

RANCHO SANTA FE COMMUNITY SERVICES DISTRICT

FINANCIAL STATEMENTS

JUNE 30, 2018

ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2018

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Rancho Santa Fe Community Services District
Encinitas, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Rancho Santa Fe Community Services District (District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider 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 presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and remaining aggregate fund information of the Rancho Santa Fe Community Services District as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows 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 and the budgetary comparison schedule – General Fund, identified as Required Supplementary Information (RSI) in the accompanying table of contents, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to RSI in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the RSI because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

White Nelson Dick Evans LLP

Carlsbad, California
November 6, 2019

Rancho Santa Fe Community Services District

Management's Discussion and Analysis

June 30, 2018

This section of the Rancho Santa Fe Community Services District's (District) annual financial report presents an analysis of the District's financial performance during the fiscal year ended June 30, 2018. This information is presented in conjunction with the audited basic financial statements, which follows this section.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2017-2018

- The assets of the District exceeded liabilities at the close of the 2017-2018 fiscal year by \$39,582,369 (net position). Of this amount, \$6,151,433 (unrestricted net position) may be used to meet ongoing obligations to citizens and creditors, and \$33,430,936 is invested in capital assets.
- Total revenues of the District decreased for the close of the 2017-2018 fiscal year by \$533,419.
- Total expenses of the District increased for the close of the 2017-2018 fiscal year by \$20,558.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components, government-wide financial statements, fund financial statements and notes to the financial statements. This report also includes additional required supplementary information in addition to the basic financial statements.

REQUIRED FINANCIAL STATEMENTS

Government – Wide Financial Statements are designed to provide readers with a broad overview of District finances, in a manner similar to a private-sector business, and includes the Governmental Activities (the landscape maintenance, security services, and undergrounding utilities services) and the Business-type Activities (the Sewer Improvement District).

The Statement of Net Position presents information on all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (Assets) and the obligations to District creditors (Liabilities). Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities presents information showing how net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g. uncollected taxes).

Both of these government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a portion of their costs through user fees and charges (business-type activities). The governmental activities of the District are roadside landscape maintenance and security services. The business-type activities of the District are sewer services.

Rancho Santa Fe Community Services District

Management's Discussion and Analysis (Continued)

June 30, 2018

Fund Financial Statements are groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and to demonstrate finance-related legal compliance. All of the District's funds can be grouped into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions.

The District uses a governmental-type fund to account for its Landscape Improvement District No. 1 (LID), which provides roadside landscape maintenance services, as well as security services and undergrounding utilities functions. The District contracts with the Rancho Santa Fe Association to provide landscape maintenance services such as right-of-way clearance, tree trimming, as well as for the provision of security services.

Proprietary Funds are used to account for the District's sewer service. Sewer service charges are used to fund the ongoing operations of the District including administrative, operations, treatment, collections, and acquisitions of capital assets. The proprietary fund financial statements include the statement of net position, statement of revenues, expenses and changes in net position, and statement of cash flows. These statements are accounted for using the full accrual basis of accounting similar to commercial enterprises.

Sewer service is provided throughout the service area of the District. The District serves the community of Rancho Santa Fe and adjacent areas, as well as Santa Fe Valley to the east. There are two wastewater treatment plants within the District. The Rancho Santa Fe Wastewater Reclamation Facility serves the Rancho Santa Fe and surrounding areas, while the Santa Fe Valley Wastewater Reclamation Facility serves the Santa Fe Valley developments known as The Crosby, The Lakes, Bel Etage, and Salviatti. The southwestern section of Rancho Santa Fe flows to the San Elijo Joint Powers Authority Water Pollution Control Facility per contract. The basic unit of charge used to calculate sewer service and connection fees is called an Equivalent Dwelling Unit (EDU), which equates to the estimated gallons per day of wastewater flow from a single-family dwelling. All single-family homes are charged 1 EDU as their sewer service charge. Commercial properties are charged based upon their calculated EDU's. The charge per EDU for the year ended June 30, 2018 was \$950.

Rancho Santa Fe Community Services District
Management's Discussion and Analysis (Continued)

June 30, 2018

Fiduciary Funds are used to account for resources held for the benefit of parties outside the government. The statement of fiduciary net position is included in the District's basic financial statements and is reported using the accrual basis of accounting.

The Community Facilities District No. 1 was formed in December of 2000 to finance the infrastructure for the Santa Fe Valley development, including the construction of the Santa Fe Valley Wastewater Reclamation Facility, wet weather storage reservoir, recycled water system, gravity sewers, pump stations and force mains, and several roads. The Board authorized a maximum of \$49.5 million in bonds to be issued, with the intention of netting construction proceeds of approximately \$37 million. The original bond issuance totaled approximately \$29 million in 2000. The second bond series was subsequently issued in August 2007 for \$19.5 million. In July of 2011, the District refunded and defeased the outstanding balance of the Series 2000 Bonds. The series 2011 Bonds were issued for \$28,430,000. In August 2016, the Community Facilities District No.1 issued \$35,835,000 of Special Tax Revenue Refunding bonds for the purpose of refunding \$16,520,000 of then-outstanding 2007 Limited Obligation Improvement Bonds, and \$24,150,000 of 2011 Limited Obligation Improvement bonds. Moneys of \$7,298,712 held in funds and accounts established for the Series 2007 District Bonds and the Series 2011 District bonds were used during this transaction.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information, which can be found on the final pages of this report.

Governmental Fund Budgetary Highlights

The final inflows at year-end were greater than the final budgeted amounts and the final outflows at year-end were greater than the final budgeted amounts. The net variance of the inflows and outflows was a positive \$81,926, owing to taxes and special assessments revenue that was greater than the budget by \$95,096, which was primarily due to a more stable housing market and increasing property values. Landscape maintenance outflow was greater than the budgeted amount by \$20,002. General and administrative outflows were less than budgeted by \$6,832, largely due to a savings in insurance costs. Security Services outflows were the same as the budgeted amounts.

Rancho Santa Fe Community Services District
Management's Discussion and Analysis (Continued)

June 30, 2018

GOVERNMENT-WIDE FINANCIAL ANALYSIS

A summary of the District's Statement of Net Position in comparison to the prior year is presented below.

Condensed Statement of Net Position
Fiscal Years
June 30, 2017 and 2018

	<u>2017</u>	<u>2018</u>	<u>Changes from 2017 to 2018</u>	
			<u>Amount</u>	<u>Percentage</u>
Assets:				
Current Assets	\$ 5,846,371	\$ 6,682,962	\$ 836,591	14.3%
Capital Assets	<u>34,791,872</u>	<u>33,430,936</u>	<u>(1,360,936)</u>	<u>-3.9%</u>
Total Assets	40,638,243	40,113,898	(524,345)	-1.3%
Liabilities:				
Current	268,598	531,529	262,931	97.9%
Noncurrent	<u>-</u>	<u>-</u>	<u>-</u>	<u>0.0%</u>
Total Liabilities	268,598	531,529	262,931	97.9%
Net Position:				
Investment in capital assets	34,791,872	33,430,936	(1,360,936)	-3.9%
Unrestricted	<u>5,577,773</u>	<u>6,151,433</u>	<u>573,660</u>	<u>10.3%</u>
Total Net Position	<u>\$ 40,369,645</u>	<u>\$ 39,582,369</u>	<u>\$ (787,276)</u>	<u>-2.0%</u>

The following is a brief explanation for the balance changes of the Condensed Statement of Net Position for the year ending June 30, 2018:

- Current Assets increased by \$836,591 largely due to an increase in cash flows from operations of \$618,488, with the remaining difference in cash due to timing differences of the District's receivables and payables.
- Capital Assets decreased by \$1,360,936 mainly due to depreciation expense of \$1,595,173 and \$23,315 in additions to capital assets.
- Total Liabilities increased by \$262,931 due to an increase in accounts payable of \$267,122.
- Total Net Position decreased by \$787,276.

Rancho Santa Fe Community Services District
Management's Discussion and Analysis (Continued)

June 30, 2018

A summary of the District's Statement of Activities in comparison to the prior year is presented below.

Condensed Statement of Activities				
Fiscal Years				
Ended June 30, 2017 and 2018				
	2017	2018	Changes from 2017 to 2018	
			Amount	Percentage
Program Revenues:				
Charges for services	\$ 2,901,545	\$ 3,131,127	\$ 229,582	7.9%
Capital Grants and Contributions	854,101	153,300	(700,801)	-82.1%
	<u>3,755,646</u>	<u>3,284,427</u>	<u>(471,219)</u>	<u>-12.5%</u>
General Revenues:				
Taxes and special assessments	860,141	893,360	33,219	3.9%
Gain on sale of capital assets	0	7,672	7,672	100.0%
Investment earnings	36,154	78,647	42,493	117.5%
Other revenues	207,741	69,829	(137,912)	-66.4%
Total General Revenues	<u>1,104,036</u>	<u>1,049,508</u>	<u>(54,528)</u>	<u>-4.9%</u>
Total Revenues	<u>4,859,682</u>	<u>4,333,935</u>	<u>(525,747)</u>	<u>-10.8%</u>
Expenses:				
General government	149,383	150,768	1,385	0.9%
Landscape maintenance	619,500	639,502	20,002	3.2%
Sewer	4,331,770	4,330,941	(829)	0.0%
Total Expenses	<u>5,100,653</u>	<u>5,121,211</u>	<u>20,558</u>	<u>0.4%</u>
Changes in Net Position	(240,971)	(787,276)	(546,305)	-226.7%
Beginning Net Position	<u>40,610,616</u>	<u>40,369,645</u>	<u>(240,971)</u>	<u>-0.6%</u>
Ending Net Position	<u>\$ 40,369,645</u>	<u>\$ 39,582,369</u>	<u>\$ (787,276)</u>	<u>-2.0%</u>

The following is a brief explanation for the balance changes of the Condensed Statement of Activities for the year ending June 30, 2018:

- The District raised the annual sewer service charge for connected parcels from \$800 per EDU to \$950 per EDU for FY16/17. There was a decrease in the number of new sewer service charges added to the tax roll from the prior year. There were 16 new connections added to the FY17/18 tax roll, compared to 20 the previous year. Parcels on standby in the Rancho Santa Fe area are charged \$100 per parcel, while parcels on standby in Santa Fe Valley are charged \$267.
- Capital Grants and Contributions saw a decrease of \$700,801 because there were no new sewer lines acquired by the district in FY17/18.
- Property taxes revenue increased by \$33,219 in both the sewer and landscaping district because of increases in property values.
- Investment earnings continue to grow as the economy improves.

Rancho Santa Fe Community Services District

Management’s Discussion and Analysis (Continued)

June 30, 2018

- The category for Other Revenues decreased due to reclassification changes in the current fiscal year. If considering the prior year classifications, then Other Revenues would have shown an increase as MD&Aa result of the transfer of \$59,922 from the BNY AD 92-1 account to SID checking for Administrative Expenses.
- General government expense increased slightly by \$1,385, while Landscape Maintenance increased by \$20,002 due to additional tree trimming costs.
- Sewer expenses remained consistent from the prior year with a slight decrease of \$829.

CAPITAL ASSETS

The District’s capital assets are comprised of sewer lines, pump stations, force mains, and treatment plants. The District currently operates and maintains 14 sewer pump stations and approximately 50 miles of pipeline. The annual depreciation is calculated using the straight-line method over the estimated useful lives of the capital assets. Actual repairs, upgrades, or replacements to capital assets are based upon review of the assets’ physical conditions as well as the expected useful life.

	<u>Balance</u> <u>June 30, 2017</u>	<u>Additions</u>	<u>Deletions & Completed Construction</u>	<u>Balance</u> <u>June 30, 2018</u>
Capital Assets, nondepreciable:				
Land	\$ 27,400	\$ -	\$ -	\$ 27,400
Construction in progress	7,959	158,347		166,306
Total Capital Assets, nondepreciable	<u>35,359</u>	<u>158,347</u>	<u>-</u>	<u>193,706</u>
Capital Assets, depreciable:				
Structures and improvements	54,834,145			54,834,145
Equipment	1,674,270	45,964		1,720,234
Service Vehicle	417,614	29,926	(23,315)	424,225
Subtotal	<u>56,926,029</u>	<u>75,890</u>	<u>(23,315)</u>	<u>56,978,604</u>
Less Accumulated Depreciation:	<u>(22,169,516)</u>	<u>(1,595,173)</u>	<u>23,315</u>	<u>(23,741,374)</u>
Net Capital Assets, depreciable	<u>34,756,513</u>	<u>(1,519,283)</u>	<u>-</u>	<u>33,237,230</u>
Net Capital Assets	<u>\$ 34,791,872</u>	<u>\$ (1,360,936)</u>	<u>\$ -</u>	<u>\$ 33,430,936</u>

LONG – TERM DEBT

As of June 30, 2018, the District has no outstanding long-term debt.

Rancho Santa Fe Community Services District

Management's Discussion and Analysis (Continued)

June 30, 2018

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At year-end, the District's governmental funds reported fund balance of \$1,445,989, which is an increase of \$60,126 from \$1,385,863 at June 30, 2018. The positive fund balance change was primarily due to increase in property taxes because of increasing home values as well as the District's ongoing effort to maximize efficient operations cost management.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The current economy does not have a significant effect on the District's finances due to the relative affluence of the area.

ADDITIONAL FINANCIAL INFORMATION

This financial report is designed to provide the District's customers, investors and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact Chuck Duffy at the Rancho Santa Fe Community Services District at 605 Third Street, Encinitas, CA 92024. He can be reached at 760-479-4125.

BASIC FINANCIAL STATEMENTS

**RANCHO SANTA FE
COMMUNITY SERVICES DISTRICT**

STATEMENT OF NET POSITION
June 30, 2018

	Primary Government		Total
	Governmental Activities	Business-type Activities	
ASSETS			
Current Assets:			
Cash and cash investments (Note 2)	\$ 1,567,174	\$ 4,996,132	\$ 6,563,306
Restricted cash and investments (Note 2)	-	2,410	2,410
Taxes and special assessments receivable	3,314	5,100	8,414
Other receivables	-	45,180	45,180
Interest receivable	6,582	22,148	28,730
Internal balance (Note 4)	(1,250)	1,250	-
Prepaid insurance	17,461	17,461	34,922
Total Current Assets	<u>1,593,281</u>	<u>5,089,681</u>	<u>6,682,962</u>
Noncurrent Assets:			
Capital assets, nondepreciable (Note 3)	-	193,706	193,706
Capital assets, depreciable, net (Note 3)	-	33,237,230	33,237,230
Total Noncurrent Assets	<u>-</u>	<u>33,430,936</u>	<u>33,430,936</u>
TOTAL ASSETS	<u>1,593,281</u>	<u>38,520,617</u>	<u>40,113,898</u>
LIABILITIES			
Accounts payable and accrued liabilities	147,292	381,827	529,119
Developer fees payable	-	2,410	2,410
TOTAL LIABILITIES	<u>147,292</u>	<u>384,237</u>	<u>531,529</u>
NET POSITION			
Investment in capital assets	-	33,430,936	33,430,936
Unrestricted	1,445,989	4,705,444	6,151,433
TOTAL NET POSITION	<u>\$ 1,445,989</u>	<u>\$ 38,136,380</u>	<u>\$ 39,582,369</u>

**RANCHO SANTA FE
COMMUNITY SERVICES DISTRICT**

STATEMENT OF ACTIVITIES
For the year ended June 30, 2018

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities:				
General government	\$ 150,768	\$ -	\$ -	\$ -
Landscape maintenance	639,502	-	-	-
Total governmental activities	<u>790,270</u>	<u>-</u>	<u>-</u>	<u>-</u>
Business-type activities:				
Sewer	4,330,941	3,131,127	-	153,300
Total business-type activities	<u>4,330,941</u>	<u>3,131,127</u>	<u>-</u>	<u>153,300</u>
Total primary government	<u>\$ 5,121,211</u>	<u>\$ 3,131,127</u>	<u>\$ -</u>	<u>\$ 153,300</u>

Taxes and special assessments
Unrestricted investment earnings
Gain on sale of capital assets
Other revenues

Total General Revenues

Changes in net position

Net position at beginning of year

Net position at end of year

<u>Net (Expense) Revenue and</u> <u>Changes in Net Position</u> <u>Primary Government</u>		
<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
\$ (150,768)	\$ -	\$ (150,768)
(639,502)	-	(639,502)
<u>(790,270)</u>	<u>-</u>	<u>(790,270)</u>
-	(1,046,514)	(1,046,514)
-	(1,046,514)	(1,046,514)
<u>(790,270)</u>	<u>(1,046,514)</u>	<u>(1,836,784)</u>
832,508	60,852	893,360
17,888	60,759	78,647
-	7,672	7,672
-	69,829	69,829
<u>850,396</u>	<u>199,112</u>	<u>1,049,508</u>
60,126	(847,402)	(787,276)
<u>1,385,863</u>	<u>38,983,782</u>	<u>40,369,645</u>
<u>\$ 1,445,989</u>	<u>\$ 38,136,380</u>	<u>\$ 39,582,369</u>

The accompanying notes are integral part of these financial statements.

**RANCHO SANTA FE
COMMUNITY SERVICES DISTRICT**

BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2018

	<u>General Fund</u>
ASSETS	
Cash and investments	\$ 1,567,174
Restricted cash and investments	-
Property taxes receivable	3,314
Interest receivable	6,582
Prepaid insurance	<u>17,461</u>
TOTAL ASSETS	<u><u>\$ 1,594,531</u></u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable and accrued liabilities	\$ 147,292
Due to other funds	<u>1,250</u>
TOTAL LIABILITIES	<u>148,542</u>
FUND BALANCE	
Nonspendable	
Prepaid items	17,461
Unassigned	<u>1,428,528</u>
TOTAL FUND BALANCE	<u>1,445,989</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 1,594,531</u></u>

**RANCHO SANTA FE
COMMUNITY SERVICES DISTRICT**

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGE IN FUND BALANCE
GOVERNMENTAL FUND
For the year ended June 30, 2018

	General Fund
REVENUES	
Taxes and special assessments	\$ 832,508
Revenues from use of money and property	17,888
Total Revenues	850,396
EXPENDITURES	
Current	
Landscape maintenance	639,502
General and administrative government	60,768
Security services	90,000
Total Expenditures	790,270
NET CHANGE IN FUND BALANCE	60,126
FUND BALANCE AT BEGINNING OF YEAR	1,385,863
FUND BALANCE AT END OF YEAR	\$ 1,445,989

**RANCHO SANTA FE
COMMUNITY SERVICES DISTRICT**

STATEMENT OF NET POSITION
PROPRIETARY FUND
June 30, 2018

	<u>Sewer Operations and Capital Fund</u>
ASSETS	
Current Assets:	
Cash and investments	\$ 4,996,132
Restricted cash and investments	2,410
Taxes and special assessments receivable	5,100
Other receivables	45,180
Due from other fund	1,250
Interest receivable	22,148
Prepaid insurance	17,461
Total Current Assets	<u>5,089,681</u>
Noncurrent Assets:	
Capital assets, nondepreciable	193,706
Capital assets, depreciable, net	<u>33,237,230</u>
Total Noncurrent Assets	<u>33,430,936</u>
TOTAL ASSETS	<u>38,520,617</u>
LIABILITIES	
Current Liabilities:	
Accounts payable and accrued liabilities	381,827
Restricted developer fees payable	<u>2,410</u>
Total Current Liabilities	<u>384,237</u>
TOTAL LIABILITIES	<u>384,237</u>
NET POSITION	
Investment in capital assets	33,430,936
Unrestricted	<u>4,705,444</u>
TOTAL NET POSITION	<u>\$ 38,136,380</u>

**RANCHO SANTA FE
COMMUNITY SERVICES DISTRICT**

STATEMENT OF REVENUES, EXPENSES, AND
CHANGE IN NET POSITION
PROPRIETARY FUND

For the year ended June 30, 2018

	<u>Sewer Operations and Capital Fund</u>
OPERATING REVENUES	
Sewer service and standby charges	\$ 3,131,127
Total Operating Revenues	<u>3,131,127</u>
OPERATING EXPENSES	
Sewage collection and treatment	2,270,286
General and administrative	465,482
Depreciation	<u>1,595,173</u>
Total Operating Expenses	<u>4,330,941</u>
OPERATING LOSS	<u>(1,199,814)</u>
NONOPERATING REVENUES	
Taxes	60,852
Capacity fees	153,300
Other revenue	69,829
Investment earnings	60,759
Gain on sale of capital assets	<u>7,672</u>
Total Nonoperating Revenues	<u>352,412</u>
Loss Before Capital Contributions	(847,402)
Capital Contributions	<u>-</u>
Change in Net Position	(847,402)
Net Position at Beginning of Year	<u>38,983,782</u>
Net Position at End of Year	<u><u>\$ 38,136,380</u></u>

The accompanying notes are integral part of these financial statements.

**RANCHO SANTA FE
COMMUNITY SERVICES DISTRICT**

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the year ended June 30, 2018

	<u>Sewer Operations and Capital Fund</u>
Cash Flows from Operating Activities:	
Cash receipts from customers	\$ 3,426,686
Cash payments for services and supplies	<u>(2,565,566)</u>
Net Cash Provided by Operating Activities	<u>861,120</u>
Cash Flows from Noncapital Financing Activities:	
Property taxes collected	<u>60,852</u>
Net Cash Provided by Noncapital Financing Activities	<u>60,852</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition and construction of capital assets	(234,237)
Proceeds from sale of capital assets	7,672
Refund of developer fees	<u>(4,191)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(230,756)</u>
Cash Flows from Investing Activities:	
Interest received	<u>47,874</u>
Net Cash Provided by Investing Activities	<u>47,874</u>
Net Increase in Cash and Cash Equivalents	739,090
Cash and cash equivalents at beginning of year	<u>4,259,452</u>
Cash and cash equivalents at end of year	<u>\$ 4,998,542</u>

(continued)

**RANCHO SANTA FE
COMMUNITY SERVICES DISTRICT**

(continued)

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the year ended June 30, 2018

Sewer Operations
and Capital Fund

**Reconciliation of Operating Loss to Net Cash Flows Provided by
Operating Activities:**

Operating Loss	<u>\$ (1,199,814)</u>
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:	
Depreciation	1,595,173
Capacity fees	153,300
Other revenues	69,829
Changes in operating assets and liabilities:	
(Increase) decrease in receivable from other government	3,200
(Increase) decrease in other receivables	69,230
(Increase) decrease in prepaid insurance	(703)
Increase (decrease) in accounts payable	170,905
Total Adjustments	<u>2,060,934</u>
Net Cash Provided by Operating Activities	<u>\$ 861,120</u>
 CASH AND CASH EQUIVALENTS - FINANCIAL STATEMENT CLASSIFICATION:	
Unrestricted	\$ 4,996,132
Restricted	2,410
TOTAL CASH AND CASH EQUIVALENTS - FINANCIAL STATEMENT CLASSIFICATION	<u>\$ 4,998,542</u>

**RANCHO SANTA FE
COMMUNITY SERVICES DISTRICT**

STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
June 30, 2018

	Total Agency Funds
ASSETS	
Cash and cash equivalents	\$ 131,802
Cash and investments with fiscal agent	4,908,052
	<hr/>
TOTAL ASSETS	\$ 4,989,854
	<hr/> <hr/>
LIABILITIES	
Deposits held for others	\$ 4,989,854
	<hr/>
TOTAL LIABILITIES	\$ 4,989,854
	<hr/> <hr/>

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Rancho Santa Fe Community Services District (the District) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

a. Reporting Entity

In December 1981, the citizens of Rancho Santa Fe formed a community services district pursuant to California Government Code Section 61000. The District provides sewer, landscaping, and security services to property owners in Rancho Santa Fe, California. The District also has the power to provide underground utilities services, however; as of June 30, 2018, the District has not exercised that power.

b. Basis of Accounting and Measurement Focus

The *basic financial statements* of the District are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the financial statements

Government-Wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the primary government (including its blended component units). Eliminations have been made in the statement of activities so that certain allocated expenses are recorded only once (by the function to which they were allocated). However, general government expenses have not been allocated as indirect expenses to the various functions of the District. Interfund services provided and used are not eliminated in the process of consolidation.

Government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. Under the economic resources measurement focus, all (both current and long term) economic resources and obligations of the reporting government are reported in the government-wide financial statements. *Basis of accounting* refers to when revenues and expenses are recognized in the accounts and reported in the financial statements.

Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33.

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, including special assessments that are restricted to meeting the operational or capital requirements of a particular function. Program revenues are netted with program expenses in the statement of activities to present the net cost of each program. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b. Basis of Accounting and Measurement Focus (Continued)

Government-Wide Financial Statements (Continued)

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability rather than as an expenditure.

Fund Financial Statements

The underlying accounting system of the District is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, deferred inflows of resources, fund equity, revenues and expenditures, or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements for the primary government's governmental, proprietary, and fiduciary funds are presented after the government-wide financial statements. These statements display information about the major funds individually and other governmental funds in the aggregate for governmental funds. Fiduciary statements, even though excluded from the government-wide financial statements, represent agency funds.

Governmental Funds

In the fund financial statements, governmental funds are presented using the *modified-accrual basis of accounting*. Their revenues are recognized when they become *measurable* and *available* as net current assets. *Measurable* means that the amounts can be estimated or otherwise determined. *Available* means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period.

Revenue recognition is subject to the *measurable* and *available* criteria for the governmental funds in the fund financial statements. Significant revenues subject to the criteria include taxes and intergovernmental revenues. *Exchange transactions* are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). *Locally imposed derived tax revenues* are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. *Imposed nonexchange transactions* are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. *Government-mandated and voluntary nonexchange transactions* are recognized as revenues when all applicable eligibility requirements have been met.

In the fund financial statements, governmental funds are presented using the *current financial resources measurement focus*. This means that only current assets, current liabilities, and deferred inflows of resources are generally included on their balance sheets. The reported fund balance (net current assets) is considered to be a measure of available spendable resources. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of available spendable resources during a period.

Revenues, expenses, assets, and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b. Basis of Accounting and Measurement Focus (Continued)

Governmental Funds (Continued)

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period to the extent normally collected within the availability period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available where cash is received by the government. The availability period for these revenues is 60 days.

Amounts expended to acquire capital assets are recorded as *expenditures* in the year that the resources were expended rather than as fund assets. The proceeds of long-term debt are recorded as *other financing sources* rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

Proprietary and Fiduciary Funds

The District's enterprise funds are proprietary funds. In the fund financial statements, the proprietary funds and fiduciary funds are presented using the *accrual basis of accounting*. Revenues are recognized when they are earned and expenses are recognized when the related goods or services are delivered. In the fund financial statements, proprietary funds and fiduciary funds are presented using the *economic resources measurement focus*. This means that all assets, deferred outflows of resources, all liabilities, and deferred inflows of resources (whether current or noncurrent) associated with their activity are included on their statements of net position. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total net position.

Proprietary funds' operating revenue, such as charges for services, results from exchange transactions associated with the principal activities of the funds. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies, taxes, and investment earnings, result from nonexchange transactions or ancillary activities. Amounts paid to acquire capital assets are capitalized as assets in the enterprise fund financial statements rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the enterprise fund financial statements rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the enterprise fund are reported as a reduction of the related liability rather than as an expenditure.

The District's fiduciary funds are accounted for using the economic resources measurement focus and accrual basis of accounting. The District's fiduciary agency funds have no measurement focus but utilize the accrual basis for reporting its assets and liabilities. Because these funds are not available for use by the District, fiduciary funds are not included in the governmental-wide statements.

c. Fund Classifications

The District reports the following major governmental fund:

The **General Fund** is the primary operating fund for landscape maintenance and security services. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Fund Classifications (Continued)

The District reports the following major proprietary fund:

The **Sewer Operations and Capital Fund** is used to account for the operation and maintenance of the District's sewer systems, which is funded by user charges and other fees.

The District's fund structure also includes the following fund type:

The **Fiduciary Funds** include trust and agency funds. Agency funds are used to account for assets held by the government as an agent for individuals, private organizations, other governments, and/or other funds. Fiduciary statements, even though excluded from the government-wide financial statements, represent agency funds that are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

d. New Accounting Pronouncements

Current-Year Standards

GASB Statement No. 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is effective for periods starting after June 15, 2017, establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses for postemployment benefits other than pension, and did not impact the District.

GASB Statement No. 82 - *Pension Issues*, effective for periods beginning after June 15, 2016, except for certain provisions on selection of assumptions, which are effective in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017, and did not impact the District.

GASB Statement No. 85 - *Omnibus 2017*, effective for periods beginning after June 15, 2017, and did not impact the District.

GASB Statement No. 86 - *Certain Debt Extinguishment Issues*, effective for periods beginning after June 15, 2017, and did not impact the District.

GASB Pending Accounting Standards

GASB 83 - *Certain Asset Retirement Obligations*, effective for periods beginning after June 15, 2018.

GASB 84 - *Fiduciary Activities*, effective for periods beginning after December 15, 2018.

GASB 87 - *Leases*, effective for periods beginning after December 15, 2019.

GASB 88 - *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, effective for periods beginning after June 15, 2018.

GASB 89 - *Accounting for Interest Cost Incurred before the End of a Construction Period*, effective for periods beginning after December 15, 2019.

GASB 90 - *Majority Equity Interests - an amendment of GASB Statements No. 14 and No. 61*, effective for periods beginning after December 15, 2018.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e. Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents have been defined as demand deposits and highly liquid investments with an original maturity of 90 days or less. Cash includes amounts in demand and time deposits. Investments are stated at fair value (quoted market price or best available estimate thereof) (see Note 2).

f. Investments

Investments are reported in the accompanying financial statements at fair value. Changes in fair value that occur during a fiscal year are recognized as income from property and investments reported for that fiscal year. Income from property and investments includes interest earnings, changes in fair value, any gains or losses realized upon liquidation, maturity, or sale of investments. There are no significant differences between fair value and cost at June 30, 2018.

g. Receivables and Payables

Management estimates all receivables at June 30, 2018, to be collectible, as any receivables deemed uncollectible have been written off.

h. Interfund Receivables and Payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is 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 noncurrent portion of interfund loans). All other outstanding balances between funds are reported as due to / from other funds.

i. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The consumption method of accounting is used for prepaid items.

j. Capital Assets

Capital assets, which include land, structures and improvements, equipment, and vehicles, are depreciated and reported in the applicable governmental or business-type activity columns in the government-wide financial statements.

Capital assets have an estimated useful life greater than one year and have a cost greater than \$5,000. Capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Construction-in-progress costs are capitalized and transferred to their respective fixed asset category upon completion of the project.

Depreciation is charged to operations using the straight-line method based on the estimated useful life of an asset. Land and construction in progress are not depreciated.

Structures and improvements	40-50 years
Equipment	5-40 years

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k. Property Taxes

Real property taxes are levied on July 1 against owners of record on January 1. The taxes are due in two equal installments on November 1 and February 1 and become delinquent after December 10 and April 10, respectively. Tax liens attach annually as of 12:01 a.m. on the first day in January in the fiscal year for which the taxes have been levied. Property tax revenue is recognized in the fiscal year for which the taxes have been levied, provided it is within 60 days of the end of the year.

l. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense/expenditure) until that time. The District does not have any applicable deferred outflows of resources.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The District does not have any applicable deferred inflows of resources.

m. Net Position Flow Assumptions

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the District's practice to consider restricted - net position to have been depleted before unrestricted - net position is applied.

n. Fund Balance Classification

In the fund financial statements, fund balances are classified as follows:

Nonspendable includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The not in spendable form criterion includes items that are not expected to be converted to cash (for example, inventories and prepaid amounts).

Restricted includes amounts that are constrained on the use of resources by either (a) external creditors, grantors, contributors, or laws of regulations of other governments or (b) by law through constitutional provisions or enabling legislation.

Committed includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. The Board of Directors has the authority to establish, modify, or rescind a fund balance commitment.

Assigned includes amounts that are constrained by the government's intent to be used for specific purposes but are neither restricted nor committed. The Board of Directors or designee has the authority to establish, modify, or rescind a fund balance assignment.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n. Fund Balance Classification (Continued)

Unassigned includes the residual amounts that have not been restricted, committed, or assigned to specific purposes.

An individual governmental fund could include nonspendable resources and amounts that are restricted or unrestricted (committed, assigned, or unassigned) or any combination of those classifications. Restricted amounts are to be considered spent when an expenditure is incurred for purposes for which both a restricted and unrestricted fund balance are available, and committed, assigned, and unassigned amounts are considered to be spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

o. Use of Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent 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 and assumptions.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments at June 30, 2018, are reported in the accompanying basic financial statements as follows:

Statement of Net Position	
Unrestricted cash and cash investments	\$ 6,563,306
Restricted cash and investments	2,410
Statement of Fiduciary Assets and Liabilities	
Unrestricted cash and investments	131,802
Cash and investments with fiscal agent	<u>4,908,052</u>
Total cash and investments	<u>\$ 11,605,570</u>

Cash and investments as of June 30, 2018, consist of the following:

Deposits with financial institutions	\$ 269,409
Investments	<u>11,336,161</u>
Total cash and investments	<u>\$ 11,605,570</u>

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Investments Authorized by the California Government Code

The table below identifies the investment types that are authorized for the 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 bond 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’s investment policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
US Treasury Securities	5 years	None	None
US Government-Sponsored Agency Securities	5 years	50%	30%
Banker’s Acceptance	180 days	40%	5%
Commercial Paper	270 days	25%	5%
Negotiable Certificates of Deposit	5 years	30%	5%
Repurchase Agreements	30 days	None	5%
Medium-Term Notes	5 years	None	5%
Receivable-Back Securities	5 years	20%	5%
Money Market Mutual Funds	N/A	20%	10%
Local Agency Investment Fund	N/A	None	None

N/A - Not Applicable

Investments Authorized by Debt Agreements

The above investments do not address investments of debt proceeds held by a bond trustee. Investments of debt proceeds held by a bond trustee are governed by provisions of the debt agreements rather than the general provisions of the California Government Code or the District’s investment policy.

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. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity as necessary to provide the cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of the District’s investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following tables that show the distribution of the District’s investments by maturity as of June 30, 2018.

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Disclosures Relating to Interest Rate Risk (Continued)

<u>Investment Type</u>	<u>1 Year or Less</u>
California Local Agency Investment Fund Held by Fiscal Agency	\$ 6,428,109
Money Market Mutual Funds	<u>4,908,052</u>
Total	<u>\$ 11,336,161</u>

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. At June 30, 2018, the District’s investments in money market funds were rated AAA by Standard & Poor’s. Investments in the Local Agency Investment Fund (LAIF) and municipal bonds are unrated.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. At June 30, 2018, there were no investments in any one issuer (other than US Treasury securities, mutual funds, and external investment pools) that represent 5% or more of the District’s investments.

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 deposits 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 or 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 governmental unit). The market 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 District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2018, \$130,616 of the District’s deposits in excess of federal depository insurance was either fully insured or collateralized.

California Local Agency Investment Fund (LAIF)

The District is a voluntary participant in LAIF that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District’s investment in this pool is reported in the accompanying financial statements at amounts based upon the District’s pro rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized basis.

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Fair Value Measurements

The District categorizes its fair value measurement within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are quoted prices for similar assets in active markets, and Level 3 inputs are significant unobservable inputs.

The District’s investments in LAIF and money market mutual funds are not subject to the fair value hierarchy.

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018, was as follows:

	<u>Balance at July 1, 2017</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance at June 30, 2018</u>
<u>Governmental Activities</u>				
Capital assets, not depreciated:				
Land	\$ 27,400	\$ -	\$ -	\$ 27,400
Construction in progress	<u>7,959</u>	<u>158,347</u>	<u>-</u>	<u>166,306</u>
Total capital assets, not depreciated	<u>35,359</u>	<u>158,347</u>	<u>-</u>	<u>193,706</u>
Capital assets, being depreciated:				
Structures and improvements	54,834,145	-	-	54,834,145
Equipment	1,674,270	45,964	-	1,720,234
Service vehicle	<u>417,614</u>	<u>29,926</u>	<u>(23,315)</u>	<u>424,225</u>
Total capital assets, being depreciated	<u>56,926,029</u>	<u>75,890</u>	<u>(23,315)</u>	<u>56,978,604</u>
Less accumulated depreciation	(22,169,516)	(1,595,173)	23,315	(23,741,374)
Total capital assets, being depreciated, net	<u>34,756,513</u>	<u>(1,519,283)</u>	<u>-</u>	<u>33,237,230</u>
Governmental Activities Capital Assets, Net	<u>\$ 34,791,872</u>	<u>\$ (1,360,936)</u>	<u>\$ -</u>	<u>\$ 33,430,936</u>

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

Business-type Activities:	
Sewer	<u>\$ 1,595,173</u>
Total Depreciation Expense	<u>\$ 1,595,173</u>

NOTE 4 – INTERNAL BALANCE

Current internal balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year. The following is a summary of current internal balances as of June 30, 2018. The internal balances listed below represent the advancement of cash to cover operating expenses.

<u>Receivable Fund</u>	<u>Amount</u>	<u>Payable Fund</u>	<u>Amount</u>
Proprietary Fund	\$ 1,250	General Fund	\$ 1,250

NOTE 5 – SPECIAL ASSESSMENT BONDS WITHOUT GOVERNMENT COMMITMENT

In August 2016, the Community Facilities District No. 1 issued \$35,835,000 of Special Tax Revenue Refunding bonds for the purpose of refunding \$16,520,000 of then-outstanding 2007 Limited Obligation Improvement bonds and \$24,150,000 of 2011 Limited Obligation Improvement bonds. Moneys of \$7,298,712 held in funds and accounts established for the Series 2007 District bonds and the Series 2011 District bonds were also used during this transaction. The Special Tax Revenue Refunding bonds were issued with interest rates ranging from 2.00% to 5.00% and will reach maturity in September 2030. The bonds had an outstanding principal balance of at \$34,140,000 at June 30, 2018.

The District is not obligated in any manner for the payment of debt service in the event of default by the property owners but is only acting as agent for the property owners in collecting the assessments, forwarding the collections to bondholders, and initiating foreclosure proceedings, if appropriate. Accordingly, no liability for these bonds has been recorded in the financial statements. The unspent cash and investments are reported in the statement of fiduciary assets and liabilities.

NOTE 6 – OPERATING LEASE COMMITMENTS

- a. The District has an agreement with San Elijo Joint Powers Authority (JPA) to lease capacity at their Water Pollution Control Facility for a period of 30 years expiring July 2020. The annual lease payments are composed of a reimbursement to JPA for the capitalized cost of the plant and a fee for the administration, management, operation, and maintenance of the plant. The payment amount is calculated annually based on a formula using the net upgrade and expansion costs of the plant, budgeted operating expenses of the plant, and the average measured flow used by the District.
- b. The District also leases capacity from the Cardiff Sanitation District for sewer transmission facilities. The lease is for a period of 30 years expiring July 2020. The lease payment is composed of a base rent plus a fee for reimbursement of the District’s portion of direct and indirect operating and maintenance costs.

Total lease payments incurred for the fiscal year ended June 30, 2018, were \$162,967.

The future minimum lease payments at June 30, 2018, are as follows:

Year Ending June 30,	Amount
2019	\$ 162,967
2020	162,967
Total	<u>\$ 325,934</u>

NOTE 7 – COMMERCIAL INSURANCE POLICY

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. The District purchases commercial insurance for its exposure to risk. The District is insured against claims and judgments for general liability, automobile liability, and public officials and management liability (up to \$1,000,000 per occurrence). Property insurance was purchased with coverage of up to \$23,214,528 subject to a \$1,000 deductible. The District has also purchased excess liability insurance (up to \$10,000,000 per occurrence). Settled claims have not exceeded any of the District's coverage amounts in any of the last three fiscal years, and there were no reductions in the District's insurance coverage during the year ended June 30, 2018. The District's insurance coverage also includes inland marine and excess liability. There is no deductible on general liability insurance. There are varying deductibles between \$500 and \$1,000 for the automobile and miscellaneous coverage.

NOTE 8 – CONTINGENCIES

Litigation

The District's management and legal counsel estimate that any legal claims against the District, not covered by insurance, resulting from such litigation would not have a material effect on the basic financial statements.

NOTE 9 – SUBSEQUENT EVENTS

Events occurring after June 30, 2018, have been evaluated for possible adjustments to the financial statements or disclosures as of November 6, 2019, which is the date these financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the year ended June 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
FUND BALANCE, JULY 1	\$ 1,385,863	\$ 1,385,863	\$ 1,385,863	\$ -
RESOURCES (INFLOWS):				
Taxes and special assessments	750,000	750,000	832,508	82,508
Revenues from use of money and property	5,300	5,300	17,888	12,588
Amount Available For Appropriations	<u>755,300</u>	<u>755,300</u>	<u>850,396</u>	<u>95,096</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
Landscape maintenance	619,500	619,500	639,502	(20,002)
General and administrative	67,600	67,600	60,768	6,832
Security services	90,000	90,000	90,000	-
Total Charges to Appropriations	<u>777,100</u>	<u>777,100</u>	<u>790,270</u>	<u>(13,170)</u>
EXCESS OF RESOURCES OVER (UNDER) CHARGES TO APPROPRIATIONS	<u>(21,800)</u>	<u>(21,800)</u>	<u>60,126</u>	<u>81,926</u>
FUND BALANCE, JUNE 30	<u>\$ 1,364,063</u>	<u>\$ 1,364,063</u>	<u>\$ 1,445,989</u>	<u>\$ 81,926</u>

BUDGETS AND BUDGETARY ACCOUNTING:

The District follows these procedures in establishing the budgetary data reflected in the Budgetary Comparison Schedule:

- a. The annual budget adopted by the Board of Directors provides for the general operation of the District. It includes proposed expenditures and the means of financing them.
- b. The Board of Directors approves total budgeted appropriations and any amendments to appropriations throughout the year. There were no significant nonbudgeted financial activities. Actual expenditures may exceed budgeted appropriations at the fund level. However, the District's general manager is authorized to transfer budgeted amounts between individual departments. Budget figures used in the financial statements are the final adjusted amounts, including any amendments to the budget during the year.
- c. Formal budgetary integration is employed as a management control device. Appropriations that are encumbered at year-end lapse and are added to the following year's budgeted appropriations. However, encumbrances at year-end are reported as reservations of fund balance. There were no encumbrances at June 30, 2018.
- d. Budget information is adopted for the governmental fund and is presented as required supplemental information. The presentation represents original appropriations adjusted for supplemental appropriations, if any, made during the year. The budget for the governmental fund is adopted on a basis substantially consistent with GAAP.