

**FAIRBANKS RANCH
COMMUNITY SERVICES DISTRICT
FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**



Leaf & Cole, LLP
Certified Public Accountants

**FAIRBANKS RANCH COMMUNITY SERVICES DISTRICT
FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1 - 2
Management's Discussion and Analysis	3 - 6
Statements of Net Position	7
Statements of Revenues, Expenses and Changes in Net Position	8
Statements of Cash Flows	9
Notes to Financial Statements	10 - 20



Leaf & Cole, LLP
Certified Public Accountants
A Partnership of Professional Corporations

Independent Auditor's Report

To the Board of Directors
Fairbanks Ranch Community Services District
750 Second Street
Encinitas, California 92024

Report on Financial Statements

We have audited the accompanying financial statements of Fairbanks Ranch Community Services District, which comprise the statements of net position as of June 30, 2015 and 2014, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity'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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fairbanks Ranch Community Services District as of June 30, 2015 and 2014, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 - 6 be presented to supplement the financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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 financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Leaf & Cole LLP

San Diego, California
February 1, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the financial performance of Fairbanks Ranch Community Services District (District) provides an overview of the District's financial activities for the year ended June 30, 2015. Please read it in conjunction with the District's financial statements, which begin on page 7.

Financial Statements

This discussion and analysis provides an introduction and a brief description of the District's financial statements, including the relationship of the statements to each other and the significant differences in the information they provide. The District's financial statements include four components:

- Statements of Net Position
- Statements of Revenues, Expenses and Changes in Net Position
- Statements of Cash Flows
- Notes to the Financial Statements.

The statement of net position includes all the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference between the two reported as net position. Net position may be displayed in the categories:

- Net Investment in Capital Assets
- Restricted
- Unrestricted

The statement of net position provides the basis for computing rate of return, evaluating the capital structure of the District and assessing its liquidity and financial flexibility.

The statement of revenues, expenses and changes in net position presents information which shows how the District's net position changed during the year. All of the current year's revenues and expenses are recorded when the underlying transaction occurs, regardless of the timing of the related cash flows. The statement of revenues, expenses and changes in net position measures the success of the District's operations over the past year and determines whether the District has recovered its costs through sewer service charges.

The statement of cash flows provides information regarding the District's cash receipts and cash disbursements during the year. This statement may report cash activity in four categories:

- Operations
- Capital and related financing
- Noncapital financing
- Investing

This statement differs from the statement of revenues, expenses and changes in net position because the statement accounts only for transactions that result in cash receipts or cash disbursements.

The notes to the financial statements provide a description of the accounting policies used to prepare the financial statements and present material disclosures required by generally accepted accounting principles that are not otherwise present in the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Highlights

- The District's net position decreased by \$110,534 to \$6,750,132 for the year ended June 30, 2015.
- The District's total revenues decreased from \$623,613 for the year ended June 30, 2014, to \$621,106 for the year ended June 30, 2015.
- The District's total expenses increased from \$657,086 for the year ended June 30, 2014, to \$731,640 for the year ended June 30, 2015. This was driven by an increase in sewage collection and treatment, and increased depreciation.

Financial Analysis of the District

Net Position

The following is a summary of the District's statements of net position at June 30:

	<u>2015</u>	<u>2014</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
<u>Assets:</u>				
Current assets	\$ 3,095,718	\$ 3,320,692	\$ (224,974)	(6.77)
Capital assets	3,853,626	3,911,731	(58,105)	(1.49)
Total Assets	<u>\$ 6,949,344</u>	<u>\$ 7,232,423</u>	<u>\$ (283,079)</u>	(3.91)
<u>Liabilities:</u>				
Current liabilities	\$ 199,212	\$ 252,435	\$ (53,223)	(21.08)
Noncurrent liabilities	-	119,322	(119,322)	(100.00)
Total liabilities	<u>\$ 199,212</u>	<u>\$ 371,757</u>	<u>\$ (172,545)</u>	(46.41)
<u>Net Position:</u>				
Net investment in capital assets	\$ 3,714,811	\$ 3,619,110	\$ 95,701	2.64
Unrestricted	3,035,321	3,241,556	(206,235)	(6.36)
Total Net Position	<u>\$ 6,750,132</u>	<u>\$ 6,860,666</u>	<u>\$ (110,534)</u>	(1.61)

As you can see from the table above, net position decreased by \$110,534 from fiscal year 2014 to 2015. Looking more carefully you will note that this is being driven by unrestricted net position (that which can be used to finance day-to-day operations) which decreased \$206,235. This is due to a decrease in net working capital, resulting from the use of cash to fund capital projects, service debt, and repair equipment.

Net investment in capital assets increased \$95,701 in fiscal year 2015. This increase is the result of principal paid on the District's long-term debt and its investment in capital assets, net of depreciation expense.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Analysis of the District (Continued)

Revenues, Expenses and Changes in Net Position

The following is a summary of the District's revenues, expenses and changes in net position for the years ended June 30:

	<u>2015</u>	<u>2014</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Operating revenues	\$ 613,317	\$ 615,916	\$ (2,599)	(0.42)
Nonoperating revenues	<u>7,789</u>	<u>7,697</u>	<u>92</u>	1.20
Total Revenues	<u>621,106</u>	<u>623,613</u>	<u>(2,507)</u>	(0.40)
Depreciation expense	190,976	171,337	19,639	11.46
Other operating expense	538,529	480,363	58,166	12.11
Nonoperating expense	<u>2,135</u>	<u>5,386</u>	<u>(3,251)</u>	(60.36)
Total Expenses	<u>731,640</u>	<u>657,086</u>	<u>74,554</u>	11.35
Change in Net Position	(110,534)	(33,473)	(77,061)	(230.22)
Net Position at Beginning of Year	<u>6,860,666</u>	<u>6,894,139</u>	<u>(33,473)</u>	(0.49)
Net Position at End of Year	<u>\$ 6,750,132</u>	<u>\$ 6,860,666</u>	<u>\$ (110,534)</u>	1.61

The District's operating revenues decreased by \$2,559 in fiscal year 2015. Nonoperating revenues increased by \$92 in fiscal year 2015 due to an increase in investment income. Operating costs, exclusive of depreciation, increased \$58,166 in fiscal year 2015 due to increased power usage and repairs and maintenance.

Capital Assets

Capital assets consist of the following at June 30:

	<u>2015</u>	<u>2014</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
<u>Capital Assets Not Being Depreciated:</u>				
Land	\$ <u>1,121,000</u>	\$ <u>1,121,000</u>	\$ -	-
Total Capital Assets Not Being Depreciated	<u>1,121,000</u>	<u>1,121,000</u>	<u>-</u>	-
<u>Capital Assets Being Depreciated:</u>				
Structures and improvements	5,448,936	5,448,936	-	-
Equipment	1,920,881	1,788,010	132,871	7.43
Service vehicle	<u>18,443</u>	<u>18,443</u>	<u>-</u>	-
Total Capital Assets Being Depreciated	<u>7,388,260</u>	<u>7,255,389</u>	<u>132,871</u>	1.83
Less: Accumulated depreciation	<u>(4,655,634)</u>	<u>(4,464,658)</u>	<u>(190,976)</u>	4.28
Net Capital Assets Being Depreciated	<u>2,732,626</u>	<u>2,790,731</u>	<u>(58,105)</u>	(2.08)
Net Capital Assets	<u>\$ 3,853,626</u>	<u>\$ 3,911,731</u>	<u>\$ (58,105)</u>	(1.49)

The net additions of capital assets being depreciated for fiscal year 2015 totaled \$132,871. Capital asset additions consisted of oxidation ditch aerator, spare digester aerator, off-site pump station electrical rehabilitation, Calle Composeco Force main bypass and other capital acquisitions.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Analysis of the District (Continued)

Noncurrent Liabilities

Noncurrent liabilities consist of the following at June 30:

	<u>2015</u>	<u>2014</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Note payable	\$ <u>119,322</u>	\$ <u>234,759</u>	\$ <u>(115,437)</u>	(49.17)

The District reduced its debt outstanding by \$115,437 during the year ended June 30, 2015. No new debt has been issued.

Economic Factors and Next Year's Budget and Rates

The District's Board of Directors and management consider many factors when setting the fiscal year budget. In a comparison of the 2016 and 2015 budgets, operating revenues remain relatively similar. Operating expenses will also remain similar to prior year.

Contacting the District's Financial Manager

This financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Fairbanks Ranch Community Services District General Manager, Chuck Duffy, at (760) 942-5147 or email cduffy@dudek.com.

**FAIRBANKS RANCH COMMUNITY SERVICES DISTRICT
STATEMENTS OF NET POSITION
JUNE 30, 2015 AND 2014**

<u>ASSETS</u>	<u>2015</u>	<u>2014</u>
<u>Current Assets:</u> (Notes 1 and 2)		
Cash and cash equivalents	\$ 3,093,134	\$ 3,303,770
Accounts receivable	450	15,165
Accrued interest receivable	2,134	1,757
Total Current Assets	<u>3,095,718</u>	<u>3,320,692</u>
<u>Noncurrent Assets:</u> (Notes 1 and 3)		
Capital Assets:		
Nondepreciable	1,121,000	1,121,000
Depreciable, net of accumulated depreciation	<u>2,732,626</u>	<u>2,790,731</u>
Total Capital Assets, net	<u>3,853,626</u>	<u>3,911,731</u>
Total Noncurrent Assets	<u>3,853,626</u>	<u>3,911,731</u>
TOTAL ASSETS	<u><u>\$ 6,949,344</u></u>	<u><u>\$ 7,232,423</u></u>
 LIABILITIES		
<u>Current Liabilities:</u> (Notes 1 and 4)		
Accounts payable	\$ 79,466	\$ 134,146
Interest payable	424	2,852
Current portion of note payable	<u>119,322</u>	<u>115,437</u>
Total Current Liabilities	<u>199,212</u>	<u>252,435</u>
<u>Noncurrent Liabilities:</u> (Notes 1 and 4)		
Note payable, net of current portion	<u>-</u>	<u>119,322</u>
Total Liabilities	<u>199,212</u>	<u>371,757</u>
<u>Contingencies</u> (Note 5)		
<u>NET POSITION:</u>		
Net investment in capital assets	3,714,811	3,619,110
Unrestricted	<u>3,035,321</u>	<u>3,241,556</u>
Total Net Position	<u><u>\$ 6,750,132</u></u>	<u><u>\$ 6,860,666</u></u>

The accompanying notes are an integral part of the financial statements.

**FAIRBANKS RANCH COMMUNITY SERVICES DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
<u>Operating Revenues:</u>		
Sewer service charges	\$ <u>613,317</u>	\$ <u>615,916</u>
<u>Operating Expenses:</u>		
Sewage collection and treatment	432,270	377,605
Depreciation	190,976	171,337
Administrative expenses	<u>106,259</u>	<u>102,758</u>
Total Operating Expenses	<u>729,505</u>	<u>651,700</u>
Operating Loss	<u>(116,188)</u>	<u>(35,784)</u>
<u>Nonoperating Revenues and (Expenses):</u>		
Investment income	7,789	7,522
Other revenue	-	175
Interest expense	<u>(2,135)</u>	<u>(5,386)</u>
Total Nonoperating Revenues and (Expenses)	<u>5,654</u>	<u>2,311</u>
Change in Net Position	(110,534)	(33,473)
Net Position at Beginning of Year	<u>6,860,666</u>	<u>6,894,139</u>
NET POSITION AT END OF YEAR	<u><u>\$ 6,750,132</u></u>	<u><u>\$ 6,860,666</u></u>

The accompanying notes are an integral part of the financial statements.

**FAIRBANKS RANCH COMMUNITY SERVICES DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
<u>Cash Flow From Operating Activities:</u>		
Receipts from customers	\$ 628,032	\$ 600,880
Payments to suppliers	<u>(554,840)</u>	<u>(475,784)</u>
Net Cash Provided by Operating Activities	<u>73,192</u>	<u>125,096</u>
<u>Cash Flows From Capital and Related Financing Activities:</u>		
Principal paid on note payable	(115,437)	(113,243)
Interest paid	<u>(4,563)</u>	<u>(6,757)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(120,000)</u>	<u>(120,000)</u>
<u>Cash Flows From Investing Activities:</u>		
Acquisition and construction of capital assets	(171,240)	(98,527)
Investment income	7,412	7,769
Other revenue	-	175
Net Cash Used in Investing Activities	<u>(163,828)</u>	<u>(90,583)</u>
Net Decrease in Cash and Cash Equivalents	(210,636)	(85,487)
Cash and Cash Equivalents at Beginning of Year	<u>3,303,770</u>	<u>3,389,257</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 3,093,134</u>	<u>\$ 3,303,770</u>
<u>Reconciliation of Operating Loss to Net</u>		
<u>Cash Provided by Operating Activities:</u>		
Operating loss	\$ (116,188)	\$ (35,784)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	190,976	171,337
Change in assets and liabilities:		
Accounts receivable	14,715	(15,036)
Accounts payable	<u>(16,311)</u>	<u>4,579</u>
Net Cash Provided by Operating Activities	<u>\$ 73,192</u>	<u>\$ 125,096</u>
<u>Supplemental Disclosures of Cash Flow Information:</u>		
Acquisition and construction of capital assets held in accounts payable	<u>\$ 19,493</u>	<u>\$ 57,862</u>

The accompanying notes are an integral part of the financial statements.

FAIRBANKS RANCH COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

Note 1 - Organization and Significant Accounting Policies:

Organization

The Fairbanks Ranch Community Services District (the "District") was formed in 1987 as the result of a reorganization involving the dissolution of the Fairbanks Ranch Sanitation District (FRSD). As a successor agency, the District encompasses the boundaries of the FRSD. The service boundary encompasses over 1,200 acres located near the intersection of San Dieguito Road and El Apajo Road, and serves approximately 610 homes, along with the Fairbanks Plaza, the Solana Santa Fe Elementary School, Fairbanks Ranch Association and the Fairbanks Ranch Fire Station. These services are funded by an annual sewer service charge levied on each parcel receiving sewer service.

The District is regulated under the provisions of Section 61000 of the California Government Code and is governed by a locally elected, five member board of directors. At the time of its formation, the District was granted the ability to provide wastewater service, public street lighting maintenance, roadside landscape maintenance, and water reclamation.

The District operates the Fairbanks Ranch Water Pollution Control Facility. The facility treats an average wastewater flow of 163,000 gallons per day (gpd), with a maximum rated capacity of 275,000 gpd.

The criteria used in determining the scope of the reporting entity are based on the provisions of GASB Cod. Sec. 2100, "Defining the Financial Reporting Entity". The District is the primary government unit. Component units are those entities which are financially accountable to the primary government, either because the District appoints a voting majority of the component unit's board, or because the component unit will provide a financial benefit or impose a financial burden on the District. The District has no component units.

Significant Accounting Policies

A summary of the District's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

Method of Accounting

The District utilizes accounting principles appropriate for an enterprise fund to record its activities. Accordingly, the statements of net position and the statements of revenues, expenses and changes in net position have been prepared using the economic resources measurement focus and the accrual basis of accounting.

The District has not elected to apply the option allowed in GASB Cod. Sec. P80.103, "Proprietary Fund Accounting and Financial Reporting" and as a consequence will continue to apply GASB statements and interpretations.

**FAIRBANKS RANCH COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources 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.

Revenue Recognition

The District recognizes revenues from sewer service charges when they are earned. Operating activities generally result from providing services and producing and delivering goods. As such, the District considers sewer service charges to be operating revenues.

Investments

Investments are stated at their fair value which represents the quoted or stated market value. Investments that are not traded on a market, such as investments in external pools, are valued based on the stated fair value as represented by the external pool.

Allowance for Doubtful Accounts

Bad debts are recognized on the allowance method based on historical experience and management's evaluation of outstanding receivables. Management believes that all accounts receivable are fully collectible; therefore no allowance for doubtful accounts was recorded at June 30, 2015 and 2014.

Taxes and Assessments

Sewer service charges are billed with property taxes and assessments by the County of San Diego to property owners. The District's property tax calendar for the fiscal year ended June 30, 2015 was as follows:

Lien Date:	January 1
Levy Date:	July 1
Due Date:	First Installment - November 1 Second Installment - February 1
Delinquent Date:	First Installment - December 10 Second Installment - April 10

The County collects the sewer service charges from the property owners and remits the funds to the District periodically during the year. The District has an arrangement (Teeter Plan) with the County whereby the County remits sewer service charges which are delinquent as of each June 30 to the District in exchange for the right to retain the delinquent charges, penalties, and interest when these amounts are subsequently collected.

**FAIRBANKS RANCH COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Capital Assets

Capital assets purchased or acquired with a cost exceeding \$5,000 and an estimated useful life of more than one year are reported at historical cost. Contributed assets are recorded at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation is calculated on the straight-line method over the following estimated useful lives:

Structures and improvements	15 - 50 years
Equipment	3 - 20 years
Service vehicle	20 years

Depreciation aggregated \$190,976 and \$171,337 for the years ended June 30, 2015 and 2014, respectively.

Interest

The District incurred interest charges on noncurrent liabilities. No interest was capitalized as a cost of construction for the years ended June 30, 2015 and 2014.

Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The District pays an annual premium for commercial insurance covering bodily injury, property damage, personal injury, automobile liability, and public official's errors and omissions. In addition, the District carries commercial insurance for other risks of loss such as fire damage liability and crime coverage, as well as workmen's compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Economic Dependency

Virtually all of the District's revenues are derived from sewer service charges, which are billed on the County's property tax roll to approximately 610 homes, Fairbanks Plaza, the Solana Santa Fe Elementary School District, Fairbanks Ranch Association and the Fairbanks Ranch Fire Station. Interruption of this source of revenue would impact the District negatively.

Cash and Cash Equivalents

For purposes of statement of cash flows, the District considers all highly liquid investment instruments purchased with a maturity of three months or less to be cash equivalents.

Subsequent Events

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through February 1, 2016, the date the financial statements were available to be issued.

**FAIRBANKS RANCH COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

Note 2 - Cash and Investments:

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. The table also identifies certain provisions of the California Government Code that address interest rate risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provision 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>Quality Requirements</u>
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
State Obligations	5 years	None	None
CA Local Agency Obligations	5 years	None	None
US Agency Securities	5 years	None	None
Bankers' Acceptances	180 days	40%	None
Commercial Paper	270 days	25%	A1
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20%	None
Medium-Term Notes (Corporation Debt Investment Grade)	5 years	30%	A Rating
Mutual Funds	N/A	20%	Multiple
Money Market Mutual Funds	N/A	20%	Multiple
Collateralized Bank Deposits	5 years	None	None
Mortgage Pass-Through Securities	5 years	20%	AA Rating
Time Deposits	5 years	None	None
California Local Agency Investment Funds (LAIF)	N/A	None	None
County Pooled Investments	N/A	None	None

The District's Investment Policy is more restrictive than the California Government Code. The policy restricts the District from investing in anything other than the California Local Agency Investment Fund or money market deposits that are FDIC insured or collateralized.

Cash and cash equivalents held by the District were comprised of the following at June 30:

	<u>Mature in 1 Year or Less</u>	<u>2015 Total</u>	<u>2014 Total</u>
California Local Agency Investment Fund (LAIF)	\$ 3,018,552	\$ 3,018,552	\$ 3,186,140
Deposits with financial institutions	74,582	74,582	117,630
Total Cash and Cash Equivalents	<u>\$ 3,093,134</u>	<u>\$ 3,093,134</u>	<u>\$ 3,303,770</u>

**FAIRBANKS RANCH COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

Note 2 - Cash and Investments: (Continued)

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. The District manages its exposure to interest rate risk by only investing in the California Local Agency Investment Fund or deposits with financial institutions that are FDIC insured or collateralized and by timing cash flows from maturities so that a portion of the portfolio is maturing over time as necessary to provide the cash flows 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 in the previous table that shows the distribution of the District's investments by maturity as of June 30, 2015.

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 actual rating as of the year end for each investment type.

<u>Investment</u>	<u>Rating as of Year End Standard & Poor's</u>
California Local Agency Investment Fund	Not Rated

Concentration of Credit Risk

Concentration of credit is the risk of loss attributed to the magnitude of the District's investment in a single issue.

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. The District holds no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments.

**FAIRBANKS RANCH COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

Note 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, the District 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 counter-party (e.g., broker-dealer) the District 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.

At June 30, 2015, none of the District's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts. At June 30, 2015, no District investments were held by the same broker-dealer (counterparty) that was used by the District to buy the securities.

Investment in State Investment Pool

The District is a voluntary participant in the California Local Agency Investment Fund (LAIF) that is regulated by 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 cost basis.

The statements of cash flows have been prepared by considering all investment instruments purchased with a maturity of three months or less to be cash equivalents. Following is a detail at June 30:

	<u>2015</u>	<u>2014</u>
California Local Agency Investment Fund (LAIF)	\$ 3,018,552	\$ 3,186,140
Deposits with financial institutions	74,582	117,630
Total	<u>\$ 3,093,134</u>	<u>\$ 3,303,770</u>

FAIRBANKS RANCH COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

Note 3 - Capital Assets:

Capital assets consist of the following at June 30:

	2015			
	Balance at June 30, 2014	Additions	Deletions	Balance at June 30, 2015
Capital Assets Not Being Depreciated:				
Land	\$ 1,121,000	\$ -	\$ -	\$ 1,121,000
Total Capital Assets Not Being Depreciated	<u>1,121,000</u>	<u>-</u>	<u>-</u>	<u>1,121,000</u>
Capital Assets Being Depreciated:				
Structures and improvements	5,448,936	-	-	5,448,936
Equipment	1,788,010	132,871	-	1,920,881
Service vehicle	18,443	-	-	18,443
Total Capital Assets Being Depreciated	<u>7,255,389</u>	<u>132,871</u>	<u>-</u>	<u>7,388,260</u>
Less Accumulated Depreciation For:				
Structures and improvements	(3,079,075)	(123,351)	-	(3,202,426)
Equipment	(1,380,210)	(66,703)	-	(1,446,913)
Service vehicle	(5,373)	(922)	-	(6,295)
Total Accumulated Depreciation	<u>(4,464,658)</u>	<u>(190,976)</u>	<u>-</u>	<u>(4,655,634)</u>
Net Capital Assets Being Depreciated	<u>2,790,731</u>	<u>(58,105)</u>	<u>-</u>	<u>2,732,626</u>
Net Capital Assets	<u>\$ 3,911,731</u>	<u>\$ (58,105)</u>	<u>\$ -</u>	<u>\$ 3,853,626</u>
	2014			
	Balance at June 30, 2013	Additions	Deletions	Balance at June 30, 2014
Capital Assets Not Being Depreciated:				
Land	\$ 1,121,000	\$ -	\$ -	\$ 1,121,000
Total Capital Assets Not Being Depreciated	<u>1,121,000</u>	<u>-</u>	<u>-</u>	<u>1,121,000</u>
Capital Assets Being Depreciated:				
Structures and improvements	5,448,936	-	-	5,448,936
Equipment	1,631,621	156,389	-	1,788,010
Service vehicle	18,443	-	-	18,443
Total Capital Assets Being Depreciated	<u>7,099,000</u>	<u>156,389</u>	<u>-</u>	<u>7,255,389</u>
Less Accumulated Depreciation For:				
Structures and improvements	(2,955,724)	(123,351)	-	(3,079,075)
Equipment	(1,333,145)	(47,065)	-	(1,380,210)
Service vehicle	(4,452)	(921)	-	(5,373)
Total Accumulated Depreciation	<u>(4,293,321)</u>	<u>(171,337)</u>	<u>-</u>	<u>(4,464,658)</u>
Net Capital Assets Being Depreciated	<u>2,805,679</u>	<u>(14,948)</u>	<u>-</u>	<u>2,790,731</u>
Net Capital Assets	<u>\$ 3,926,679</u>	<u>\$ (14,948)</u>	<u>\$ -</u>	<u>\$ 3,911,731</u>

**FAIRBANKS RANCH COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

Note 4 - Noncurrent Liabilities:

Noncurrent liabilities consist of the following at June 30:

	<u>Balance at June 30, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2015</u>	<u>Due Within One Year</u>
Note payable	\$ 234,759	\$ -	\$ (115,437)	\$ 119,322	\$ 119,322

Note payable consists of the following at June 30:

	<u>2015</u>	<u>2014</u>
In June 1994, the District entered into a loan agreement through the State Revolving Fund (SRF) loan program. The District's SRF loan was disbursed to the District based upon project expenditures that were submitted to the State Water Board. The SRF loan is payable in annual installments of \$120,000 each November 15 th for 20 years, including imputed interest at 1.92%. The SRF loan matures November 15, 2015 and is secured by a pledge of sewer service charge assessments.	\$ 119,322	\$ 234,759
Less: Current portion	(119,322)	(115,437)
Total Note Payable	<u>\$ -</u>	<u>\$ 119,322</u>

Debt service requirements on the note payable are as follows:

<u>Years Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 119,322	\$ 678	\$ 120,000

Note 5 - Contingencies:

Legal claims and lawsuits arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the District's financial position.

FAIRBANKS RANCH COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

Note 6 - New Governmental Accounting Standards:

GASB No. 66

In March 2012, the Governmental Accounting Standards Board issued Statement No. 66, "Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62". This pronouncement is effective for periods beginning after December 15, 2012. This statement resolves conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", and No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements". This Statement amends Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. This Statement also amends Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) service fee rate. These changes clarify how to apply Statement No. 13, "Accounting for Operating Leases with Scheduled Rent Increases", and result in guidance that is consistent with the requirements in Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues", respectively. This pronouncement did not have a material effect on the financial statements of the District in the year of implementation.

GASB No. 67

In June 2012, the Governmental Accounting Standards Board issued Statement No. 67, "Financial Reporting for Pension Plans - an Amendment of GASB Statement No. 25". This pronouncement is effective for periods beginning after June 15, 2013. This Statement replaces the requirements of Statements No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans", and No. 50, "Pension Disclosures", as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. This pronouncement did not have a material effect on the financial statements of the District in the year of implementation.

FAIRBANKS RANCH COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

Note 11 - New Governmental Accounting Standards: (Continued)

GASB No. 68

In June 2012, the Governmental Accounting Standards Board issued Statement No. 68, "Accounting and Financial Reporting for Pensions". This pronouncement is effective for periods beginning after June 15, 2014. This pronouncement establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans, as well as for nonemployer governments that have a legal obligation to contribute to those plans. This pronouncement did not have a material effect on the financial statements of the District in the year of implementation.

GASB No. 69

In January 2013, The Governmental Accounting Standard Board issued Statement No. 69, "Government Combinations and Disposals of Government Operations." This pronouncement is effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013 and should be applied on a prospective basis. Earlier application is encouraged. This statement requires the use of carrying values to measure the assets and liabilities in a government merger. Conversely, this statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. This statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. This statement provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold. This pronouncement did not have a material effect on the financial statements of the District in the year of implementation.

GASB No. 70

In April 2013, The Governmental Accounting Standard Board issued Statement No. 70, "Accounting and Financial Reporting for Nonexchange Financial Guarantees." This pronouncement is effective for financial reporting periods beginning after June 15, 2013. Earlier application is encouraged. This statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data indicate that the government will be required to make a payment on the guarantee. The Government that issued the obligation guaranteed in a nonexchange transaction should recognize revenue to the extent that its guaranteed obligations have been reduced. If that government is required to repay a guarantor for making a payment, they should continue to reflect the liability until legally released as an obligor. The District has not extended any nonexchange financial guarantees at the date of these financial statements.

GASB No. 71

In November 2013, The Governmental Accounting Standards Board issue Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68. This pronouncement is effective simultaneously with the implementation of Statement 68. This statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. This pronouncement did not have a material effect on the financial statements of the District in the year of implementation.

FAIRBANKS RANCH COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

Note 11 - New Governmental Accounting Standards: (Continued)

GASB No. 72

In February 2015, The Governmental Accounting Standards Board issued Statement No. 72, "Fair Value Measurement and Application." This pronouncement provides guidance for determining fair value measurement for financial reporting purposes and provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. Governments are required to use valuation techniques that are appropriate under the circumstances and for which sufficient data is available to measure fair value. Required disclosures include the level of fair value hierarchy and valuation techniques and should be organized by type of asset or liability. This pronouncement is effective for financial statements for periods beginning after June 15, 2015. Earlier application is encouraged. The District has not yet determined the effects of this pronouncement on the financial statements of the District in the year of implementation.

GASB No. 73

In June 2015, The Governmental Accounting Standards Board issued Statement No. 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." This pronouncement establishes requirements for defined benefit pension plans that are not within the scope of Statement No. 68, as well as assets accumulated for purposes of providing those pensions. It establishes requirements for defined contribution pension plans that are not within the scope of Statement No. 68 and amends certain provisions of Statement No. 67. The pronouncement extends the approach to accounting and financial reporting established in Statement 68 to all pensions with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement 68 be included in the notes and required supplementary information by all similarly situated employers and nonemployer contributing entities. The requirements of this statement addressing accounting and financial reporting for employers that are not within the scope of GASB 68 are effective for financial statements for fiscal years beginning after June 15, 2016. All other provisions are effective for periods beginning after June 15, 2015. This pronouncement is not anticipated to have a material effect on the financial statements of the District.