving spouses. Benefits are provided through a third-party insurer, and the full cost of the benefits are covered by the Plan.

**Majestic Pines Community Services District**  
**Notes to Financial Statements**  
**June 30, 2019**

**NOTE 6 – POSTEMPLOYMENT HEALTH CARE BENEFITS (cont.)**

Employees Covered by Benefit Terms

At June 30, 2019, the following current and former employees were covered by the benefit terms:

|  | Number of Covered<br>Participants |
|--|-----------------------------------|
| Active employees   | 3                                 |
| Inactive employees currently receiving benefits                | 1                                 |
| Inactive employees entitled to, but not yet receiving benefits | -                                 |
|  | 4                                 |

Contributions

The Board of Directors grants the authority to establish and amend the contribution requirements of the District and employees. Employees are not required to contribute to the Plan. During the fiscal year ended June 30, 2019, the District's cash contributions were \$10,211 and benefit payments were \$0 resulting in total payments of \$10,211.

Net OPEB Liability

The District's net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017.

Actuarial Assumptions

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

|  |  |
|--|--|
| <b>Actuarial Assumptions:</b>                    |  |
| Actuarial Valuation Date                         | June 30, 2017  |
| Contribution Policy                              | No pre-funding   |
| Discount Rate                                    | 3.87% at June 30, 2018 (Bond Buyer 20-Bond Index)<br>3.58% at June 30, 2017 (Bond Buyer 20-Bond Index) |
| Expected Long-Term Rate of Return on Investments | n/a  |
| General Inflation                                | 2.75% annually   |
| Mortality, Retirement, Disability, Termination   | CalPERS 1997-2015 Experience Study   |
| Mortality Improvement                            | Post-retirement mortality projected fully generational with Scale MP-2017                              |
| Salary Increases                                 | Aggregate - 3% annually<br>Merit-CalPERS 1997-2015 Experience Study                                    |
| Medical Trend                                    | Non-Medicare - 7.5% for 2019, decreasing to an ultimate rate of 4.0% in 2076                           |
| Participation at Retirement                      | 100%   |

**Majestic Pines Community Services District**  
**Notes to Financial Statements**  
**June 30, 2019**

**NOTE 6 – POSTEMPLOYMENT HEALTH CARE BENEFITS (cont.)**

Discount Rate

The discount rate used to measure the total OPEB liability was updated for the June 30, 2018 measurement date to be based on the municipal bond rate as of the measurement date which was 3.87%. The projection of cash flows used to determine the discount rate assumed that District contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

|                                  |    | <u>Total<br/>OPEB Liability<br/>Increase/(Decrease)</u> |
|----------------------------------|----|---|
| Balance at June 30, 2018         | \$ | 395,087   |
| (Measurement date June 30, 2017) |    |   |
| Changes for the year:            |    |   |
| Service cost                     |    | 47,005  |
| Interest                         |    | 15,579  |
| Benefit changes                  |    | -   |
| Actual vs. expected experience   |    | -   |
| Assumption changes               |    | (20,209)  |
| Contributions-employer           |    | -   |
| Contributions-employee           |    | -   |
| Benefit payments                 |    | (13,847)  |
| Administrative Expenses          |    | -   |
| Net Changes                      |    | <u>28,528</u>   |
| Balance at June 30, 2019         | \$ | <u><u>423,615</u></u>                                   |
| (Measurement date June 30, 2018) |    |   |

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate and Healthcare Cost Trend Rates

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

**Majestic Pines Community Services District**  
**Notes to Financial Statements**  
**June 30, 2019**

**NOTE 6 – POSTEMPLOYMENT HEALTH CARE BENEFITS (cont.)**

|                      | <b>Discount Rate</b>           |                                 |                                |
|----------------------|--------------------------------|---------------------------------|--------------------------------|
|                      | <b>1% Decrease<br/>(2.87%)</b> | <b>Current Rate<br/>(3.87%)</b> | <b>1% Increase<br/>(4.87%)</b> |
| Total OPEB Liability | \$ 499,224                     | \$ 423,615                      | \$ 362,904                     |

|                      | <b>Healthcare Trend Rate</b> |                      |                    |
|----------------------|------------------------------|----------------------|--------------------|
|                      | <b>1% Decrease</b>           | <b>Current Trend</b> | <b>1% Increase</b> |
| Total OPEB Liability | \$ 345,287                   | \$ 423,615           | \$ 524,530         |

OPEB Plan Fiduciary Net Position

As the Districted has not set aside funds in an irrevocable trust or commenced prefunding, there is no plan fiduciary net position at this time

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2019, the District recognized OPEB expense of \$55,476. At June 30, 2019, the District reported deferred outflows of resources totaling \$10,211 for contributions subsequent to the measurement date. This amount will be recognized as a reduction of the OPEB liability in the following fiscal year.

| <b>Deferred Outflows/Inflows Balances at</b>       | <b>June 30, 2019</b>              |                                     |
|--|-----------------------------------|-------------------------------------|
|  | Deferred Outflows of<br>Resources | Deferred<br>Inflows of<br>Resources |
| Differences between expected and actual experience | \$ -                              | \$ -                                |
| Changes in assumptions                             | -                                 | 58,884                              |
| Employer contributions made                        | 10,211                            | -                                   |
| <b>Total</b>                                       | <b>\$ 10,211</b>                  | <b>\$ 58,884</b>                    |

Payable to the OPEB Plan

At June 30, 2019, the District had no contributions outstanding to the Plan required for the year ended June 30, 2019.

Age-adjusted Premiums Not Used

As a general rule, Actuarial Standard of Practice 6 (ASOP 6) indicates retiree costs should be based on actual claim costs or age-adjusted premiums. However, the Plan's net OPEB liability was not computed using age-adjusted premiums because the District's actuary did not consider the use of age-adjusted premiums to be

**Majestic Pines Community Services District**  
**Notes to Financial Statements**  
**June 30, 2019**

**NOTE 6 – POSTEMPLOYMENT HEALTH CARE BENEFITS (cont.)**

appropriate under the circumstances. This is due to the District participating in the CalPERS health insurance plan, PEMHCA. PEMHCA uses blended premiums for active and retired participants and is expected to continue this practice into the future. Contributions based on age-adjusted premiums would be larger than contributions based on actual premiums charged by PEMHCA. The actuary believes this would overstate contributions to the CERBT that would not be able to be recovered by the District. Many other actuaries believe it is appropriate to use age-adjusted premiums when computing net OPEB liabilities under GASB Statement No. 75. The District's net OPEB liability would have been significantly larger had it been computed using age-adjusted premiums.

*Implied Subsidy*

An implied subsidy exists when the premium for a group of active employees and pre-Medicare retirees is determined by aggregating the experience of the group. GASB defers to actuarial standards of practice to determine how actuarial accrued liability should be calculated. Until recently, those standards have said the implied subsidy need not be taken into account for most employers participating in large community-rated plans such as PEMHCA. A revised actuarial standard of practice (ASOP 6) now requires implied subsidy be calculated for all valuations dated after March 31, 2015. We included the implied subsidy in the current June 30, 2017 valuation.

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

|   | <u>Beginning<br/>Balance</u> | <u>Additions</u>   | <u>Retirement</u> | <u>Ending<br/>Balance</u> |
|---|------------------------------|--------------------|-------------------|---------------------------|
| Capital assets, non-depreciable:              |                              |                    |                   |                           |
| Land  | \$ 98,528                    | \$ -               | \$ -              | \$ 98,528                 |
| Construction in Progress                      | -                            | 75,600             |                   | 75,600                    |
| Total capital assets, non-depreciable         | <u>98,528</u>                | <u>75,600</u>      | <u>-</u>          | <u>174,128</u>            |
| Capital assets, depreciable/amortizable       |                              |                    |                   |                           |
| Water Rights                                  | 15,000                       | -                  | -                 | 15,000                    |
| Building, improvements & equipment            | 3,600,467                    |                    | -                 | 3,600,467                 |
| Total capital assets, depreciable/amortizable | <u>3,615,467</u>             | <u>-</u>           | <u>-</u>          | <u>3,615,467</u>          |
| Less accumulated depreciation for:            |                              |                    |                   |                           |
| Water Rights                                  | (9,792)                      | (625)              | -                 | (10,417)                  |
| Building, improvements & equipment            | <u>(2,005,420)</u>           | <u>(129,388)</u>   | <u>-</u>          | <u>(2,134,808)</u>        |
| Total accumulated depreciation                | <u>(2,015,212)</u>           | <u>(130,013)</u>   | <u>-</u>          | <u>(2,145,225)</u>        |
| Net capital assets                            | <u>\$ 1,698,783</u>          | <u>\$ (54,413)</u> | <u>\$ -</u>       | <u>\$ 1,644,370</u>       |

**NOTE 8 - COMPARATIVE FINANCIAL STATEMENTS**

The amounts shown for June 30, 2018 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, 2019**

**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 October 26, 2020 the date on which the financial statements were available to be issued.

On March 4, 2020 the Governor of California declared a State of Emergency due to the spread of the novel coronavirus (COVID-19) while the World Health Organization declared the outbreak a pandemic later in the month. Majestic Pines CSD is a public water agency that is deemed to be an essential business, so has remained open despite widespread closing of nonessential businesses, schools and public venues. With unemployment at records highs, we have seen a slight increase in nonpayment by customers since the start of the pandemic, but not significantly so. Revenue from the water meter lock-off process will be lost due to a moratorium on lock-offs in the State of California, but will be partly offset by increased revenue due to late fees on unpaid balances, which are larger than normal. While the Company feels that the current impact of the pandemic is minimal to its business, future State mandated restrictions, as well as when a vaccine will be widely available, make future revenue shortfalls difficult to predict.

**REQUIRED SUPPLEMENTARY INFORMATION**

**A Cost-Sharing Multiple-Employer Defined Benefit Pension Plan**  
**As of June 30, 2019 (Last 10 Years\*)**  
**California Public Employees' Retirement System**  
**Schedule of Majestic Pines Community Services District's**  
**Proportionate Share of The Net Pension Liability**

|  | 2019     | 2018       | 2017       | 2016       | 2015     |
|--|----------|------------|------------|------------|----------|
| Proportion of the net pension liability  | 0.00443% | 0.00431%   | 0.00431%   | 0.00422%   | 0.00398% |
| Proportion share of the net pension liability  | 177,238  | 162,303 \$ | 169,973 \$ | 146,590 \$ | 109,319  |
| Covered-employee payroll   | 152,403  | 142,633 \$ | 160,332 \$ | 163,655 \$ | 149,364  |
| Proportionate share of the net pension liability as a percentage of Covered-employee payroll | 116.30%  | 113.79%    | 106.01%    | 89.57%     | 73.19%   |
| Plan fiduciary net position as a percentage of the total pension liability                   | 79.51%   | 79.20%     | 77.47%     | 78.15%     | 82.74%   |

**Notes to Schedule:**

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

**A Cost-Sharing Multiple-Employer Defined Benefit Pension Plan  
As of June 30, 2019 (Last 10 Years\*)**

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

|   | Miscellaneous<br>2019 | Miscellaneous<br>2018 | Miscellaneous<br>2017 | Miscellaneous<br>2016 | Miscellaneous<br>2015 |
|---|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Contractually required contribution<br>(Actuarially determined)         | \$ 13,486             | \$ 10,768             | \$ 11,438             | \$ 18,405             | \$ 16,798             |
| Contribution in relation to the actuarially<br>determined contributions | 13,486                | 10,768                | \$ 11,438             | \$ 18,405             | \$ 16,798             |
| Contribution deficiency(excess)   | -                     | -                     | \$ -                  | \$ -                  | -                     |
| Covered-employee payroll  | 152,403               | 142,633               | \$ 160,332            | \$ 163,655            | \$ 149,364            |
| Contributions as a percentage of covered-<br>employee payroll           | 8.85%                 | 7.55%                 | 7.13%                 | 11.25%                | 11.25%                |
| Notes to Schedule:  |                       |                       |                       |                       |                       |
| Valuation date:   | 6/30/2018             | 6/30/2017             | 6/30/2016             | 6/30/2015             | 6/30/2014             |

**Notes to Schedule:**

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

Majestic Pines Community Services District  
 Other Post-employment Benefit (OPEB) Plan  
 Schedule of Funding Progress

| Fiscal Year<br>Ending | Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial                                      |            | Unfunded<br>AAL<br>(UAAL)<br>(b-a) | Funded<br>Ratio<br>(a/b) | Covered<br>Payroll<br>(c) | UAAL as a<br>Percentage<br>of Covered<br>Payroll<br>((b-a)/c) |
|-----------------------|--------------------------------|--|--|------------|------------------------------------|--------------------------|---------------------------|---|
|                       |                                |  | Accrued<br>Liability (AAL)<br>Entry Age<br>(b) |            |                                    |                          |                           |   |
| 6/30/2017             | 6/30/2017                      | \$ -                                   | \$ 384,000                                     | \$ 384,000 | -                                  | \$ 174,000               | 220.69%                   |   |
| 6/30/2018             | 6/30/2017                      | \$ -                                   | \$ 395,087                                     | \$ 395,087 | -                                  | \$ 171,742               | 230.05%                   |   |
| 6/30/2019             | 6/30/2017                      | \$ -                                   | \$ 423,615                                     | \$ 423,615 | -                                  | \$ 152,570               | 277.65%                   |   |

**Notes to Schedule:**

\*Fiscal year 2017 was the 1st year of implementation, therefore only three years are shown.

**Majestic Pines Community Services District  
Organization  
June 30, 2019**

The Board of Directors for the fiscal year ended June 30, 2019, is composed of the following members:

| <u>NAME</u>     | <u>OFFICE</u>  | <u>TERM EXPIRES</u> |
|-----------------|----------------|---------------------|
| Kurt Boettcher  | President      | December 2020       |
| Joseph Connolly | Vice President | December 2022       |
| John Jones      | Treasurer      | December 2022       |
| Robert Markart  | Secretary      | December 2020       |
| Kevin Dubler    | Director       | December 2020       |

Administration:

|               |   |
|---------------|---|
| David Shenk   | District Manager & Water Treatment Operator |
| Jorge Rosas   | Water Treatment Operator                    |
| Cheryl DeWitt | Bookkeeper                                  |

**Majestic Pines Community Services District**  
**Actual vs Budget**  
**2018/2019**

|                                    | <u>Actual</u>      | <u>Budget</u>    | <u>Variance<br/>to Budget</u> | <u>% Variance</u> |
|------------------------------------|--------------------|------------------|-------------------------------|-------------------|
| <b>REVENUES</b>                    |                    |                  |                               |                   |
| Water Sales                        | \$ 248,843         | \$ 265,000       | \$ (16,157)                   | -6.10%            |
| Ready to Serve Sales               | 267,759            | 262,000          | 5,759                         | 2.20%             |
| New Meters                         | 14,000             | 12,000           | 2,000                         | 16.67%            |
| Service Accessories Sales          | 0                  | 75               | (75)                          | -100.00%          |
| Miscellaneous                      | 314                | 50               | 264                           | 528.36%           |
| Late Charges                       | 9,228              | 6,500            | 2,728                         | 41.97%            |
| Other Non-Operating                | 11,113             | 6,780            | 4,333                         | 63.90%            |
| Total Revenues                     | <u>551,258</u>     | <u>552,405</u>   | <u>(1,147)</u>                | <u>-0.21%</u>     |
| <b>EXPENSES</b>                    |                    |                  |                               |                   |
| Administrative                     | 50,505             | 57,900           | (7,395)                       | -12.77%           |
| Operations                         | 39,751             | 55,700           | (15,949)                      | -28.63%           |
| Electricity                        | 28,737             | 29,472           | (735)                         | -2.49%            |
| Payroll & Benefits                 | 337,046            | 260,663          | 76,383                        | 29.30%            |
| Depreciation & Amortization        | 130,013            | 49,572           | 80,441                        | 162.27%           |
| Other Non-Operating                | 11,797             | 32,678           | (20,881)                      | -63.90%           |
| Total Expenses                     | <u>597,849</u>     | <u>485,985</u>   | <u>111,864</u>                | <u>23.02%</u>     |
| Income/(Loss)                      | \$ <u>(46,591)</u> | \$ <u>66,420</u> | \$ <u>(113,011)</u>           | <u>-170.15%</u>   |
| Capital Projects Revenue (Expense) | -                  | (66,420)         | 66,420                        | -100.00%          |
| Income/(Loss)                      | <u>\$ (46,591)</u> | <u>\$ -</u>      | <u>\$ (46,591)</u>            | <u></u>           |