

RANCHO SANTA FE COMMUNITY SERVICES DISTRICT

ANNUAL FINANCIAL REPORT

WITH REPORT ON AUDIT BY
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

JUNE 30, 2016

ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2016

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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, the governmental fund, the proprietary fund, and the fiduciary funds of the Rancho Santa Fe Community Services District, as of and for the year ended June 30, 2016, 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 and the State Controller's Minimum Audit Requirements for California Special Districts. 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, the governmental fund, the proprietary fund, and the fiduciary funds of the Rancho Santa Fe Community Services District as of June 30, 2016, 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 as well as the accounting systems prescribed by the California State Controller's Office and California regulations governing Special Districts.

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 – governmental fund, as listed in the 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 the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the management's discussion and analysis and budgetary comparison schedule – governmental fund 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

April 4, 2017

Rancho Santa Fe Community Services District

Management's Discussion and Analysis

June 30, 2016

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, 2016. This information is presented in conjunction with the audited basic financial statements, which follows this section.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2015-2016

- The assets of the District exceeded liabilities at the close of the 2015-2016 fiscal year by \$40,610,616 (net position). Of this amount, \$5,058,107 (unrestricted net position) may be used to meet ongoing obligations to citizens and creditors, and \$35,552,509 is invested in capital assets.
- Total revenues of the District increased for the close of the 2015-2016 fiscal year by \$420,153.
- Total expenses of the District increased for the close of the 2015-2016 fiscal year by \$66,870.

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 roadside 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, security services, and undergrounding utilities 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, 2016

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, 2016 was \$800.

Rancho Santa Fe Community Services District

Management's Discussion and Analysis (Continued)

June 30, 2016

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 approximately \$19.6 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 approximately \$28.4 million.

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 less than the final budgeted amounts. The net variance of the inflows and outflows was a positive \$109,227, due to taxes and special assessments revenue that exceeded the budget by \$61,382, which was primarily attributable to a more stable housing market and increasing property values. Landscape maintenance expense was less than budgeted, as the need for extra tree trimming was reduced from the previous year. The final outflow for security services was \$35,000 less than the budgeted amount as there was no need to purchase an additional vehicle this fiscal year.

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

June 30, 2016

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, 2015 and 2016

	2015	2016	Changes from 2015 to 2016	
			Amount	Percentage
Assets:				
Current Assets	\$ 5,420,265	\$ 5,558,062	\$ 137,797	2.5%
Capital Assets	36,604,028	35,552,509	(1,051,519)	-2.9%
Total Assets	42,024,293	41,110,571	(913,722)	-2.2%
Liabilities:				
Current	380,350	499,955	119,605	31.4%
Total Liabilities	380,350	499,955	119,605	31.4%
Net Position:				
Investment in capital assets	36,604,028	35,552,509	(1,051,519)	-2.9%
Unrestricted	5,039,915	5,058,107	18,192	0.4%
Total Net Position	\$ 41,643,943	\$ 40,610,616	\$ (1,033,327)	-2.5%

The following is a brief explanation for the balance changes of the Condensed Statement of Net Position for the year ending June 30, 2016:

- Current Assets increased by \$137,797 largely due to an increase in cash and cash equivalents of \$211,312, mainly from sewer reimbursements and recycled water revenues and a decrease in taxes and special assessments receivable of \$61,117.
- Capital Assets decreased by \$1,051,519 mainly due to depreciation expense of \$1,531,073 and \$479,554 in additions to capital assets.
- Total Liabilities increased by \$119,605 primarily due to an increase in accounts payable of \$118,908.

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

June 30, 2016

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, 2015 and 2016				
	<u>2015</u>	<u>2016</u>	Changes from 2015 to 2016	
			<u>Amount</u>	<u>Percentage</u>
Program Revenues:				
Charges for services	\$ 2,428,395	\$ 2,439,989	\$ 11,594	0.5%
Capital Grants and Contributions	-	248,650	248,650	100.0%
	<u>2,428,395</u>	<u>2,688,639</u>	<u>260,244</u>	<u>10.7%</u>
General Revenues:				
Taxes and special assessments	797,209	831,728	34,519	4.3%
Capacity fees	134,400	121,800	(12,600)	-9.4%
Investment earnings	12,498	19,938	7,440	59.5%
Other revenues	180,231	310,781	130,550	72.4%
Total General Revenues	<u>1,124,338</u>	<u>1,284,247</u>	<u>159,909</u>	<u>14.2%</u>
Total Revenues	<u>3,552,733</u>	<u>3,972,886</u>	<u>420,153</u>	<u>11.8%</u>
Expenses:				
General government	190,311	152,247	(38,064)	-20.0%
Landscape maintenance	620,000	614,500	(5,500)	-0.9%
Sewer	4,129,032	4,239,466	110,434	2.7%
Total Expenses	<u>4,939,343</u>	<u>5,006,213</u>	<u>66,870</u>	<u>1.4%</u>
Changes in Net Position	(1,386,610)	(1,033,327)	353,283	25.5%
Beginning Net Position	<u>43,030,553</u>	<u>41,643,943</u>	<u>(1,386,610)</u>	<u>-3.2%</u>
Ending Net Position	<u>\$ 41,643,943</u>	<u>\$ 40,610,616</u>	<u>\$ (1,033,327)</u>	<u>-2.5%</u>

The following is a brief explanation for the balance changes of the Condensed Statement of Activities for the year ending June 30, 2016:

- There was a decrease in new sewer service charges collected from the prior year. There were 15 new connections made during the year, compared to 37 the previous year. Connected parcels are charged \$800 per EDU, and 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 revenue increased by \$248,650 due to the Via de Fortuna Sewer Line contributed during fiscal year ending June 30, 2016.
- Property taxes revenue increased slightly in both the sewer and landscaping funds because of increasing property values.
- Investment earnings continue to grow as the economy improves.
- Other revenue increased due to the reimbursement received by the State of California for mandated costs incurred by the Brown Act and the transfer of remaining funds from the BNY AD 92-1 agency fund checking account to the sewer fund checking account.

Rancho Santa Fe Community Services District

Management's Discussion and Analysis (Continued)

June 30, 2016

The following is a brief explanation for the balance changes of the Condensed Statement of Activities for the year ending June 30, 2016 (continued):

- General government expense decreased by \$38,064, primarily due \$35,000 in fewer expenditures for security services that the District began providing during the prior fiscal year.
- Sewer expenses increased by \$110,434 primarily due to increases in sewage collection and treatment expense of \$56,447 and depreciation expense of \$45,560.

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, 2015</u>	<u>Additions</u>	<u>Deletions & Completed Construction</u>	<u>Balance</u> <u>June 30, 2016</u>
Capital Assets, nondepreciable:				
Land	\$ 27,400	\$ -	\$ -	\$ 27,400
Construction in progress	255,141	-	-	255,141
Total Capital Assets, nondepreciable	<u>282,541</u>	<u>-</u>	<u>-</u>	<u>282,541</u>
Capital Assets, depreciable:				
Structures and improvements	53,722,435	248,650	(8,879)	53,962,206
Equipment	1,270,363	230,904	(10,269)	1,490,998
Vehicles	417,614	-	-	417,614
Subtotal	<u>55,410,412</u>	<u>479,554</u>	<u>(19,148)</u>	<u>55,870,818</u>
Less Accumulated Depreciation:	<u>(19,088,925)</u>	<u>(1,531,073)</u>	<u>19,148</u>	<u>(20,600,850)</u>
Net Capital Assets, depreciable	<u>36,321,487</u>	<u>(1,051,519)</u>	<u>-</u>	<u>35,269,968</u>
Net Capital Assets	<u>\$ 36,604,028</u>	<u>\$ (1,051,519)</u>	<u>\$ -</u>	<u>\$ 35,552,509</u>

LONG – TERM DEBT

As of June 30, 2016, the District has no outstanding long-term debt.

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

June 30, 2016

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, 2016

	Primary Government		Total
	Governmental Activities	Business-type Activities	
ASSETS			
Current Assets:			
Cash and cash equivalents (Note 2)	\$ 1,395,169	\$ 4,111,434	\$ 5,506,603
Restricted cash and cash equivalents (Note 2)	-	6,601	6,601
Taxes and special assessments receivable	2,561	4,330	6,891
Other receivables	-	31,205	31,205
Interest receivable	1,680	5,082	6,762
Internal balance (Note 4)	(2,000)	2,000	-
Total Current Assets	<u>1,397,410</u>	<u>4,160,652</u>	<u>5,558,062</u>
Noncurrent Assets:			
Capital assets, nondepreciable (Note 3)	-	282,541	282,541
Capital assets, depreciable, net (Note 3)	-	35,269,968	35,269,968
Total Noncurrent Assets	<u>-</u>	<u>35,552,509</u>	<u>35,552,509</u>
TOTAL ASSETS	<u>1,397,410</u>	<u>39,713,161</u>	<u>41,110,571</u>
LIABILITIES			
Current Liabilities:			
Accounts payable and accrued liabilities	53,025	440,329	493,354
Restricted developer fees payable	-	6,601	6,601
Total Current Liabilities	<u>53,025</u>	<u>446,930</u>	<u>499,955</u>
TOTAL LIABILITIES	<u>53,025</u>	<u>446,930</u>	<u>499,955</u>
NET POSITION			
Investment in capital assets	-	35,552,509	35,552,509
Unrestricted	<u>1,344,385</u>	<u>3,713,722</u>	<u>5,058,107</u>
TOTAL NET POSITION	<u>\$ 1,344,385</u>	<u>\$ 39,266,231</u>	<u>\$ 40,610,616</u>

**RANCHO SANTA FE
COMMUNITY SERVICES DISTRICT**

STATEMENT OF ACTIVITIES
For the year ended June 30, 2016

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities:				
General government	\$ 152,247	\$ -	\$ -	\$ -
Landscape maintenance	614,500	-	-	-
Total governmental activities	<u>766,747</u>	<u>-</u>	<u>-</u>	<u>-</u>
Business-type activities:				
Sewer	4,239,466	2,439,989	-	248,650
Total business-type activities	<u>4,239,466</u>	<u>2,439,989</u>	<u>-</u>	<u>248,650</u>
Total primary government	<u>\$ 5,006,213</u>	<u>\$ 2,439,989</u>	<u>\$ -</u>	<u>\$ 248,650</u>

Taxes and special assessments
Capacity fees
Unrestricted investment earnings
Other revenues

Total General Revenues

Changes in net position

Net position at beginning of year

Net position at end of year

Net (Expense)/Revenue and Changes in Net Position Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (152,247)	\$ -	\$ (152,247)
(614,500)	-	(614,500)
<u>(766,747)</u>	<u>-</u>	<u>(766,747)</u>
-	(1,550,827)	(1,550,827)
-	(1,550,827)	(1,550,827)
<u>(766,747)</u>	<u>(1,550,827)</u>	<u>(2,317,574)</u>
775,382	56,346	831,728
-	121,800	121,800
5,192	14,746	19,938
<u>-</u>	<u>310,781</u>	<u>310,781</u>
<u>780,574</u>	<u>503,673</u>	<u>1,284,247</u>
13,827	(1,047,154)	(1,033,327)
<u>1,330,558</u>	<u>40,313,385</u>	<u>41,643,943</u>
<u>\$ 1,344,385</u>	<u>\$ 39,266,231</u>	<u>\$ 40,610,616</u>

**RANCHO SANTA FE
COMMUNITY SERVICES DISTRICT**

BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2016

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 1,395,169
Property taxes receivable	2,561
Interest receivable	<u>1,680</u>
 TOTAL ASSETS	 <u><u>\$ 1,399,410</u></u>
 LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable and accrued liabilities	<u>\$ 55,025</u>
 TOTAL LIABILITIES	 <u>55,025</u>
 FUND BALANCE	
Unassigned	<u>1,344,385</u>
 TOTAL FUND BALANCE	 <u>1,344,385</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u><u>\$ 1,399,410</u></u>

**RANCHO SANTA FE
COMMUNITY SERVICES DISTRICT**

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
For the year ended June 30, 2016

	<u>General Fund</u>
REVENUES	
Taxes and special assessments	\$ 775,382
Revenues from use of money and property	<u>5,192</u>
Total Revenues	<u>780,574</u>
EXPENDITURES	
Landscape maintenance	614,500
General and administrative government	62,247
Security services	<u>90,000</u>
Total Expenditures	<u>766,747</u>
NET CHANGES IN FUND BALANCE	13,827
FUND BALANCE AT BEGINNING OF YEAR	<u>1,330,558</u>
FUND BALANCE AT END OF YEAR	<u><u>\$ 1,344,385</u></u>

**RANCHO SANTA FE
COMMUNITY SERVICES DISTRICT**

STATEMENT OF NET POSITION
PROPRIETARY FUND
June 30, 2016

	<u>Sewer Operations and Capital Fund</u>
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 4,111,434
Restricted cash and cash equivalents	6,601
Taxes and special assessments receivable	4,330
Other receivables	31,205
Receivable from other government	2,000
Interest receivable	5,082
Total Current Assets	<u>4,160,652</u>
Noncurrent Assets:	
Capital assets, nondepreciable	282,541
Capital assets, depreciable, net	35,269,968
Total Noncurrent Assets	<u>35,552,509</u>
 TOTAL ASSETS	 <u>39,713,161</u>
LIABILITIES	
Current Liabilities:	
Accounts payable and accrued liabilities	440,329
Restricted developer fees payable	6,601
Total Current Liabilities	<u>446,930</u>
 TOTAL LIABILITIES	 <u>446,930</u>
NET POSITION	
Investment in capital assets	35,552,509
Unrestricted	3,713,722
 TOTAL NET POSITION	 <u>\$ 39,266,231</u>

**RANCHO SANTA FE
COMMUNITY SERVICES DISTRICT**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUND
For the year ended June 30, 2016

	<u>Sewer Operations and Capital Fund</u>
OPERATING REVENUES	
Sewer service and standby charges	\$ 2,439,989
Total Operating Revenues	<u>2,439,989</u>
OPERATING EXPENSES	
Sewage collection and treatment	2,221,616
General and administrative	486,777
Depreciation	<u>1,531,073</u>
Total Operating Expenses	<u>4,239,466</u>
OPERATING INCOME (LOSS)	<u>(1,799,477)</u>
NONOPERATING REVENUES	
Taxes	56,346
Capacity fees	121,800
Other revenue	310,781
Investment earnings	<u>14,746</u>
Total Nonoperating Revenues (Expenses)	<u>503,673</u>
Income Before Capital Contributions	(1,295,804)
Capital Contributions	<u>248,650</u>
Changes In Net Position	(1,047,154)
Net Position at Beginning of Year	<u>40,313,385</u>
Net Position at End of Year	<u>\$ 39,266,231</u>

**RANCHO SANTA FE
COMMUNITY SERVICES DISTRICT**

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the year ended June 30, 2016

	<u>Sewer Operations and Capital Fund</u>
Cash Flows from Operating Activities:	
Cash receipts from customers	\$ 2,509,551
Cash payments for services and supplies	<u>(2,589,485)</u>
Net Cash Provided (Used) by Operating Activities	<u>(79,934)</u>
Cash Flows from Noncapital Financing Activities:	
Property taxes collected	56,346
Other income	310,781
Capacity fees	<u>121,800</u>
Net Cash Provided by Noncapital Financing Activities	<u>488,927</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition and construction of capital assets	(230,904)
Net increase in developer fees payable	<u>697</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(230,207)</u>
Cash Flows from Investing Activities:	
Interest received	<u>12,197</u>
Net Cash Provided by Investing Activities	<u>12,197</u>
Net Increase (Decrease) in Cash and Cash Equivalents	190,983
Cash and cash equivalents at beginning of year	<u>3,927,052</u>
Cash and cash equivalents at end of year	<u>\$ 4,118,035</u>

(continued)

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the year ended June 30, 2016

Sewer Operations
and Capital Fund

**Reconciliation of Operating Income (Loss) to Net Cash Flows Provided (Used) by
Operating Activities:**

Operating income (loss)	<u>\$ (1,799,477)</u>
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Depreciation	1,531,073
Changes in operating assets and liabilities:	
(Increase) decrease in receivable from other government	4,800
(Increase) decrease in other receivables	64,762
Increase (decrease) in accounts payable	<u>118,908</u>
Total Adjustments	<u>1,719,543</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ (79,934)</u></u>

**RANCHO SANTA FE
COMMUNITY SERVICES DISTRICT**

STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
June 30, 2016

	<u>Total Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 185,304
Cash and investments with fiscal agent	<u>8,721,773</u>
 TOTAL ASSETS	 <u><u>\$ 8,907,077</u></u>
 LIABILITIES	
Deposits held for others	<u>\$ 8,907,077</u>
 TOTAL LIABILITIES	 <u><u>\$ 8,907,077</u></u>

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

a. Reporting Entity:

In December 1981 the citizens of Rancho Santa Fe formed a community services district (District) pursuant to California Government Code Sec. 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, 2016 the District has not exercised that power.

b. Government-Wide and Fund Financial Statements:

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all the nonfiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues. Net position of the District is classified into three components –investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- Investment in capital assets – this component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds. The District does not have any related debt at June 30, 2016.
- Restricted – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted – This component of net position consists of net position that does not meet the definition of “restricted” or “investment in capital assets.”

The 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. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures. 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.

Separate financial statements are provided for the governmental fund, the proprietary fund and the fiduciary funds, even though the latter are excluded from the government-wide financial statements.

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

b. Government-Wide and Fund Financial Statements (Continued):

Fund balance reported on the fund statements consists of the following categories:

- Nonspendable fund balance typically includes inventories, prepaid items, and other items that by definition are not in spendable form or legally or contractually required to be maintained intact.
- The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by California State Constitution, external resource providers, or through enabling legislation.
- The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Board of Directors. The Board of Directors has authority to establish, modify, or rescind a fund balance commitment.
- Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. The Board of Directors or designee has the authority to establish, modify, or rescind a fund balance assignment.
- Unassigned fund balance is the residual classification for the District's Governmental Fund and includes all spendable amounts not contained in the other classifications.

The District did not have any fund balance for the above categories except for the unassigned fund balance.

In the government-wide statements, the District considers restricted funds to be spent first then unrestricted amounts when expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available. In the governmental fund statements, when expenditures are incurred, the District uses the most restrictive funds first. The District would use the appropriate funds in the following order: committed, assigned, and lastly unassigned amounts.

c. Measurement focus, basis of accounting and financial statement presentation:

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied. In the government-wide Statement of Net Position and the Statement of Activities, activities are presented using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them. The accounting objectives of the economic measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of the timing of related cash flows. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Proprietary fund equity is classified as net position.

In the fund financial statements, the governmental fund is accounted for using the current financial resources measurement focus and the modified-accrual basis of accounting. Only current financial assets and liabilities are generally included on their balance sheets. The operating statement presents sources and uses of available spendable financial resources during a given period. The governmental fund uses fund balance as its measure of available spendable financial resources at the end of the period. Revenues are recognized when they become both measurable and available. 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 (within 60 days) to be available to finance the expenditures accrued for the reporting period.

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

c. Measurement focus, basis of accounting and financial statement presentation (Continued):

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.

Funds designated as major funds are determined by a mathematical calculation consistent with GASB Statement No. 34.

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. The District has no other governmental funds.

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** includes 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 which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

In general, the effect of interfund activity has been eliminated from the government-wide financial statements. The exceptions to this rule are the charges between the sewer operations and capital fund and the other functions of the District. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

When the District incurs an expense for which restricted and unrestricted resources are available it is the District's policy to first apply restricted resources then unrestricted resources.

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

d. Cash and Investments:

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).

e. Investments:

Investments are reported in the accompanying statement of fiduciary net position at fair value. There are no significant differences between fair value and cost at June 30, 2016.

f. Receivables and Payables:

Management estimates all receivables at June 30, 2016 to be collectible, as any receivables deemed uncollectible have been written off.

g. Claims and Judgments:

When it is probable that a claim liability has been incurred at year end, and the amount of the loss can be reasonably estimated, the District records the estimated loss, net of any insurance coverage. At June 30, 2016, in the opinion of the District's Attorney, the District had no material unreported claims which would require loss provision in the financial statements, including losses for claims which are Incurred But Not Reported (IBNR). Small dollar claims and judgments are recorded as expenditures when paid, if any.

h. Capital Assets:

Capital assets, which include land, structures and improvements, equipment and vehicles are depreciated and are 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 historical cost at the date of donation.

The cost 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
Vehicles	5-10 Years

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

i. Property Taxes:

Real property taxes are levied on October 15 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 12:01am 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.

j. Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles 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.

k. Restricted Assets:

The proprietary fund reports assets that are restricted for developer fees payable as restricted at June 30, 2016.

l. New Accounting Pronouncements:

Current Year Standards:

- In fiscal year 2015-2016, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 72, "*Fair Value Measurement and Application*". GASB Statement No. 72 requires the District to use valuation techniques which are appropriate under the circumstances and are either a market approach, a cost approach or income approach. GASB Statement No. 72 establishes a hierarchy of inputs used to measure fair value consisting of three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs, and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. GASB Statement No. 72 also contains note disclosure requirements regarding the hierarchy of valuation inputs and valuation techniques that were used for the fair value measurements. There was no material impact on the District's financial statements as a result of the implementation of GASB Statement No. 72.
- GASB Statement No. 76 - "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*", was required to be implemented in the current fiscal year and did not impact the District.
- GASB Statement No. 79 - "*Certain External Investment Pools and Pool Participants*", was required to be implemented in the current fiscal year, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing, which are effective for periods beginning after December 15, 2015, and did not impact the District.
- GASB Statement No. 82 - "*Pension Issues - an Amendment of GASB Statement No. 67, No. 68 and No. 73.*" Was required to be implemented in the current fiscal year and did not impact the District.

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

l. New Accounting Pronouncements (Continued):

Pending Accounting Standards:

GASB has issued the following statements which may impact the District's financial reporting requirements in the future:

- GASB 73 - "*Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*", the provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 is effective for periods beginning after June 15, 2016.
- GASB 74 - "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*", effective for periods beginning after June 15, 2016.
- GASB 75 - "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*", effective for periods beginning after June 15, 2017.
- GASB 77 - "*Tax Abatement Disclosure*", effective for periods beginning after December 15, 2015.
- GASB 78 - "*Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*", effective for periods beginning after December 15, 2015.
- GASB 79 - "*Certain External Investment Pools and Pool Participants*", the certain provisions on portfolio quality, custodial credit risk, and shadow pricing, is effective for periods beginning after December 15, 2015.
- GASB 80 - "*Blending Requirements for Certain Component Units*", effective for periods beginning after June 15, 2016.
- GASB 81 - "*Irrevocable Split-Interest Agreements*", effective for periods beginning after December 15, 2016.

m. 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 a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District does not have any items that qualify for reporting in this category as of June 30, 2016.
- 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 a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The District does not have any items that qualify for reporting in this category as of June 30, 2016.

2. CASH AND INVESTMENTS:

Cash and investments at June 30, 2016, are reported in the accompanying basic financial statements as follows:

STATEMENT OF NET POSITION:

Cash and cash equivalents	\$ 5,506,603
Restricted assets:	
Restricted cash and cash equivalents	6,601

STATEMENT OF FIDUCIARY NET POSITION:

Cash and cash equivalents	185,304
Cash and investments with fiscal agent	<u>8,721,773</u>
 Total cash and investments	 <u>\$ 14,420,281</u>

Cash and cash equivalents as of June 30, 2016 consist of the following:

Deposits with financial institutions	\$ 1,004,356
Investments	<u>13,415,925</u>
 Total cash and investments	 <u>\$ 14,420,281</u>

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 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 Amount or Percentage Allowed</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Investment Fund	N/A	None	None

N/A = Not Applicable

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.

2. CASH AND INVESTMENTS (CONTINUED):

Disclosures Relating to Interest Rate Risk (Continued):

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 table that shows the distribution of the District's investments by maturity:

Investment Type	Total as of June 30, 2016	Minimum Legal Rating	Not Required to be Rated	AAA	Not Rated
Local Agency Investment Fund Held by Fiscal Agent:	\$ 5,235,371	N/A	\$ -	\$ -	\$ 5,235,371
Money Market Mutual Funds	8,180,554	N/A	-	8,180,554	-
Total	\$ 13,415,925		\$ -	\$ 8,180,554	\$ 5,235,371

N/A = Not Applicable

The Local Agency Investment Fund consists of \$1,300,665 in the Governmental Activities and \$3,934,706 in the Business-type Activities at June 30, 2016.

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. Presented below is the minimum rating required by (where applicable) the California Government Code, the District's investment policy, or debt agreements, and the actual Standard & Poor's rating as of year-end for each investment type:

Investment Type	Total as of June 30, 2016	Remaining Maturity (in Months)		
		12 Months or Less	13 - 24 Months	25 - 60 Months
Local Agency Investment Fund Held by Fiscal Agent:	\$ 5,235,371	\$ 5,235,371	\$ -	\$ -
Money Market Mutual Funds	8,180,554	8,180,554	-	-
Total	\$ 13,415,925	\$ 13,415,925	\$ -	\$ -

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, 2016 there were no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of the District's investments.

2. CASH AND INVESTMENTS (CONTINUED):

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, 2016, \$234,312 of the District's deposits in excess of federal depository insurance were either fully insured or collateralized.

California Local Agency Investment Fund (LAIF):

The District is a voluntary participant in the Local Agency Investment Fund (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.

Fair Value Measurements:

The District categorizes its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the relative inputs used to measure the fair value of the investments. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the District has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

2. CASH AND INVESTMENTS (CONTINUED):

Fair Value Measurements (Continued):

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs reflect the District's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the District's own data.

The asset's or liability's level within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The determination of what constitutes observable requires judgment by the District's management. District management considers observable data to be that market data which is readily available, regularly distributed or updated, reliable, and verifiable, not proprietary, and provided by multiple independent sources that are actively involved in the relevant market.

The District had no financial instruments that are required to be measured at fair value on a recurring basis.

3. CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2016 was as follows:

	Balance June 30, 2015	Additions	Deletions & Completed Construction	Balance June 30, 2016
Capital Assets, nondepreciable:				
Land	\$ 27,400	\$ -	\$ -	\$ 27,400
Construction in progress	255,141	-	-	255,141
Total Capital Assets, nondepreciable	<u>282,541</u>	<u>-</u>	<u>-</u>	<u>282,541</u>
Capital Assets, depreciable:				
Structures and improvements	53,722,435	248,650	(8,879)	53,962,206
Equipment	1,270,363	230,904	(10,269)	1,490,998
Vehicles	417,614	-	-	417,614
Subtotal	<u>55,410,412</u>	<u>479,554</u>	<u>(19,148)</u>	<u>55,870,818</u>
Less Accumulated Depreciation:	<u>(19,088,925)</u>	<u>(1,531,073)</u>	<u>19,148</u>	<u>(20,600,850)</u>
Net Capital Assets, depreciable	<u>36,321,487</u>	<u>(1,051,519)</u>	<u>-</u>	<u>35,269,968</u>
Net Capital Assets	<u>\$ 36,604,028</u>	<u>\$ (1,051,519)</u>	<u>\$ -</u>	<u>\$ 35,552,509</u>

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

Business-type Activities:	
Sewer	<u>\$ 1,531,073</u>
Total Depreciation Expense	<u>\$ 1,531,073</u>

4. INTERNAL BALANCE:

a. Current Internal Balance:

The current internal balance arose in the normal course of business and is expected to be repaid shortly after the end of the fiscal year. The following current internal balance represents the advancement of cash to cover operating expenses. As of June 30, 2016 the General fund owed the Proprietary fund \$2,000.

5. SPECIAL ASSESSMENT BONDS WITHOUT GOVERNMENT COMMITMENT:

a. In April 1995 the District issued Limited Obligation Improvement Bonds in the amount of \$5,614,700 to finance the construction of certain sewer and drainage improvements to the District's sewer system. The bonds were issued with interest rates ranging from 5.75% to 6% and will reach final maturity in September 2015. Interest payments are due semi-annually and principal payments are required on an annual basis. The bonds were paid off on September 2, 2015.

b. In December 2000, the District issued Limited Obligation Improvement bonds in the amount of \$29,025,000 to finance the infrastructure of the Santa Fe Valley development. The bonds were issued with interest rates ranging from 4.75% to 6.70% and will reach final maturity in September 2030. In July of 2011, the District refunded and defeased the outstanding balance of the Series 2000 Bonds. The Series 2011 Bonds were issued in the amount of \$28,430,000. The bonds were issued with interest rates ranging from 3.00% to 6.00%. Interest payments are due semi-annually and principal payments are required on an annual basis. The bonds had an outstanding principal balance of \$25,010,000 at June 30, 2016.

c. In August 2007, the second Limited Obligation Improvement Bonds series was issued in the amount of \$19,635,000. The second Limited Obligation Improvement Bond series bonds were issued with interest rates ranging from 3.95% to 5.25% and will reach final maturity in September 2030. The bonds had an outstanding principal balance of \$16,520,000 at June 30, 2016.

For the bond issuances noted above, 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 Net Position.

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 comprised 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 comprised 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, 2016 were \$162,967.

6. OPERATING LEASE COMMITMENTS (CONTINUED):

The future minimum lease payments at June 30, 2016 are as follows:

Year Ending June 30,	Amount
2017	\$ 162,967
2018	162,967
2019	162,967
2020	162,967
	\$ 651,868

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, automobile liability, and public officials and management (up to \$1,000,000 per occurrence). Property insurance was purchased with coverage 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, 2016. The District’s insurance coverage also includes inland marine and excess liability. There is no deductible on the general liability insurance. There are varying deductibles between \$250 and \$1,000 for the automobile and miscellaneous coverage.

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.

9. SUBSEQUENT EVENTS:

In August 2016, Community Facilities District No. 1 issued Special Tax Revenue Refunding Bonds in the amount of \$35,835,000. The Series 2016 Bonds are limited obligations of the Community Facilities District payable solely from Net Special Tax Revenues. The Series 2016 District Bonds are being issued to provide funds (a) to refund and defease all of the outstanding Series 2007 District Bonds, (b) to refund and defease all of the outstanding Series 2011 District Bonds, (c) to purchase a municipal bond insurance policy, (d) to purchase a municipal bond debt service reserve insurance policy, (e) to provide for Reserve Fund surety, and (f) to pay for the costs of issuance incurred. The District is not liable in any manner for the payment of the debt service in the event of default by the property owners.

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE - GOVERNMENTAL FUND
For the year ended June 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
FUND BALANCE, JULY 1	\$ 1,330,558	\$ 1,330,558	\$ 1,330,558	\$ -
RESOURCES (INFLOWS):				
Taxes and special assessments	714,000	714,000	775,382	61,382
Revenues from use of money and property	2,700	2,700	5,192	2,492
Amount Available For Appropriations	716,700	716,700	780,574	63,874
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
Landscape maintenance	619,500	619,500	614,500	5,000
General and administrative	67,600	67,600	62,247	5,353
Security services	125,000	125,000	90,000	35,000
Total Charges to Appropriations	812,100	812,100	766,747	45,353
EXCESS OF RESOURCES OVER (UNDER) CHARGES TO APPROPRIATIONS	(95,400)	(95,400)	13,827	109,227
FUND BALANCE, JUNE 30	\$ 1,235,158	\$ 1,235,158	\$ 1,344,385	\$ 109,227

1. 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 non-budgeted 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 which are encumbered at year end lapse, and then 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, 2016.
- d. Budget information is adopted for 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 generally accepted accounting principles (GAAP).