

RANCHO MURIETA COMMUNITY SERVICES DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 2014-1
COMPONENT UNIT FINANCIAL STATEMENTS
JUNE 30, 2018

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 2014-1
JUNE 30, 2018**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rancho Murieta Community Services District
Community Facilities District No. 2014-1
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 District No. 2014-1 (CFD 2014-1), a component unit of the Rancho Murieta Community Services District, as of and for the fiscal year ended June 30, 2018, which collectively comprise the CFD 2014-1'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. 2014-1 as of June 30, 2018, 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 2014-1 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.

*Larry Bain, CPA,
An Accounting Corporation
November 22, 2017*

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 2014-1**

**STATEMENT OF NET POSITION
JUNE 30, 2018**

Current Assets		
Restricted cash and investments	\$	440,949
Assessments receivable		1,438
Interest receivable		481
Prepaid expense		1,604
Due from other government		295
Noncurrent assets		
Restricted cash and investments		396,689
Special assessment receivables		5,568,409
Total Assets	\$	<u>6,409,865</u>
Liabilities		
Current		
Accounts payable	\$	205
Accrued interest payable		87,187
Total Current Liabilities		<u>87,392</u>
Noncurrent		
Special assessment debt		<u>5,960,000</u>
Total Liabilities		<u>6,047,392</u>
Net Position		
Restricted		<u>362,473</u>
Total Net Position	\$	<u>362,473</u>

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 2014-1**

**STATEMENT OF ACTIVITIES
JUNE 30, 2018**

	Expenses	Program Revenues Capital Grants and Contributions	Total
Governmental Activities:			
Community facilities district	\$ 19,618	\$ 122,184	\$ 102,566
Interest expense	261,560		(261,560)
Total Governmental Activities	\$ 281,178	\$ 122,184	(158,994)
General Revenues:			
Other revenue			131
Investment income			4,000
Total general revenues			4,131
Change in net position			(154,863)
Net position - beginning			556,508
Prior period adjustment			(39,172)
Net position - ending			\$ 362,473

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 2014-1**

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2018**

Assets

Current

Restricted cash and investments	\$ 440,949
Assessments receivable	1,438
Interest receivable	481
Prepaid expense	1,604
Due from other governments	295

Non-Current

Restricted cash and investments	396,689
Special assessments	5,568,409

Total Assets	\$ 6,409,865
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Liabilities, Deferred Inflows of Resources and Fund Balances

Liabilities

Due to other governments	\$ 205
Total Liabilities	205

Deferred inflows of resources:

Unavailable revenues-special assessments	5,568,409
Total Deferred Inflows of Resources	5,568,409

Fund Balance

Fund balances

Restricted for CFD # 2014-1	841,251
Total Fund Balance	841,251

Total Liabilities Deferred Inflows of Resources and Fund Balance	\$ 6,409,865
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**RANCHO MURIETA COMMUNITY SERVICES DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 2014-1**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO STATEMENT OF NET POSITION
JUNE 30, 2018**

Fund Balances of Governmental Funds	\$ 841,251
Amounts reported for governmental activities in the statement of net position are different because:	
Certain revenues are not available to pay for current period expenditures and therefore are not reported in the funds.	5,568,409
Certain 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>(6,047,187)</u>
Net position of governmental activities	<u><u>\$ 362,473</u></u>

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 2014-1**

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Revenues		
Tax and assessments	\$	122,184
Other revenue		131
Investment income		4,000
Total Revenues		<u>126,315</u>
Expenditures		
Current:		
Administration		19,618
Debt Service		
Principal		-
Interest		261,560
Total Expenditures		<u>281,178</u>
Net Change in Fund Balance		<u>(154,863)</u>
Fund Balance, July 1, 2017		<u>1,035,286</u>
Prior Period Adjustment		<u>(39,172)</u>
Fund Balance, June 30, 2018	\$	<u><u>841,251</u></u>

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 2014-1**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Net Change in Fund Balances - Total Governmental Funds	\$ (154,863)
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:	
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	-
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.	-
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.	-
Change in net position of governmental activities	<u>\$ (154,863)</u>

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 2014-1**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Rancho Murieta Community Services District, Community Services District No. 2014-1 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 2014-1's accounting policies are described below.

A. Financial Reporting Entity

The Rancho Murieta Community Services District, Community Facilities District No. 2014-1 (Rancho North/Murieta Gardens) was formed on September 5, 2014, by resolution of the Rancho Murieta Community Services District's Board of Directors for the sole purpose of acquiring and constructing water facilities that will benefit the inhabitants within the Rancho Murieta Community. In order to finance the expansion of water facilities, special tax bonds totalling \$5,960,000 were issued pursuant to the Mello-Roos Community Facilities Act of 1982.

During the 2016/17 fiscal year, the new water facility was paid for with CFD 2014-1 bond proceeds and transferred to the Rancho Murieta Community Services District. Additional construction costs were funded by developers under financing agreements and by the Rancho Murieta Community Services District.

The CFD 2014-1, 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 2014-1 are maintained by the Rancho Murieta Community Services District staff.

The financial statements present only the financial position and changes in financial position of the CFD 2014-1 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 Position and the Statement of Activities include the financial activities of the overall CFD 2014-1 government. The CFD 2014-1 does not have any business-type activities.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the CFD 2014-1'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 2014-1'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. 2014-1**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and 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 2014-1 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 2014-1 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 2014-1 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 position available to finance the program. The CFD 2014-1's policy is to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

D. Budget and Budgetary Accounting

The CFD 2014-1 is not required to adopt an annual appropriated budget but does, however, adopt a budget for management purposes. Therefore, no budgetary comparison is required.

E. Restricted Assets

CFD loan assets as well as certain resources set aside for loan repayment, are classified as restricted assets on the balance sheet because their use is limited by loan covenants.

F. Deferred Inflows of Resources

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This financial statement element represents revenues associated with assessments receivables that will not be recognized until future periods.

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 2014-1**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. 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.

H. Net Position/Fund Equity

Government-wide Financial Statements

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

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

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	\$ 440,949
Investments	<u>396,689</u>
Total cash and investments	<u><u>\$ 837,638</u></u>

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 2014-1**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

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. 2014-1. (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. 2014-1**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

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:

<u>Investment Type</u>	<u>Totals</u>	<u>Remaining Maturity (in Months)</u>	
		<u>12 Months or Less</u>	<u>13-48 Months</u>
Treasury funds	\$ 396,689	\$ 396,689	\$ -
Totals	<u>\$ 396,689</u>	<u>\$ 396,689</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.

<u>Investment Type</u>	<u>Amount</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Fiscal Year End</u>	
				<u>AAA</u>	<u>Not Rated</u>
Treasury funds	\$ 396,689	N/A	\$ -	\$ 396,689	\$ -
Total investments	<u>\$ 396,689</u>		<u>\$ -</u>	<u>\$ 396,689</u>	<u>\$ -</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. 2014-1**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

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, 2018, \$192,754 of the District's deposits with financial institutions were in excess of federal depository insurance limits required to be held in collateralized accounts.

NOTE 3: SPECIAL ASSESSMENTS RECEIVABLE

The CFD 2014-1 started levying Assessments against property owners during the 2016/17 fiscal year. The assessments are collected through the secured property tax rolls of the County of Sacramento. Assessments receivable represent the amounts to be assessed to the property owners to pay bond principle. In the event property owners are delinquent in their payments, the CFD 2014-1 is required to initiate foreclosure proceedings within 150 days following the date of delinquency. The CFD 2014-1 will refer pending delinquency cases to the CFD 2014-1's legal counsel for collection.

NOTE 4: SPECIAL ASSESSMENT DEBT

The Rancho Murieta Community Services District adopted a resolution for the formation of Rancho Murieta Community Services District Community Facilities District No. 2014-1 (Rancho North/Murieta gardens) ("CFD No. 2014-1"). CFD No. 2014-1 was formed as part of a financing plan for public infrastructure Facilities and other governmental Facilities to support development of a hotel, commercial, residential and mixed use properties being developed on approximately 828 acres of land within the District boundaries of CFD No. 2014-1. On January 29, 2015 bonds in the amount of \$5,960,000 were issued to finance the costs of the Facilities and to finance costs associated with the issuance of bonds. During the 2014-15 fiscal year a special tax was approved by voters and has been authorized by the Board of Directors to be levied on lots and parcels within CFD No. 2014-1 commencing with the fiscal year 2016-17 fiscal year tax levy. Proceeds from the Special Tax will be used to repay the bonded indebtedness and associated costs and to pay directly for the acquisition or construction of authorized Facilities.

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 2014-1**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 4: SPECIAL ASSESSMENT DEBT (Continued)

\$5,960,000 CFD 2014-1 bonds are due in annual payments of \$154,029 to \$391,560 through September 1, 2044, with interest at 4.4% per annum payable from revenues generated through ad valorem tax assessed by the CFD 2014-1 against properties located within the boundaries of the CFD 2014-1.

Long-term liabilities activity for the fiscal year ended June 30, 2018, was as follows:

	Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018	Due within One Year
Special Assessment Debt Series 2014-1	\$ 5,960,000	\$ -	\$ -	\$ 5,960,000	\$ -
Total	<u>\$ 5,960,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,960,000</u>	<u>\$ -</u>

Debt service requirements to maturity are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2019	\$ 130,000	\$ 261,560	\$ 391,560
2020	130,000	258,310	388,310
2021	135,000	254,735	389,735
2022	140,000	250,685	390,685
2023	145,000	246,310	391,310
2024-2028	800,000	1,151,750	1,951,750
2029-2033	975,000	973,826	1,948,826
2034-2038	1,230,000	720,813	1,950,813
2039-2043	1,550,000	400,189	1,950,189
2044-2045	725,000	52,009	777,009
Totals	<u>\$ 5,960,000</u>	<u>\$ 4,570,187</u>	<u>\$ 10,530,187</u>

NOTE 5: RESERVE FOR BOND SERVICE

By the terms of the bond indenture, \$392,831 of the proceeds from the bond issue have been set aside for the purpose of paying any delinquent bond interest and principle payments. An additional \$283,399 was set aside as a source of funds to pay interest expense on the loan, prior to the CFD receiving assessment income.

