

**Manila Community  
Services District  
Basic Financial Statements  
June 30, 2017**

**Manila Community Services District  
Basic Financial Statements  
June 30, 2017  
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**Terry E. Krieg, CPA**  
**Certified Public Accountant**

**Independent Auditor's Report**

Board of Directors  
 Manila Community Services District  
 Arcata, California

**Report on the Financial Statements**

I have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Manila Community Services District, California, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Manila Community Services 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 opinions on these financial statements based on my audit. I conducted my audit in accordance with audited standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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 district'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 district'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 opinions.

**Summary of Opinions**

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Qualified
Business-Type Activities	Qualified
General Fund & Enterprise Fund	Qualified
Teen Fund	Unmodified

**Basis for Qualified Opinions on All Opinion Units except Teen Fund**

Management has not been able to provide sufficient information to demonstrate that the General Fund has the ability to repay the interfund loan payable to the enterprise fund within a reasonable period of time. Accounting principles generally accepted in the United States of America require that if repayment is not expected within a reasonable period of time, that the interfund balance should be reduced, and the lender fund should report a transfer to the borrower fund for the amount that is not expected to be repaid within a reasonable period of time. The balance of the interfund loan was \$190,341 at June 30, 2017.

## **Qualified Opinions**

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinions on All Opinion Units except the Teen Fund paragraph, the financial statements referred to above present fairly, in all material respects the respective financial position of the governmental activities, business-type activities, general fund, and enterprise fund of the Manila Community Services District, California, as of June 30, 2017 and the respective changes in financial position thereof, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Unmodified Opinion**

In my opinion, the financial statements referred to above present fairly, in all material respects the respective financial position of the Teen Fund of the Manila Community Services District, California, as of June 30, 2017 and the respective changes in financial position thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

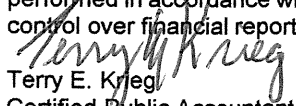
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 11 and the Budgetary Comparison Schedules on pages 32 through 33 be presented to supplement the basic financial statements. Such information, although not 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Manila Community Services District's basic financial statements. The accompanying combining schedule of water and sewer revenues, expenses and changes in net position are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the combining schedule of water and sewer revenues, expenses and changes in net position, are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, I have also issued my report, dated July 26, 2017, on my consideration of the Manila Community Services District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Manila Community Services District's internal control over financial reporting and compliance.

  
Terry E. Kregel  
Certified Public Accountant  
Santa Rosa, California  
July 26, 2017

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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This section of the Manila Community Service District annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2017.

### FINANCIAL HIGHLIGHTS

- The District's total net position increased by about \$20,000 over the course of this year's operations. The net position of our business-type activities increased by about \$25,000 and there was a \$5,000 decrease in the net position of our governmental activities. While there was a \$20,000 net increase, this net increase is after about \$64,000 charge in depreciation expense for fiscal 2017 with about \$27,000 of the \$64,000 being a non-cash charge to the governmental activities which is why we reported the above \$5,000 net decline in the governmental activities net position.
- During the year, the costs of operating the District's governmental activities were \$34,000 more than the related program revenues. This loss was reduced to \$5,000 by using property tax and other revenues. Most of the \$34,000 decrease in net position is caused by the above \$27,000 depreciation charge. Charges to participants, property taxes and other revenues, are used to fund the governmental activities. The District could not financially afford these governmental activities without the operating grants.
- In the District's business-type activities, there was in fiscal 2017 a \$25,000 net increase after depreciation charges of about \$37,000. The District was in 2017 awarded a \$500,000 state grant for a water system improvement project (mainly final design costs).
- The general fund ended fiscal 2017 with a fund deficit of about \$114,000. This was an \$23,000 improvement over fiscal 2016. The Teen fund ended 2016 with a \$24,700 fund balance.
- At year-end, there was about \$94,300 in cash and investments to fund future governmental activities, and about \$333,000 in cash and investments to fund future business-type activities.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts – management's *discussion and analysis* (this section), the *basic financial statements*, *notes to the basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *government-wide financial statements* that provide both long-term and short-term information about the District's *overall* financial status. The remaining statements are *fund financial statements* that focus on individual parts of the District government, reporting the District's operations in more detail than the government-wide statements.
  - The *governmental funds* statements tell how *general government* services like recreation, youth activities, the community center, and general administration were financed in the *short term* as well as what remains for future spending.
  - *Proprietary fund* statements offer *short-* and *long-term* financial information about the activities the government operates *like businesses*, such as the water and wastewater operations.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**OVERVIEW OF THE FINANCIAL STATEMENTS**

Figure A-1 summarizes the major features of the District's financial statements, including the portion of the District government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-1

**Major Features of Manila Community Services District Government-Wide and Fund Financial Statements**

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	Fund Statements		
	Government-Wide Statements	Governmental Funds	Proprietary Funds
Scope	Entire District	The activities of the District that is not proprietary or fiduciary, such as community center, parks and recreation, and youth programs.	Activities the District operates similar to private businesses: the water and wastewater operations
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net position</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net position</li> <li>• Statement of revenues, expenses, and changes in net position</li> <li>• Statement of cash flows</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

**Government-Wide Statements**

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes *all* the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's *net position* and how it has changed. Net position – the difference between the District's assets and liabilities – is one way to measure the District's financial health, or *position*.

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## MANAGEMENTS DISCUSSION AND ANALYSIS

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### OVERVIEW OF THE FINANCIAL STATEMENTS

#### Government-Wide Statements (Continued)

- Over time, increases or decreases in the District's net position are an indicator of whether its Financial health is improving or deteriorating, respectively.

The government-wide financial statements of the District are divided into two categories:

- *Governmental activities* – The District's basic services for community center activities, recreation and parks, youth programs and general government are included here. Rents, state and local grants, and charges for services finance most of these activities.
- *Business-type activities* – The District charges fees to customers to help it cover the costs of certain services it provides. The District's water and wastewater activities are included here.

#### Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

- The Board of Directors establishes certain funds to control and manage money for particular purposes or to show that it is properly using certain grants (like youth program grants).

The District has two kinds of funds:

- *Governmental funds* – Youth programs, community center, parks and recreation and district administration basic services are included in governmental funds, which focus on (1) *how cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term view* that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them.
- *Proprietary funds* – Services which are primarily supported by fees and charges for services, such as the water and wastewater, are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-and short-term financial information.
  - In fact, the District's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

**Net Position.** The District's *combined* net position increased by about a net \$20,000 between fiscal years 2016 and 2017. (See Table A-1.)

**Table A-1**  
**Manila Community Services District Net Position**  
(rounded to nearest hundred)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2017	2016	2017	2016	2017	2016	
Current and other assets	\$105,700	\$100,700	\$445,100	\$407,900	\$550,800	\$508,600	8.3 %
Internal balances	(190,300)	(204,300)	190,300	204,300	-	-	
Capital assets	1,182,000	1,209,100	987,500	940,300	2,169,500	2,149,400	1.0%
<b>Total assets</b>	<b>1,097,400</b>	<b>1,105,500</b>	<b>1,622,900</b>	<b>1,552,500</b>	<b>2,720,300</b>	<b>2,658,000</b>	<b>2.3%</b>
Long-term debt outstanding	-	-	13,300	26,100	13,300	26,100	-49.0%
Other liabilities	4,900	8,500	136,700	77,900	141,600	86,400	63.9%
<b>Total liabilities</b>	<b>4,900</b>	<b>8,500</b>	<b>150,000</b>	<b>104,000</b>	<b>154,900</b>	<b>112,500</b>	<b>37.7%</b>
Net position							
Invested in capital assets	1,182,000	1,209,100	974,200	914,200	2,156,200	2,123,200	1.6%
Restricted	24,700	24,700	105,900	119,900	130,600	144,600	-9.7%
Unrestricted	(114,200)	(136,800)	392,800	414,400	278,600	277,600	0.4%
<b>Total net position</b>	<b>\$1,092,500</b>	<b>\$1,097,000</b>	<b>\$1,472,900</b>	<b>\$1,448,500</b>	<b>\$2,565,400</b>	<b>\$2,545,500</b>	<b>0.8%</b>

Net position of the District's governmental activities decreased about \$4,500 to \$1.09 million. About 100% of the net position relating to governmental activities is represented by the District's investment in capital assets (land, equipment and facilities) The District has no significant debt relating to its governmental activities.

The net position of our business-type activities remained relatively stable at about \$1.4 million. These resources generally cannot be used for governmental activities. The District uses these net resources to finance the continuing operations of the District's water and wastewater activities.

There was in fiscal 2017 a \$24,437 net increase in the net position of the District business type activities caused mainly by the \$70,090 in Proposition 1 Capital grant revenues related to the planning and design grant for water system improvements.



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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

**Changes in net position.** The District's total revenues in fiscal 2017 were about \$533,000 (See Table A-2.) which was about \$27,700 more than total 2016 revenues. Most of this increase was the result of the curtailment of the youth program grant funding effective after the quarter ended September 30, 201 and the Proposition 1 planning grant revenues in 2017. Virtually 85 cents of every dollar raised by the District comes from charges for providing water, wastewater collection services, and community center rents and recreation fees. The remaining 15 cents of every dollar raised comes from property taxes and grants.

The total cost of all programs and services in fiscal 2017 decreased \$28,300 to about \$513,400. The District's expenses cover a range of services, with about 77% related to water and wastewater and the remaining 13 percent pertaining to the community center, parks and recreation activities and District administration.

**Sources of revenues for the District's governmental and business type activities in fiscal 2017 were as follows:**

<u>Sources of District Revenues</u>	<u>Percentage</u>
Property taxes	7.9%
Charges for services	84.5
Operating grants	0.0
Capital contributions and connections	7.0
Other revenues	0.6
Total sources	<u>100.0%</u>

***Functional expenses of the District for fiscal 2017 were as follows:***

<u>Expense category</u>	<u>Percentage</u>
Youth programs	0.0%
Community center	16.9
Parks and recreation	6.0
Water	36.0
Wastewater	41.1
Total functional expenses by function	<u>100.0%</u>

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

**Revenues and Expenses of the District**

**Table A-2**  
**Changes in Manila Community Service District Net Position**  
 (rounded to nearest hundred dollars)

	Governmental Activities		Business-Type Activities		Totals		Total Percent Change
	2017	2016	2017	2016	2017	2016	2016-2017
<b>Revenues</b>							
Program revenues:							
Charges for services	\$ 85,100	\$85,200	\$ 334,500	\$ 359,500	\$419,600	\$444,700	-5.6%
Operating grants	-	20,300	-	-	-	20,300	-100.0%
Capital contributions	-	-	70,100	-	70,100	-	100.0%
General revenues:							
Property taxes	29,000	27,900	11,600	11,100	40,600	39,000	4.1%
Other revenues	-	-	3,000	1,600	3,000	1,600	87.5%
<b>Total revenues</b>	<b>114,100</b>	<b>133,400</b>	<b>419,200</b>	<b>372,200</b>	<b>533,300</b>	<b>505,600</b>	<b>5.5%</b>
<b>Expenses</b>							
Parks and recreation	29,500	25,600	-	-	29,500	25,600	15.2%
Youth programs	-	36,300	-	-	-	36,300	-100.0%
Water	-	-	184,300	191,800	184,300	191,800	-3.9%
Wastewater	-	-	210,500	187,100	210,500	187,100	12.5%
Community center	89,100	100,900	-	-	89,100	100,900	-11.7%
<b>Total expenses</b>	<b>118,600</b>	<b>162,800</b>	<b>394,800</b>	<b>378,900</b>	<b>513,400</b>	<b>541,700</b>	<b>-5.2%</b>
Excess (deficiency)	(4,500)	(29,400)	24,400	(6,700)	19,900	(36,100)	155.1%
Transfers	-	-	-	-	-	-	-
<b>Increase (decrease) in net position</b>	<b>\$ (4,500)</b>	<b>\$ (29,400)</b>	<b>\$ 24,400</b>	<b>\$ (6,700)</b>	<b>\$ 19,900</b>	<b>\$ (36,100)</b>	<b>155.1%</b>

The increase in net position in fiscal 2017 compared to fiscal 2016 was directly related to the District recognizing about \$67,000 in Proposition 1 grant revenues for the water system planning and design project in the business type activities.

Table A-3 presents the cost of each of the District's largest programs – youth programs, recreation/community center, water, and wastewater.

- The cost of all *governmental* activities this year was about \$44,200 less than in fiscal 2016. The curtailment of the youth program services after one calendar quarter accounted for most of these expense decreases.
- The total cost of all *business* activities this year was about \$15,900 more than in fiscal 2016. Most of the increase was caused by about \$20,000 for rate studies and an additional \$16,000 in maintenance expenses.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

**Governmental Activities**

The governmental activities operated at a net loss of about \$33,500 and this includes about \$27,100 for depreciation expense in fiscal 2017. Of that loss, \$29,000 was funded by property taxes and the rest was charged to accumulated resources. Most of these costs are funded by:

- Those who directly benefited from the programs \$85,100 or
- Property taxes of about \$29,000
- The District paid for the \$33,500 "public benefit" portion with \$29,000 in property taxes. Even with this, there was about \$4,500 left unfunded which amount used more of the governmental type resources.

**Table A-3**  
**Cost of Manila Community Services District Governmental and**  
**Business-Type Activities**  
**(in rounded thousands of dollars)**

	Total Cost of Services		Percentage Change
	2017	2016	2016-2017
Parks & recreation	\$29,500	\$25,600	15.2%
Youth programs	-	36,300	-100.0%
Water	184,300	191,800	-3.9%
Wastewater	210,500	187,100	12.5 %
Community center	89,100	100,900	-11.7%
<b>Total</b>	<b>\$513,400</b>	<b>\$541,700</b>	<b>-5.2%</b>

**Business-type Activities**

Customer service revenues of the District's business-type activities reported a \$23,000 overall decline in revenues from customers and no capital connection revenues in fiscal 2017. Most of the revenue loss was caused by about a \$18,000 drop off in commercial client revenues.

Expenses in fiscal 2017 reported a combined \$36,700 increase compared to fiscal 2016. The main reasons for the additional expenses was that the District spent about \$20,000 on utility rate studies and about \$16,000 more on system maintenance.

During the 2017 fiscal year, the District's bank account was subjected to unauthorized electronic banking withdrawals by unknown parties. Upon investigation by banking authorities, it was confirmed that the withdrawals were not authorized by the District and the banking institutions credited the district for these misappropriations and restored the withdrawn cash to the District's bank accounts.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds reported a *combined* fund deficit of \$89,600. This was about \$22,600 lower compared to the end of 2016.

The District's one enterprise Fund ended the 2017 fiscal year with about \$393,000 in unrestricted net assets consisting primarily of cash and investments. In addition, the enterprise fund had \$105,900 in cash restricted for capital facilities, debt service on a loan, and capital connection fees to be used for system connections.

#### General Fund and Teen Fund Budgetary Highlights

General fund spending was \$1,800 more than the final budgeted costs. General fund revenues were \$24,400 over what was anticipated for fiscal 2017.

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

At the end of 2017, the District had invested \$2.15 million (after accumulated depreciation) in a broad range of capital assets, including land, buildings, equipment, vehicles, park facilities, community center, water treatment and distribution, and wastewater collection and treatment facilities. (See Table A-4.) This amount represents a net increase (including additions and deductions) of about \$20,100, or 1 percent, more than last year. The major capital asset projects included about \$16,500 for a new roof on the District's main building and about \$60,000 in planning and design costs for the water system improvement project. Additional information about the District's capital assets can be found on page 27 of this report.

**Table A-4**  
**Manila Community Services District Capital Assets**  
**(net of depreciation, in rounded dollars)**

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2017	2016	2017	2016	2017	2016	
Land and work in progress	\$ 740,900	\$ 740,900	\$154,000	\$ 86,600	\$ 894,900	\$827,500	8.1%
Buildings and improvements	1,016,000	1,016,000	-	-	1,016,000	1,016,000	0.0%
Machinery & equipment	67,000	67,000	149,300	149,300	216,300	216,300	0.0%
Water plant and system	-	-	343,000	334,700	343,000	334,700	2.5%
Wastewater system	-	-	5,461,300	5,453,000	5,461,300	5,453,000	0.2%
<b>Total</b>	<b>1,823,900</b>	<b>1,823,900</b>	<b>6,107,600</b>	<b>6,023,600</b>	<b>7,931,500</b>	<b>7,847,500</b>	<b>1.1%</b>
Less accumulated depreciation	(641,900)	(614,800)	(5,120,100)	(5,083,300)	(5,762,000)	(5,698,100)	1.1%
Net capital assets	\$ 1,182,000	\$ 1,209,100	\$ 987,500	\$ 940,300	\$2,169,500	\$2,149,400	1.0%

The District was awarded in fiscal 2017 a \$500,000 water system improvement grant by the State of California. The project was commenced in fiscal 2017 and the District has capitalized about \$35,100 in initial project costs. The grant provides funding for engineering, analysis costs, and final project design costs among other related project costs.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### **Long-term Debt**

The District has been able to conduct its operations and maintain and develop its capital facilities and systems without the need to incur significant long-term borrowing except for the \$13,255 remaining on the State Loan for water system improvements. All debt service payments were made when and as required. No new long-term debt was issued in fiscal 2017. Additional information about the District's long-term debt can be found starting on page 29.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

For the 2018 fiscal year, the general fund revenues are expected to remain stable.

Much of the 2018 fiscal year will be devoted to completing the water system planning grant and related system improvement design costs.

The District's wastewater system is approaching the end of its useful life and may need replacement or modernization in the near future. The District may need to consider ways of financing such system improvements.

### **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the General Manager, Manila Community Services District, 1901 Park Street, Arcata, California 95521

**MANILA COMMUNITY SERVICES DISTRICT**  
**Statement of Net Position**  
**June 30, 2017**

	<b>Governmental Activities</b>	<b>Business Type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 94,262	\$ 204,883	\$ 299,145
Net receivables	6,415	92,207	98,622
Prepayments	5,041	6,759	11,800
Inventory	-	10,163	10,163
Total current assets	<u>105,718</u>	<u>314,012</u>	<u>419,730</u>
Noncurrent assets:			
Restricted cash and cash equivalents	-	131,059	131,059
Internal balances	(190,341)	190,341	-
Net capital assets	1,181,997	987,496	2,169,493
Total noncurrent assets	<u>991,656</u>	<u>1,308,896</u>	<u>2,300,552</u>
Total assets	<u>\$ 1,097,374</u>	<u>\$ 1,622,908</u>	<u>\$ 2,720,282</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 3,097	\$ 62,905	\$ 66,002
Accrued liabilities	-	5,285	5,285
Deposits	1,350	21,686	23,036
Compensated absences	-	11,748	11,748
Refunds payable	-	2,102	2,102
Unearned advances	490	-	490
Unearned capital connections	-	30,485	30,485
Davis Grunsky Act loan due within one year	-	13,255	13,255
Total current liabilities	<u>4,937</u>	<u>147,466</u>	<u>152,403</u>
Noncurrent liabilities:			
Compensated absences	-	2,500	2,500
Total noncurrent liabilities	<u>-</u>	<u>2,500</u>	<u>2,500</u>
Total liabilities	<u>4,937</u>	<u>149,966</u>	<u>154,903</u>
<b>NET POSITION</b>			
Net investment in capital assets	1,181,997	974,241	2,156,238
Restricted for:			
Debt service	-	9,326	9,326
Capital projects	-	96,578	96,578
Teen programs	24,674	-	24,674
Unrestricted	(114,234)	392,797	278,563
Total net position	<u>1,092,437</u>	<u>1,472,942</u>	<u>2,565,379</u>
Total liabilities and net position	<u>\$ 1,097,374</u>	<u>\$ 1,622,908</u>	<u>\$ 2,720,282</u>

See Accompanying notes to the basic financial statements

**MANILA COMMUNITY SERVICE DISTRICT**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2017**

Functions/Programs	Program Revenues				Net (Expenses) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	District Government		
					Governmental Activities	Business-type Activities	Total
<b>District government:</b>							
<b>Governmental activities:</b>							
Parks and recreation	\$ 29,484	\$ 5,451	-	-	\$ (24,033)	-	\$ (24,033)
Community center	89,129	79,613	-	-	(9,516)	-	(9,516)
<b>Total governmental activities</b>	<b>118,613</b>	<b>85,064</b>	<b>-</b>	<b>-</b>	<b>(33,549)</b>	<b>-</b>	<b>(33,549)</b>
<b>Business-Type Activities:</b>							
Water	184,314	151,880	-	70,090	-	37,656	37,656
Wastewater	210,454	182,581	-	-	-	(27,873)	(27,873)
<b>Total business-type activities</b>	<b>394,768</b>	<b>334,461</b>	<b>-</b>	<b>70,090</b>	<b>-</b>	<b>9,783</b>	<b>9,783</b>
<b>Total District government</b>	<b>\$ 513,381</b>	<b>\$ 419,525</b>	<b>\$ -</b>	<b>\$ 70,090</b>	<b>(33,549)</b>	<b>9,783</b>	<b>(23,766)</b>
<b>General revenues:</b>							
<b>General revenues:</b>							
Property taxes					\$ 29,035	\$ 11,648	\$ 40,683
Unrestricted investment earnings					-	3,006	3,006
<b>Total general revenues</b>					<b>29,035</b>	<b>14,654</b>	<b>43,689</b>
<b>Change in net position</b>					<b>(4,514)</b>	<b>24,437</b>	<b>19,923</b>
Net position, beginning					1,096,951	1,448,505	2,545,456
<b>Net position, ending</b>					<b>\$ 1,092,437</b>	<b>\$ 1,472,942</b>	<b>\$ 2,565,379</b>

See accompanying notes to the basic financial statements

**MANILA COMMUNITY SERVICES DISTRICT**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2017**

	<b>General Fund</b>	<b>Teen Fund</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>			
Cash and investments	\$ 8,951	\$ -	\$ 8,951
Cash with County	85,311	-	85,311
Intergovernmental receivable	6,415	-	6,415
Prepayments	5,041	-	5,041
Due from other funds	-	24,674	24,674
	\$ 105,718	\$ 24,674	\$ 130,392
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 3,097	\$ -	\$ 3,097
Deposits	1,350	-	1,350
Due to other funds	24,674	-	24,674
Advances from other funds	190,341	-	190,341
Unearned advances	490	-	490
	219,952	-	219,952
Fund balances:			
Restricted for teen programs	-	24,674	24,674
Unassigned	(114,234)	-	(114,234)
	(114,234)	24,674	(89,560)
Total liabilities and fund balances	\$ 105,718	\$ 24,674	\$ 130,392
Total Governmental Fund Balances			\$ (89,560)
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds			1,181,997
Net Position of Governmental Activities			\$ 1,092,437

See accompanying notes to the basic financial statements



**MANILA COMMUNITY SERVICES DISTRICT**  
**Statements of Revenues, Expenditures, and**  
**Changes in Fund Balances**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2017**

	<u>General Fund</u>	<u>Teen Fund</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Rents	\$ 69,978	\$ -	\$ 69,978
Charges for services	4,110	-	4,110
Intergovernmental	-	-	-
Property taxes	29,035	-	29,035
Interest	786	-	786
Miscellaneous	10,189	-	10,189
	<hr/>	<hr/>	<hr/>
Total revenues	114,098	-	114,098
<b>EXPENDITURES</b>			
Current:			
Youth programs	-	-	-
Parks	25,488	-	25,488
Community center	65,970	-	65,970
	<hr/>	<hr/>	<hr/>
Total expenditures	91,458	-	91,458
Excess (deficiency) of revenues over expenditures	<hr/>	<hr/>	<hr/>
	22,640	-	22,640
Net change in fund balances	22,640	-	22,640
Fund balances, July 1	<hr/>	<hr/>	<hr/>
	(136,874)	24,674	(112,200)
Fund balances, June 30	<hr/>	<hr/>	<hr/>
	\$ (114,234)	\$ 24,674	\$ (89,560)

See accompanying notes to the basic financial statements

**MANILA COMMUNITY SERVICE DISTRICT  
Reconciliation of the Statement of Revenues,  
Expenditures and Changes in Fund Balances of  
Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2017**

Net Change in Fund Balances - Total Governmental Funds	<u>\$ 22,640</u>
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays of zero exceed depreciation (\$27,155) in the current period.	<u>(27,154)</u>
Net differences	<u>(27,154)</u>
Change in Net Position of Governmental Activities	<u>\$ (4,514)</u>

See accompanying notes to the basic financial statements

Manila Community Services District  
 Enterprise Fund  
 Statement of Net Position  
 June 30, 2017

<b>Assets:</b>	
Current assets:	
Cash	\$ 64,150
Cash equivalents	140,733
Accounts receivable, net	92,207
Prepaid expenses	6,759
Materials and supplies inventory	<u>10,163</u>
Total current assets	<u>314,012</u>
Restricted assets:	
Cash equivalents - debt service	9,326
Cash equivalents - capital connections	26,155
Cash equivalents - capital projects	<u>95,578</u>
Total restricted assets	<u>131,059</u>
Capital assets	
Capital assets not being depreciated	154,022
Capital assets being depreciated	5,953,596
Less accumulated depreciation	<u>(5,120,122)</u>
Total net capital assets	<u>987,496</u>
Other assets:	
Advances to other funds	<u>190,341</u>
Total other asset	<u>190,341</u>
<b>Total Assets</b>	<b><u>\$ 1,622,908</u></b>
<b>Liabilities and Net Assets:</b>	
Current liabilities:	
Accounts payable	\$ 62,905
Customer deposits	21,686
Accrued payroll liabilities	5,285
Refunds payable	2,102
Unearned capital connections	30,485
Compensated absences	11,748
Loans payable within one year	<u>13,255</u>
Total current liabilities	<u>147,466</u>
Noncurrent liabilities:	
Davis Grunsky loan payable	13,255
Compensated absences	2,500
Less loans payable within one year	<u>(13,255)</u>
Total noncurrent liabilities	<u>2,500</u>
<b>Total liabilities</b>	<b><u>149,966</u></b>
<b>Net Position</b>	
Net investment in capital assets	974,241
Restricted	105,904
Unrestricted	<u>392,797</u>
<b>Total Net Position</b>	<b><u>\$ 1,472,942</u></b>

See accompanying notes to the basic financial statements

**Manila Community Services District  
Proprietary Enterprise Fund  
Statement of Revenues, Expenses, and Changes in Net Position  
For the Fiscal Year Ended June 30, 2017**

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Operating Revenues:	
Water Sales	\$ 146,502
Sewer service fees	177,391
Other operating revenues	10,568
	<hr/>
Total operating revenues	334,461
	<hr/>
Operating expenses:	
Salaries, wages, and benefits	156,222
Administration	27,157
Maintenance	34,068
Professional services	30,886
Travel and utilities	34,206
Water purchases	74,970
Other expenses	-
Depreciation	36,821
	<hr/>
Total operating expenses	394,330
	<hr/>
Operating Income(Loss)	(59,869)
	<hr/>
Nonoperating Revenues (Expenses)	
Investment income	3,006
Property taxes	11,648
Interest expense	(438)
	<hr/>
Total Nonoperating Revenues (Expenses)	14,216
	<hr/>
Capital contributions	70,090
	<hr/>
Change in Net Position	24,437
	<hr/>
Net Position Beginning of Period	1,448,505
	<hr/>
Net Position End of Period	\$ 1,472,942
	<hr/> <hr/>

See accompanying notes to the basic financial statements

**Manila Community Services District**  
**Proprietary Enterprise Fund**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2017**

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Cash Flows From Operating Activities:	
Cash received from customers	\$ 337,872
Cash payments to suppliers for goods and services	(202,320)
Cash payments to employees for wages and benefits	<u>(154,232)</u>
Net cash provided by (used for) operating activities	<u>(18,680)</u>
Cash Flows From Noncapital Financing Activities:	
Property taxes collected	11,648
Advances to other funds	<u>13,981</u>
Net cash provided by (used for) noncapital financing activities	<u>25,629</u>
Cash Flows From Capital and Related Financing Activities:	
Principal payments on long-term obligations	(12,858)
Capital asset costs	(35,143)
Interest paid on long-term obligations	(438)
Proposition 1 capital grant	<u>9,072</u>
Net cash provided by (used for) capital and related financing activities	<u>(39,367)</u>
Cash Flows From Investing Activities:	
Investment income receipts	<u>3,006</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(29,412)
Cash and Cash Equivalents, Beginning of Period	<u>365,354</u>
Cash and Cash Equivalents, End of Period	<u><u>\$ 335,942</u></u>
<b>Reconciliation of operating income (loss) to net cash provided operating activities:</b>	
Operating income (loss)	\$ (78,638)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	36,821
Change in assets and liabilities:	
Decrease (increase) in receivables	(94)
Decrease (increase) in inventory	1,249
Decrease (increase) in capital connections	-
Increase (decrease) in accounts payable	17,896
Increase (decrease) in deposits	1,402
Increase in payroll liabilities	2,741
Increase (decrease) in compensated absences	<u>(57)</u>
Net Cash Provided By (Used For) Operating Activities	<u><u>\$ (18,680)</u></u>
<b>Noncash Financing Activities:</b>	
None	

See accompanying notes to the basic financial statements

# MANILA COMMUNITY SERVICES DISTRICT

## Notes to the Basic Financial Statements June 30, 2017

### 1. Summary of Significant Accounting Policies

#### A. Reporting Entity

The District is a Community Services District governed by an elected five member Board of Directors. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable.

There are no legally separate component units or entities for which the District is financially accountable

#### B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in activities) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely, to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

#### C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the *proprietary fund financial statements*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

# MANILA COMMUNITY SERVICES DISTRICT

## Notes to the Basic Financial Statements June 30, 2017

### 1. Summary of Significant Accounting Policies (continued)

#### C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Property taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government (which for this District is its community center operations and parks and recreation), except those required to be accounted for in another fund.

The *Teen Fund*, a major special revenue fund, is maintained to account for Youth Program activities. The District discontinued operation of the grant funded portion of its youth programs effective September 30, 2015.

The District reports the following major proprietary funds:

The *water fund* accounts for the operations of the District's water treatment and distribution system. The *wastewater fund* accounts for the operation of the District's wastewater collection activities.

The District applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued before November 30, 1989 in accounting for its proprietary and government-wide operations, and the provisions of GASB Statement Number 62, Codification of Accounting and Financial reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the District's water and wastewater function and other functions of the District. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise funds are charges to customers for sales and services. Operating expenses for the enterprise funds include the costs of sales and services, administration costs and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

# MANILA COMMUNITY SERVICES DISTRICT

## Notes to the Basic Financial Statements June 30, 2017

### 1. Summary of Significant Accounting Policies (Continued)

#### D. Assets, Liabilities, and Net Assets or Equity

##### 1. Deposits and Investments

The District is authorized by its most recent investment policy to invest in the State of California Local Agency Investment Fund, time deposits and savings and demand accounts and the Humboldt County Treasurer's Investment Fund.

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short term investments with original maturities of three months or less from the date of acquisition.

Investments for the District are reported at fair value. The State Treasurer's Investment Pool and the Humboldt County Treasurer's Investment Pool operate in accordance with appropriate state laws and regulations. The reported value of the pools is the same as the fair value of the pool shares.

##### 2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a nonspendable fund balance account in applicable government funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are not shown net of an allowance for uncollectibles.

Property taxes are levied as of March 1 on property values assessed as of the same date. State statutes provide that the property tax rate be limited generally to one percent of market value, be levied by only the County, and be shared by applicable jurisdictions. The County of Humboldt collects the taxes and distributes them to taxing jurisdictions on the basis of assessed valuations subject to voter-approved debt. Property taxes are due on November 1 and March 1, and become delinquent on December 10 and April 10. The District receives property taxes pursuant to an arrangement with the County known as the "Teeter Plan". Under the plan, the County assumes responsibility for the collection of delinquent taxes and pays the full allocation to the District. The District recognizes property tax revenues in the fiscal year in which they are due to the District.

##### 3. Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when used or consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These prepayments are offset by a nonspendable fund balance account in the governmental fund financial statements to indicate that prepayments are not available for appropriation.



**MANILA COMMUNITY SERVICES DISTRICT**

**Notes to the Basic Financial Statements  
June 30, 2017**

**1. Summary of Significant Accounting Policies (Continued)**

**D. Assets, Liabilities, and Net Assets or Equity (Continued)**

**4. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental-type or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Under the GASB 34 Implementation Rules, the District is a Phase 3 entity and was not required to record infrastructure assets existing or acquired prior to July 1, 2003 at the date these new financial reporting standards were implemented; and the District has not recorded such assets. The costs of normal maintenance and repairs that do not add to the value of asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of the business-type activities is included as part of the capitalized value of the assets constructed. Property, plant, and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	30 to 60
Plants	45 to 50
Mains and laterals	30
Machinery and equipment	5 – 15

**5. Compensated Absences and Other Post Employment Benefit Obligations**

It is the government's policy to permit employees to accumulate earned but unused vacation. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Other post employment benefit obligations are reported as incurred in the proprietary and government-wide financial statements using the accrual basis of accounting. The District does not provide any post-employment benefits such as retiree medical. The District provides no retirement plan benefits and is not a member of the Public Employees Retirement System (PERS),

**6. Long-term Obligations**

In the government-wide financial statements, and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net position.

**7. Fund Balances – Governmental Funds**

Fund balances for governmental funds are reported in classifications based primarily on the extent to which the District is bound to honor constraints about the specific purposes for which amounts in those funds can be spent. These classifications include (1) nonspendable, (2) restricted, (3) committed, (4) assigned and (5) unassigned amounts.

MANILA COMMUNITY SERVICES DISTRICT

Notes to the Basic Financial Statements  
June 30, 2017

7. Fund Balances – Governmental Funds (Continued)

Nonspendable amounts generally are items not expected to be converted into cash such as inventories and prepaid amounts. Restricted amounts include those where constraints placed on the use of resources are externally imposed by grantors, contributors, other governments, or by laws and regulations. Committed amounts are those amounts that can only be used for a specific purpose as determined by the District’s Board of Directors. Such committed amounts may be redeployed for other uses only by direction of the district’s Board of Directors. Assigned amounts are fund balance amounts constrained by the District’s intent to be used for specific purposes as determined by the District’s General Manager. Unassigned fund balance amounts is the residual classification of the general fund only,

When expenditures are incurred for which both restricted and unrestricted (committed, assigned or unassigned) amounts are available, the District considers restricted amounts to have been spent first. When expenditures are incurred for which any class of unrestricted fund balance could be used, the District considers committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts.

8. Comparative Data

Comparative total data for the prior year have been presented in order to provide an understanding of the changes in net assets. Also, certain amounts presented in the prior year data have been reclassified to be consistent with the current years' presentation.

2. Reconciliation of Government-Wide and Fund Financial Statements

A. Explanation of Certain Differences between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Position

The governmental fund balance sheet includes reconciliation between *fund balance – total governmental funds* and *net position – governmental activities* as reported in the government-wide statements of net assets. One element of that reconciliation explains that “capital assets are not financial resources and are not reported in the funds.” The details of this \$ 1,181,977 difference are as follows:

Capital assets	\$ 1,823,916
Less: Accumulated depreciation	<u>(641,919)</u>
Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net position – governmental activities</i>	<u>\$ 1,181,977</u>

B. Explanation of Certain Differences between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net changes in fund balances – total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$ 27,154 difference and other significant components of the difference are as follows:

Depreciation expense	<u>\$ (27,154)</u>
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u>\$ (27,154)</u>

**MANILA COMMUNITY SERVICES DISTRICT**

**Notes to the Basic Financial Statements  
June 30, 2017**

**3. Stewardship, Compliance, and Accountability**

**A. Budgetary Information**

Annual budgets are adopted on a basis of consistent with generally accepted accounting principles for all governmental funds. Appropriations lapse at fiscal year end. The appropriated budget is prepared by fund, function and department. The District Manager may make transfers of appropriations within a department. Transfers between departments and other changes require Board of Director's approval. The legal level of control is the department and fund level. The District made supplemental appropriations during the fiscal year. Encumbrance accounting is not employed in governmental funds.

**4. Detailed Notes on All Funds**

**A. Deposits and Investments**

Deposits and investments at June 30, 2017 consisted of the following:

Demand deposits and cash on hand	\$ 73,450
Investments with Humboldt County Treasurer	344,022
Investments with Local Agency Investment Fund	<u>12,732</u>
 Total deposits and investments	 <u>\$ 430,204</u>

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy for deposits is that they will be made only in institutions in California, they shall be insured or collateralized with United States backed securities, and time certificates of deposit shall have a maturity of less than five years. At June 30, 2017, none of the District's bank balances of \$ 85,000 was exposed to credit risk.

Investments - At June 30, 2017, the District had the following investments.

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
<i>Humboldt County Treasurer's Investment Fund</i>	<i>Average 953 days</i>	\$ 344,022
<i>Local Agency Investment Fund (LAIF)</i>	<i>Average 194 days</i>	<u>12,732</u>
 <i>Totals</i>		 <u>\$ 356,754</u>

The District categorizes its fair value investments within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. The fair value of the District's investment in the County Treasurer's Fund and the LAIF is the same as the fair value of the pools' shares.

*Interest Rate Risk -* As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy limits the District's investment portfolio to investments in securities having maturities less than five years at the time of purchase.

*Credit Risk -* State law limits investments in various securities to certain level of risk ratings issued by nationally recognized statistical rating organizations. It is the District's policy to comply with State law as regards securities ratings. The Local Agency Investment Fund (LAIF) and the Humboldt County Treasurer's Investment Fund are unrated.

**MANILA COMMUNITY SERVICES DISTRICT**

**Notes to the Basic Financial Statements  
June 30, 2017**

**4. Detailed Notes on All Funds (Continued)**

**A. Deposits and Investments (Continued)**

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of a counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's only investments are in the LAIF and the Humboldt County Treasurer's Investment Fund; and these investments are not evidenced by specific securities in the name of the District and are therefore not subject to custodial credit risk.

**B. Receivables**

Receivables as of year-end for the government's individual major and nonmajor funds in the aggregate, net of the applicable allowances for uncollectible accounts, are as follows:

	<u>General Fund</u>	<u>Teen Fund</u>	<u>Total Governmental</u>	<u>Water and Wastewater</u>	<u>Total Business- Type</u>
Governments	\$ -	\$	\$ -	\$ 58,489	\$ 58,489
Accounts	6,415	-	-	33,718	40,133
Totals	<u>\$ 6,415</u>	<u>\$ -</u>	<u>\$ 6,415</u>	<u>\$ 92,207</u>	<u>\$ 98,622</u>

**C. Internal Balances**

The balance of interfund loans was as follows at June 30, 2017.

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Advances- Long Term Amounts Enterprise fund	General	\$ 190,341
	Total	<u>\$ 190,341</u>

The District's policy is that the governmental fund shall make annual repayments of \$8,000 to the enterprise fund until the obligation is repaid. The interfund advance bears no interest, the advances were made to enable the District to conduct and perform certain governmental activities.

**MANILA COMMUNITY SERVICES DISTRICT**

**Notes to the Basic Financial Statements  
June 30, 2017**

**4. Detailed Notes on All Funds (Continued)**

**D. Capital Assets**

Capital asset activity relating to governmental activities for the year ended June 30, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated				
Land	\$ 740,898	\$ -	\$ -	\$ 740,898
Total capital assets, not being depreciated	<u>740,898</u>	<u>-</u>	<u>-</u>	<u>740,898</u>
Capital assets, being depreciated:				
Buildings	114,997	-	-	114,997
Machinery and equipment	67,233	-	-	67,233
Improvements	<u>900,788</u>	<u>-</u>	<u>-</u>	<u>900,788</u>
Total capital assets being depreciated	<u>1,083,018</u>	<u>-</u>	<u>-</u>	<u>1,083,018</u>
Less accumulated depreciation for:				
Buildings	(59,736)	(2,176)	-	(61,912)
Machinery and equipment	(48,681)	(2,411))	-	(51,092)
Improvements	<u>(506,347)</u>	<u>(22,568)</u>	<u>-</u>	<u>(528,915)</u>
Total accumulated depreciation	<u>(614,764)</u>	<u>(27,155)</u>	<u>-</u>	<u>(641,919)</u>
Total capital assets, being depreciated, net	<u>468,254</u>	<u>(27,155)</u>	<u>-</u>	<u>441,099</u>
Governmental activities capital assets, net	<u>\$ 1,209,152</u>	<u>\$ (27,155)</u>	<u>\$ -</u>	<u>\$ 1,181,997</u>

**MANILA COMMUNITY SERVICES DISTRICT**

**Notes to the Basic Financial Statements  
June 30, 2017**

**4. Detailed Notes on All Funds (Continued)**

**D. Capital Assets**

Capital asset activity relating to business-type activities for the year ended June 30, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-type activities:</b>				
Capital assets, not being depreciated				
Land and rights of way	\$ 86,584	\$ -	\$ -	\$ 86,584
Construction in progress	-	67,438	-	67,438
Total capital assets, not being depreciated	<u>86,584</u>	<u>67,438</u>	<u>-</u>	<u>154,022</u>
Capital assets, being depreciated:				
Water plant	99,780	8,275	-	108,055
Water transmission & distribution	234,933	-	-	234,933
Equipment	149,298	-	-	149,298
Wastewater leach fields	2,768,349	-	-	2,768,349
Wastewater pumping systems	1,432,231	-	-	1,432,231
Wastewater mains laterals	627,887	-	-	627,887
Wastewater tanks	439,499	-	-	439,499
Wastewater buildings and other	185,069	8,275	-	193,344
Total capital assets being depreciated	<u>5,937,046</u>	<u>16,550</u>	<u>-</u>	<u>5,953,596</u>
Less accumulated depreciation for:				
Water system and equipment	(462,207)	(9,039)	-	(471,246)
Wastewater leach fields	(1,940,901)	(27,582)	-	(1,968,483)
Wastewater pumping system	(1,432,231)	-	-	(1,432,231)
Wastewater tanks, mains, laterals	(1,062,894)	(200)	-	(1,063,094)
Buildings and other	(185,068)	-	-	(185,068)
Total accumulated depreciation	<u>(5,083,301)</u>	<u>(36,821)</u>	<u>-</u>	<u>(5,120,122)</u>
Total capital assets, being depreciated, net	<u>853,745</u>	<u>(20,271)</u>	<u>-</u>	<u>833,474</u>
Business-type activities capital assets, net	<u>\$ 940,329</u>	<u>\$ 47,167</u>	<u>\$ -</u>	<u>\$ 987,496</u>

**MANILA COMMUNITY SERVICES DISTRICT**

**Notes to the Basic Financial Statements  
June 30, 2017**

**4. Detailed Notes on All Funds (Continued)**

**D. Capital Assets (Continued)**

Depreciation expense was charged to functions/programs of the District as follows:

<b>Governmental activities:</b>	
Community center	\$ 25,714
Parks and recreation	<u>3,996</u>
Total depreciation expense-governmental activities	<u>\$ 27,155</u>
 <b>Business-type activities:</b>	
Water	\$ 6,979
Wastewater	<u>23,159</u>
Total depreciation expense-business type activities	<u>\$ 36,821</u>

**E. Long-Term Debt**

Davis Grunsky Act Loan – Enterprise Water System

The District in 1968 entered into a loan agreement with the State of California for a construction loan to finance improvements to the District's water system. The original loan amount as adjusted was \$301,892 and was to bear interest at 3.3 percent per annum. Under the arrangement, the District was permitted to defer payment of interest on the loan for the first 5 years with such interest to be repaid over the remaining 45 year term of the loan. The District was required to establish a reserve fund in an amount specified by the State. The District as an entity has pledged to make the loan principal and interest repayments; and that pledge is secured by a voter-approved override tax. The District is obligated to levy taxes or assessments for the loan repayments should it not have sufficient resources available to make the scheduled payments. Future debt service on the loan is:

*Davis Grunsky Act Loan- Water Enterprise (Continued)*

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	<u>\$ 13,255</u>	<u>\$ 408</u>	<u>13,663</u>
Totals	<u>\$ 13,255</u>	<u>\$ 408</u>	<u>\$ 13,663</u>

**MANILA COMMUNITY SERVICES DISTRICT**

**Notes to the Basic Financial Statements  
June 30, 2017**

**E. Long-Term Debt (Continued)**

*Changes in Long-term liabilities*

Long-term debt activity for the 2015 fiscal year was as follows:

<b>Business-Type Activities:</b>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reduction</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Davis-Grunsky Act Loan	\$ 26,113	\$ -	\$ 12,858	\$ 13,255	\$ 13,255
Compensated absences	<u>14,305</u>	<u>11,906</u>	<u>11,963</u>	<u>14,248</u>	<u>11,748</u>
Totals	<u>\$ 40,418</u>	<u>\$ 11,906</u>	<u>\$ 24,821</u>	<u>\$ 27,503</u>	<u>\$ 25,003</u>

**5. Other Information**

**A. Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the District carries insurance. The District, due to the costs of available coverage, participates as a member of the Special District Risk Management Authority (SDRMA) for purposes of general liability, property coverages and for workers compensation insurance.

SDRMA provides joint protection programs for public entities covering automobile, general liability, errors and omissions claims. Under the program, the District has a \$500 retention limit similar to a deductible with the SDRMA being responsible for losses above that amount up to \$2.5 million for liability combined single limit. Property coverage is also provided up to the replacement cost of the property with a combined total for SDRMA members of one billion dollars per occurrence.

The SDRMA provides also employee dishonesty coverage with limits of one million per loss. Boiler and machinery coverage is provided to members with coverage of up to \$100 million of replacement cost, and comprehensive and collision on selected vehicles. The District's obligations under the arrangement are to pay billed premiums for the specified coverages. The SDRMA may pay dividends to members or may make additional assessments depending on loss experience, but no dividends have been declared and no additional assessments have been levied.

The SDRMA provides workers compensation statutory insurance coverage and \$5 million for Employer's liability coverage subject to the terms, conditions, and exclusions provided in the memorandum of Coverage. Financial information pertaining to SDRMA can be obtained from its administrative offices at 1112 I Street, Suite 300, Sacramento, California 95814.

Liabilities of the District are reported in the statement of net assets when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The District's only exposure to claim liabilities would be for losses or additional assessments, if any, not covered by or imposed by SDRMA. There have been no significant changes in insurance coverages in fiscal 2015. Settlements have not exceeded coverage for each of the past three fiscal years. The District had no material uninsured claim liabilities at June 30, 2016 or 2017.



**MANILA COMMUNITY SERVICES DISTRICT**

**Notes to the Basic Financial Statements  
June 30, 2017**

**5. Other Information (Continued)**

**B. Contingencies and Commitments**

*Litigation.* The District is not involved in litigation incurred in the normal course of conducting District business. *Grants and allocations.* Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the county and state government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

**C. Public Employees Retirement System and Other Post- Employment Benefits Other Than Pensions**

The District does not participate in the Public Employees Retirement System (PERS), and provides no other benefits such as retiree medical plans.

**D. Segment information.**

The district has a separate agreement for a Davis Grunsky Loan used to provide financing for water system improvements. The District's water and wastewater departments are accounted for in a single fund, but the State of California may rely solely on the revenue generated by a particular activity for repayment of the loan. Summary information for each department is provided below. The water department operates the District's water supply system and the wastewater department operates the District's sewerage pumping, collection and treatment system.

**CONDENSED STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN NET POSITION:**

	<u>Water Department</u>	<u>Wastewater Department</u>
Operating revenues	\$ 151,880	\$ 182,581
Depreciation expense	6,979	29,842
Other operating expenses	<u>176,897</u>	<u>180,612</u>
Operating income (loss)	(31,996)	(27,873)
Non-operating revenues (expenses)		
Investment income	-	3,006
Property taxes	11,648	-
Capital planning grant	70,090	
Interest expense	<u>(438)</u>	<u>-</u>
Change in net position	<u>\$ 49,304</u>	<u>\$ (24,867)</u>

**E. Infrastructure Improvement Project Grant**

The District was awarded in fiscal 2017 a \$500,000 public water system improvement planning grant for the purpose of making water system improvements including project final plans and specifications, permitting costs, engineering and other related project costs.

**Required Supplementary Information  
Manila Community Services District  
Budgetary Comparison Schedule - General Fund  
For the Fiscal Year Ended June 30, 2017**

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<b>Fund Balance, July 1</b>	\$ (136,874)	\$ (136,874)	\$ (136,874)	\$ -
Resources (inflows):				
Rents:				
Community center	65,208	65,208	69,978	4,770
Charges for services:				
Recreation vehicles	3,500	3,500	3,760	260
Interest	-	-	786	786
Miscellaneous:				
Other	1,950	1,950	10,539	8,589
Property taxes	19,000	19,000	29,035	10,035
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Amounts available for charges to appropriations	(47,216)	(47,216)	(22,776)	24,440
<b>Charges to appropriations:</b>				
<b>Parks:</b>				
Personnel	7,481	7,481	11,314	(3,833)
Utilities	3,662	3,662	3,794	(132)
Adminsitration	4,304	4,304	4,116	188
Other costs	7,003	7,003	6,264	739
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total parks	22,450	22,450	25,488	(3,038)
<b>Community center:</b>				
Personnel	26,915	26,915	23,767	3,148
Utilities	4,592	4,592	5,948	(1,356)
Administration	4,426	4,426	3,738	688
Other costs	29,275	29,275	30,934	(1,659)
Public works	2,000	2,000	1,583	417
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total community center	67,208	67,208	65,970	1,238
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total charges to appropriations	89,658	89,658	91,458	(1,800)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Fund Balances June 30, 2017	<u>\$ (136,874)</u>	<u>\$ (136,874)</u>	<u>\$ (114,234)</u>	<u>\$ 22,640</u>

**Required Supplementary Information**  
**Manila Community Services District**  
**Budgetary Comparison Schedule - General Fund**  
**Note to RSI**  
**For the Fiscal Year Ended June 30, 2017**

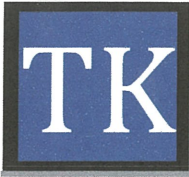
**Note A. Explanation of Difference between Budgetary Inflows and Outflows and GAAP Revenues and expenditures:**

**Sources/inflows resources:**

Actual amounts "available for appropriation" from budgetary comparison schedule:	\$ (22,776)
Differences - budget to GAAP:	
The fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes	136,874
	136,874
Total revenues as reported in the statement of revenues, expenditures and changes in fund balances - governmental funds	\$ 114,098
	114,098

**Manila Community Services District**  
**Combining Schedule of Water and Sewer Department Revenues, Expenses**  
**and Changes in Net Assets**  
**For The Fiscal Year Ended June 30, 2017**

	Department		Totals
	Water System	Sewer System	
Operating Revenues:			
Sewer service fees	\$ -	\$ 177,391	\$ 177,391
Water sales	146,502	-	146,502
Other revenues	5,378	5,190	10,568
Total operating revenues	<u>151,880</u>	<u>182,581</u>	<u>334,461</u>
Operating Expenses			
Salaries, wages, and benefits	60,218	96,004	156,222
Administration	10,810	16,347	27,157
Maintenance	11,827	22,241	34,068
Professional services	15,076	15,810	30,886
Travel and utilities	3,996	30,210	34,206
Water purchases	74,970	-	74,970
Other expenses	-	-	-
Depreciation	6,979	29,842	36,821
Total operating expenses	<u>183,876</u>	<u>210,454</u>	<u>394,330</u>
Operating Income (Loss)	<u>(31,996)</u>	<u>(27,873)</u>	<u>(59,869)</u>
Nonoperating Revenues (Expenses)			
Investment income	-	3,006	3,006
Property taxes	11,648	-	11,648
Interest expense	(438)	-	(438)
Total nonoperating revenues (expenses)	<u>11,210</u>	<u>3,006</u>	<u>14,216</u>
Capital contributions:			
Proposition 1 grant	<u>70,090</u>	<u>-</u>	<u>70,090</u>
Change in Net Position	<u>\$ 49,304</u>	<u>\$ (24,867)</u>	<u>\$ 24,437</u>



**Terry E. Krieg, CPA**  
**Certified Public Accountant**

**Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based On an Audit of Financial Statements Performed in Accordance With Government Auditing Standards**

Independent Auditor's Report

President and Members  
Of the Board of Directors  
Manila Community Services District  
Arcata, California

I have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the Manila Community Services District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Manila Community Services District's basic financial statements, and have issued my report thereon dated July 28, 2017 which report was qualified as to all opinion units except for the Teen Fund as regards the ability of the General Fund to repay an interfund loan to the District's enterprise fund.

**Internal Control over Financial Reporting**

In planning and performing my audit of the financial statements, I considered Manila Community Services District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Manila Community Services District's internal control. Accordingly, I do not express an opinion on the effectiveness of the Manila Community Services District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Manila Community Services District's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

**Purpose of Report**

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose,

  
Terry E. Krieg, CPA  
Santa Rosa, California  
July 26, 2017