

RANCHO MURIETA COMMUNITY SERVICES DISTRICT

COMMUNITY FACILITIES DISTRICT NO. 1

COMPONENT UNIT FINANCIAL STATEMENTS

JUNE 30, 2013

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 1
JUNE 30, 2013**

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*Larry Bain, CPA,
An Accounting Corporation
2148 Frascati Drive
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rancho Murieta Community Services District
Community Facilities District No. 1
Rancho Murieta, California

We have audited the accompanying financial statements of the governmental activities and the major fund of Rancho Murieta Community Services District, Community Facilities No.1 (CFD), a component unit of the Rancho Murieta Community Services District, as of and for the fiscal year ended June 30, 2013, which collectively comprise the CFD'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 the 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.

Auditors' Responsibility

Our Responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes 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, we 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 financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Rancho Murieta Community Services District, Community Facilities District No.1 as of June 30, 2013, and the respective changes in financial position, thereof for the fiscal year then ended in conformity with the accounting principles generally accepted in the United States of America.

Other Matters*Required Supplementary Information*

The CFD has not presented the Management Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Other Information

We have also issued our report dated September 23, 2013 on our consideration of the CFD's internal control over financial reporting. That report should be read in conjunction with this report in considering our audit.

A handwritten signature in black ink, appearing to read "Larry Bain".

*Larry Bain, CPA,
An Accounting Corporation
September 23, 2013*

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT
COMMUNITY FACILITIES DISTRICT NO.1**

**STATEMENT OF NET POSITION
JUNE 30, 2013**

Current Assets	
Cash and investments	\$ 2,637,021
Assessments receivable	171,505
Other Assets	
Deferred charges-net of accumulated amortization	99,821
Total Assets	<u>\$ 2,908,347</u>
Current Liabilities	
Accounts payable	\$ 3,483
Due to others	50,835
Interest payable	34,588
Total Current Liabilities	<u>88,906</u>
Noncurrent Liabilities	
Due in one year	800,000
Due in more than one year	1,730,000
Total Liabilities	<u>2,618,906</u>
Net Position	
Restricted	289,441
Total Net Position	<u>\$ 289,441</u>

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT
COMMUNITY FACILITIES DISTRICT NO.1**

**STATEMENT OF ACTIVITIES
JUNE 30, 2013**

	<u>Expenses</u>	<u>Program Revenues Capital Grants and Contributions</u>	<u>Total</u>
Governmental Activities:			
General government	\$ 59,342	\$ 1,515,667	\$ 1,456,325
Interest expense	148,420		(148,420)
Total Governmental Activities	<u>\$ 207,762</u>	<u>\$ 1,515,667</u>	<u>1,307,905</u>

General Revenues:	
Investment income	<u>601</u>
Total general revenues	<u>601</u>
Change in net position	1,308,506
Net position - beginning	<u>(1,019,065)</u>
Net position - ending	<u>\$ 289,441</u>

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT
COMMUNITY FACILITIES DISTRICT NO.1**

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2013**

Assets

Cash and investments	\$ 2,637,021
Assessments receivable	<u>171,505</u>
Total Assets	<u><u>\$ 2,808,526</u></u>

Liabilities and Fund Balances

Liabilities

Accounts payable	\$ 3,483
Due to others	50,835
Deferred Revenue	<u>5,564</u>
Total Liabilities	<u>59,882</u>

Fund Balance

Fund balances	
Restricted for debt service	<u>2,748,644</u>
Total Fund Balance	<u>2,748,644</u>
Total Liabilities and Fund Balance	<u><u>\$ 2,808,526</u></u>

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT
COMMUNITY FACILITIES DISTRICT NO.1**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO STATEMENT OF NET POSITION
JUNE 30, 2013**

Fund Balances of Governmental Funds	\$ 2,748,644
Amounts reported for governmental activities in the statement of net position are different because:	
Debt issuance costs are current expenses in the funds, but are deferred assets in the statement of net position.	99,821
Deferred revenues are not available to pay for current-period expenditures and therefore are deferred in the funds.	5,564
Some liabilities, including long-term debt and accrued interest are not due and payable in the current period and therefore are not reported in the funds.	<u>(2,564,588)</u>
Net position of governmental activities	<u><u>\$ 289,441</u></u>

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT
COMMUNITY FACILITIES DISTRICT NO.1**

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
JUNE 30, 2013**

Revenues	
Assessments	\$ 1,698,527
Fines, forfeitures, penalties	353,549
Investment income	<u>601</u>
Total Revenues	<u>2,052,677</u>
Expenditures	
Current:	
Administration	26,126
Debt Service	
Principal	760,000
Interest	<u>158,490</u>
Total Expenditures	<u>944,616</u>
Net Change in Fund Balance	1,108,061
Fund Balance, July 1, 2012	<u>1,640,583</u>
Fund Balance, June 30, 2013	<u><u>\$ 2,748,644</u></u>

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT
COMMUNITY FACILITIES DISTRICT NO.1**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2013**

Net Change in Fund Balances - Total Governmental Funds	\$ 1,108,061
Amounts reported for governmental activities in the Statement of Activities differs from the amounts reported in the Statement of Revenues, Expenditures and Changes in Fund Balances because:	
Governmental funds report the effect of issuance costs, premiums and similar items when debt is first issued, whereas these amounts are deferred and amortized in the government-wide statements.	(33,216)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(536,409)
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	760,000
The change in accrued interest is recorded as a current liability in the statement of activity, however interest expense is recorded when paid in the governmental funds.	<u>10,070</u>
Change in net position of governmental activities	<u><u>\$ 1,308,506</u></u>

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT
COMMUNITY FACILITIES DISTRICT NO.1**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Rancho Murieta Community Services District, Community Services District No. 1 conform to accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA), as applied to governmental units. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the CFD's accounting policies are described below.

A. Reporting Entity

The Rancho Murieta Community Services District, Community Facilities District No. 1 (CFD) was formed in March 1, 1991, by resolution of the Rancho Murieta Community Services District's Board of Directors for the sole purpose of acquiring and constructing water and sewer facilities that will benefit the inhabitants within the Rancho Murieta Community. In order to finance the expansion of water and sewer facilities, special tax bonds totalling \$12,925,000 were issued pursuant to the Mello-Roos Community Facilities Act of 1982.

As of June 30, 1997, all acquisitions and constructed facilities were completed and transferred to the Rancho Murieta Community Services District. Additional construction costs incurred by the CFD are funded by developers under shortfall agreements.

The CFD, a component unit of Rancho Murieta Community Services District, is a legally constituted governmental entity governed by the Board of Directors of the Rancho Murieta Community Services District. The financial records of the CFD are maintained by the Rancho Murieta Community Services District.

The financial statements present only the financial position and changes in financial position of the CFD and are not intended to present fairly the financial position of Rancho Murieta Community Services District and the changes in its financial position in conformity with accounting principles generally accepted in the U.S.

B. Basis of Presentation

Government-wide Statements: The Statement of Net Assets and the Statement of Activities include the financial activities of the overall CFD government. Eliminations are made to minimize the double accounting of internal activities.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the CFD's activities. Direct expenses are those that are specially associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the CFD's funds. Separate statements for each governmental fund are presented. The emphasis of fund financial statements is on major individual funds, each of which is displayed in a separate column.

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT
COMMUNITY FACILITIES DISTRICT NO.1**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Major Funds:

GASB Statement No.34 defines major funds and requires that the CFD's major governmental type funds be identified and presented separately in the fund financial statements. Major funds are defined as funds that have assets, liabilities, revenues, or expenditures equal to ten percent of their fund- type total and five percent of the total for all fund types. The CFD has determined that all its funds are major funds.

The CFD reported the following major governmental fund in the accompanying component unit financial statements. This fund is also presented in the governmental units basic financial statements as a fiduciary fund type.

Debt Service Fund- The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, long-term debt principle and interest for the special assessment debt with no governmental commitment.

D. Basis of Accounting:

The government-wide financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

Governmental Funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measureable and available*.

The CFD considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after fiscal year-end. Expenditures are recorded when related fund liability is incurred, except for principle and interest on long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions under capital leases are reported as *other financing sources*.

Non-exchange transactions, in which the CFD gives or receives value without directly receiving or giving equal value in exchange, include grants, entitlements, and donations, are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Under the terms of grant agreements, the CFD funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. The CFD's policy is to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

E. Budget and Budgetary Accounting

The CFD does not maintain a budget for the Debt Service Fund.

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT
COMMUNITY FACILITIES DISTRICT NO.1**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America as prescribed by the GASB and the American Institute of Certified Public Accountants (AICPA), requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

G. Net Assets/Fund Equity

Government-wide Financial Statements

Restricted Net Assets - This amount consists of amounts restricted from external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Assets- This amount is all net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net assets”.

Fund Financial Statements

Fund Equity- Restricted fund balance of the governmental fund is created to satisfy the debt covenant reserve, not available for future expenditures. The assigned fund balance is the amount needed to make the current portion of the debt service payment and the unassigned portion is the remaining amount not restricted or assigned.

NOTE 2: CASH AND INVESTMENTS

Deposits with financial institutions	\$ 1,752,723
Investments	<u>884,298</u>
Total cash and investments - restricted	<u><u>\$ 2,637,021</u></u>

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT
COMMUNITY FACILITIES DISTRICT NO.1**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

A. Investments Authorized by the California Government Code and the District's Investment Policy

The table below identifies the **investment types** that are authorized for the Rancho Murieta Community Services District Community Facilities District No 1. (District) by the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address **interest rate risk**, **credit risk** and **concentration of credit risk**. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District investment policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Percentage of Portfolio</u>	<u>Investment in One Issuer</u>
Investment pools authorized under CA			
Statutes governed by Government Code	N/A	None	\$40 million
U.S. Treasury Obligations	5 years	None	None
Bank Savings Accounts	N/A	25%	None
Federal Agencies	5 years	75%	None
Commercial Paper	180 days	20%	None
Negotiable Certificates of Deposit	180 days	20%	None
Re-Purchase Agreements	180 days	20%	None
Corporate Debt	5 years	25%	None

B. Investments Authorized by Debt Agreements

Investments held by trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy. The Table below identifies the investment types that are authorized for investments held by trustees. The table also identifies certain provisions of the debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Investment pools authorized under CA			
Statues governed by Government Code	N/A	None	\$40 million
U.S. Treasury Obligations	5 years	None	None
Bank Savings Account	N/A	25%	None
Federal Agencies	5 years	75%	None
Commercial Paper	180 days	20%	None
Negotiable Certificates of Deposit	180 days	20%	None
Re-purchase Agreements	180 days	20%	None
Corporate Debt	5 years	25%	None
Money Market Accounts	N/A	None	None

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT
COMMUNITY FACILITIES DISTRICT NO.1**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

C. Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investment maturity:

Investment Type	Totals	Remaining Maturity (in Months)				
		12 Months or Less	13-24 Months	25-36 Months	49-60 Months	More Than 60 Months
CAMP Investment Pool*	\$ 8,298	\$ 8,298	\$ -	\$ -	\$ -	\$ -
Held by Trustee:						
Money Market*	876,000	876,000	-	-	-	-
Totals	<u>\$ 884,298</u>	<u>\$ 884,298</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

*Not subject to categorization

D. Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfil its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) California Government Code, the District's investment policy, or debt agreements, and the actual rating as of fiscal year end for each investment type.

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End			
				AAA	AA	A	Not Rated
CAMP Investment Pool	\$ 8,298	N/A	\$ -	\$ -	\$ -	\$ -	\$ 8,298
Held by Trustee:							
Money Market	<u>876,000</u>	N/A	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>876,000</u>
Total investments	<u>\$ 884,298</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 884,298</u>

E. Concentration of Credit Risk

The investment policy of the District contains limitations on the amount that can be invested in any one issuer. There are no investments in any one issuer (other than money market fund reserve) that represent 5% or more of total District investment.

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT
COMMUNITY FACILITIES DISTRICT NO.1**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

F. Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposit or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment of collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits; The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the government unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the District's deposits by pledging first deed mortgage notes having a value of 150% of the secured public deposits.

At June 30, 2013, \$1,502,723 of the District's deposits, with financial institutions, in excess of federal depository insurance limits, were held in collateralized accounts.

NOTE 3: SPECIAL ASSESSMENTS RECEIVABLE

Assessments are levied by the CFD against property owners and collected through the secured property tax rolls of the County of Sacramento. Assessments receivable represent the amount assessed to the property owners to bond principle and interest. In the event property owners are delinquent in their payments, the CFD is required to initiate foreclosure proceedings within 150 days following the date of delinquency. Delinquent assessment receivables were \$171,505 at June 30, 2013. The District refers pending cases to the CFD's legal counsel for collection.

NOTE 4: SPECIAL ASSESSMENT DEBT WITH NO GOVERNMENT COMMITMENT

On March 7, 1991, the District issued assessment bonds totaling \$12,925,000 under the "Mello-Roos Community Facilities Act of 1982". On October 1, 2002 the original bonds were refunded and defeased by issuing \$8,760,000 in special tax refunding bonds and applying the original bond reserve funds and redemption account funds to the redemption. The Bonds are not a general obligation of the District, but are limited obligations of the District and the CFD payable solely from and secured by the special taxes pledged therefore. Bond principle is paid annually on October 1 of each year and interest is paid semi annually on April 1 and October 1 beginning in 2003 and ending in the 2016 fiscal year. Future minimum debt service requirements are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2014	\$ 800,000	\$ 138,350	\$ 938,350
2015	840,000	95,150	935,150
2016	890,000	48,950	938,950
Total	<u>\$ 2,530,000</u>	<u>\$ 282,450</u>	<u>\$ 2,812,450</u>

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT
COMMUNITY FACILITIES DISTRICT NO.1**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 5: CHANGES IN LONG-TERM DEBT

Long-term liabilities activity for the fiscal year ended June 30, 2013, was as follows:

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Due within One Year
Special Assessment Debt					
No Governmental Commitment	\$ 3,290,000	\$ -	\$ 760,000	\$ 2,530,000	\$ 800,000
Total	<u>\$ 3,290,000</u>	<u>\$ -</u>	<u>\$ 760,000</u>	<u>\$ 2,530,000</u>	<u>\$ 800,000</u>

NOTE 6: RESERVE FOR BOND SERVICE

By the terms of the bond indenture, \$876,000 of the proceeds of the bond issue plus an additional deposit by the District was set aside for the purpose of paying any delinquent bond interest and principle payments. In the event the monies expended from this trust fund are for any delinquent payments, the CFD is obligated to pursue legal means to cause the redemption of the delinquent payments by the property owner(s) or force sale of the property wherein the monies shall be used to reimburse the reserve fund for the delinquent payments made. At June 30, 2013, the CFD had \$876,000 invested in the bond reserve fund.

NOTE 7: SUBSEQUENT EVENT

Subsequent to fiscal year end the Community Facilities District accumulated sufficient cash to prepay the \$2,530,000 outstanding special assessment debt. The Community Facilities District also terminated assessing properties, used to pay for the special assessment debt, starting with the 2013/14 fiscal year tax roll.

*Larry Bain, CPA,
An Accounting Corporation
2148 Frascati Drive
El Dorado Hills, CA 95762*

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Board of Directors
Rancho Murieta Community Services District
Community Facilities District No. 1
Rancho Murieta, California

We have audited the Financial Statements of the Rancho Murieta Community Services District CFD #1 (CFD) as of and for the fiscal year ended June 30, 2013, and have issued our report thereon dated September 23, 2013. In our audit report we issued an unqualified opinion. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control over Financial Reporting

In planning and performing our audit, we considered CFD's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the CFD's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the CFD's internal control over financial reporting.

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 a combination of deficiencies in internal control, such that there is a reasonable possibility that material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal controls over financial reporting and the result of that testing, and not to provide an opinion on the effectiveness of the CFD's internal control. This report is an integral part of an audit performed in accordance with auditing standards generally accepted in the United States of America in considering the CFD's internal control over financial reporting accordingly this report is not suitable for any other purpose.

This report is intended solely for the information and use of the Board of Directors, management, the Sacramento County Auditor Controller's Office and the Controller's Office of the State of California and is not intended to be and should not be used by anyone other than these specified parties.

*Larry Bain, CPA,
An Accounting Corporation
September 23, 2013*

