

FAIRBANKS RANCH
COMMUNITY SERVICES DISTRICT
FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011



Leaf & Cole, LLP
Certified Public Accountants

**FAIRBANKS RANCH COMMUNITY SERVICES DISTRICT
FINANCIAL STATEMENTS
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TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	2 - 5
Statements of Net Assets	6
Statements of Revenues, Expenses and Changes in Net Assets	7
Statements of Cash Flows	8
Notes to Financial Statements	9 - 18



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Independent Auditor's Report

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

We have audited the accompanying statements of net assets of Fairbanks Ranch Community Services District (the "District") as of June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the District's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America, as well as the accounting systems prescribed by the State Controller's Office and State Regulations governing Special Districts.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 2 through 5 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 audits 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
January 9, 2013

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 years ended June 30, 2012 and 2011. Please read it in conjunction with the District's financial statements, which follow this section.

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:

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

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

- Invested in Capital Assets, Net of Related Debt
- Restricted Net Assets
- Unrestricted Net Assets

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

The statement of revenues, expenses and changes in net assets presents information which shows how the District's net assets 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 assets 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 assets 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 assets increased by \$68,526 or 1.01 percent. This increase is principally the result of operating income of \$66,123.
- During the year, the District's total revenues decreased to \$687,432 or (0.44) percent, and total expenses increased to \$618,906 or 5.01 percent.

Financial Analysis of the District

Net Assets

The following is a summary of the District's statement of net assets at June 30, 2012 and 2011, respectively:

	<u>2012</u>	<u>2011</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
<u>Assets:</u>				
Current and other assets	\$ 3,475,820	\$ 3,424,739	\$ 51,081	1.49
Capital assets	<u>3,924,743</u>	<u>4,027,925</u>	<u>(103,182)</u>	(2.56)
Total Assets	<u>\$ 7,400,563</u>	<u>\$ 7,452,664</u>	<u>\$ (52,101)</u>	(0.70)
<u>Liabilities:</u>				
Noncurrent liabilities	\$ 348,002	\$ 459,093	\$ (111,091)	(24.20)
Other liabilities	<u>171,659</u>	<u>181,195</u>	<u>(9,536)</u>	(5.26)
Total liabilities	<u>\$ 519,661</u>	<u>\$ 640,288</u>	<u>\$ (120,627)</u>	(18.84)
<u>Net Assets:</u>				
Invested in capital assets, net of related debt	\$ 3,465,650	\$ 3,459,852	\$ 5,798	0.17
Unrestricted	<u>3,415,252</u>	<u>3,352,524</u>	<u>62,728</u>	1.87
Total Net Assets	<u>\$ 6,880,902</u>	<u>\$ 6,812,376</u>	<u>\$ 68,526</u>	1.01

As you can see from the table above, net assets increased by \$68,526 from fiscal year 2011 to 2012. Looking more carefully you will note that most of this change was in unrestricted net assets (those that can be used to finance day-to-day operations) which increased \$62,728 as a result of operating income of \$66,123.

Net assets invested in capital assets, net of related debt, increased \$5,798 from fiscal year 2011 to 2012. This increase is the net result of principal paid on the District's noncurrent liabilities and additions in capital assets offsetting the reductions from depreciation expense.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Analysis of the District (Continued)

Revenues, Expenses and Changes in Net Assets

The following is a summary of the District's revenues, expenses and changes in net assets for the years ended June 30, 2012 and 2011, respectively:

	<u>2012</u>	<u>2011</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Operating revenues	\$ 675,329	\$ 675,282	\$ 47	0.01
Nonoperating revenues	12,103	15,176	(3,073)	(20.25)
Total Revenues	<u>687,432</u>	<u>690,458</u>	<u>(3,026)</u>	(0.44)
Depreciation expense	145,765	143,604	2,161	1.50
Other operating expense	463,441	433,959	29,482	6.79
Nonoperating expense	9,700	11,795	(2,095)	(17.76)
Total Expenses	<u>618,906</u>	<u>589,358</u>	<u>29,548</u>	5.01
Change in Net Assets	68,526	101,100	(32,574)	(32.22)
Net Assets at Beginning of Year	<u>6,812,376</u>	<u>6,711,276</u>	<u>101,100</u>	1.51
Net Assets at End of Year	<u>\$ 6,880,902</u>	<u>\$ 6,812,376</u>	<u>\$ 68,526</u>	1.01

The District's operating revenues increased by \$47 in fiscal year 2012. Nonoperating revenues decreased by \$3,073 in fiscal year 2012 due to a decrease in investment income as a result of a decreased interest earnings rate on cash equivalent balances from fiscal year 2011 to 2012. Operating costs, exclusive of depreciation, increased \$29,482 in fiscal year 2012 due to increased landscape maintenance and additional treatment and collection costs incurred.

Capital Assets

Capital assets consist of the following at June 30, 2012 and June 30, 2011, respectively:

	<u>2012</u>	<u>2011</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Capital Assets Not Being Depreciated:				
Land	\$ 1,121,000	\$ 1,121,000	\$ -	0.00
Construction-in-progress	25,479	-	25,479	100.00
Total Capital Assets Not Being Depreciated	<u>1,146,479</u>	<u>1,121,000</u>	<u>25,479</u>	
Capital Assets Being Depreciated:				
Structures and improvements	5,448,936	5,448,936	-	0.00
Equipment	1,450,969	1,433,865	17,104	1.19
Service vehicle	18,423	18,423	-	0.00
Total Capital Assets Being Depreciated	<u>6,918,328</u>	<u>6,901,224</u>	<u>17,104</u>	0.25
Less: Accumulated depreciation	<u>(4,140,064)</u>	<u>(3,994,299)</u>	<u>(145,765)</u>	(3.65)
Net Capital Assets Being Depreciated	<u>2,778,264</u>	<u>2,906,925</u>	<u>(128,661)</u>	(4.43)
Net Capital Assets	<u>\$ 3,924,743</u>	<u>\$ 4,027,925</u>	<u>\$ (103,182)</u>	(2.56)

The net additions of capital assets being depreciated for fiscal year 2012 totaled \$17,104. Capital asset additions consisted of installed digester aerator motors.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Analysis of the District (Continued)

Noncurrent Liabilities

The following is a summary of noncurrent liabilities at June 30, 2012 and 2011, respectively:

	<u>2012</u>	<u>2011</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Note payable	\$ <u>459,093</u>	\$ <u>568,073</u>	\$ <u>(108,980)</u>	(19.18)

The District reduced its debt outstanding by \$108,980 during the year ended June 30, 2012. 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 2013 and 2012 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 via internet at www.frcsd.com.

**FAIRBANKS RANCH COMMUNITY SERVICES DISTRICT
STATEMENTS OF NET ASSETS
JUNE 30, 2012 AND 2011**

ASSETS	<u>2012</u>	<u>2011</u>
<u>Current Assets:</u> (Notes 1 and 2)		
Cash and cash equivalents	\$ 3,472,389	\$ 3,420,926
Accounts receivable	493	-
Accrued interest receivable	2,938	3,813
Total Current Assets	3,475,820	3,424,739
<u>Capital Assets</u> (Notes 1 and 3)	3,924,743	4,027,925
TOTAL ASSETS	\$ 7,400,563	\$ 7,452,664
LIABILITIES AND NET ASSETS		
<u>Current Liabilities:</u> (Notes 1 and 4)		
Accounts payable	\$ 55,000	\$ 65,327
Interest payable	5,568	6,888
Current portion of note payable	111,091	108,980
Total Current Liabilities	171,659	181,195
<u>Noncurrent Liabilities:</u> (Notes 1 and 4)		
Note payable, net of current portion	348,002	459,093
Total Liabilities	519,661	640,288
<u>Contingencies</u> (Note 5)		
<u>Net Assets:</u>		
Invested in capital assets, net of related debt	3,465,650	3,459,852
Unrestricted	3,415,252	3,352,524
Total Net Assets	6,880,902	6,812,376
TOTAL LIABILITIES AND NET ASSETS	\$ 7,400,563	\$ 7,452,664

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

**FAIRBANKS RANCH COMMUNITY SERVICES DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<u>Operating Revenues:</u>		
Sewer service charges	\$ 675,329	\$ 675,282
<u>Operating Expenses:</u>		
Sewage collection and treatment	368,773	339,984
Administrative expenses	94,668	93,975
Depreciation	145,765	143,604
Total Operating Expenses	<u>609,206</u>	<u>577,563</u>
Operating Income	<u>66,123</u>	<u>97,719</u>
<u>Nonoperating Revenues and (Expenses):</u>		
Investment income	12,103	15,176
Interest expense	<u>(9,700)</u>	<u>(11,795)</u>
Total Nonoperating Revenues and (Expenses)	<u>2,403</u>	<u>3,381</u>
Change in Net Assets	68,526	101,100
Net Assets at Beginning of Year	<u>6,812,376</u>	<u>6,711,276</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 6,880,902</u></u>	<u><u>\$ 6,812,376</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, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<u>Cash Flow From Operating Activities:</u>		
Receipts from customers	\$ 674,836	\$ 675,310
Payments to suppliers	(473,768)	(396,088)
Net Cash Provided by Operating Activities	<u>201,068</u>	<u>279,222</u>
<u>Cash Flows From Capital and Related Financing Activities:</u>		
Principal paid on note payable	(108,980)	(106,910)
Interest paid	(11,020)	(13,090)
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	(42,583)	(50,927)
Investment income	12,978	15,680
Net Cash Used in Investing Activities	<u>(29,605)</u>	<u>(35,247)</u>
Net Increase in Cash and Cash Equivalents	51,463	123,975
Cash and Cash Equivalents at Beginning of Year	<u>3,420,926</u>	<u>3,296,951</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 3,472,389</u>	<u>\$ 3,420,926</u>
<u>Reconciliation of Operating Income to Net</u>		
<u>Cash Provided by Operating Activities:</u>		
Operating income	\$ 66,123	\$ 97,719
Adjustments to reconcile operating income		
to net cash provided by operating activities:		
Depreciation	145,765	143,604
Change in current assets and liabilities:		
(Increase) Decrease in accounts receivable	(493)	28
(Increase) Decrease in prepaid expense	-	2,196
Increase (Decrease) in accounts payable	(10,327)	35,675
Net Cash Provided by Operating Activities	<u>\$ 201,068</u>	<u>\$ 279,222</u>

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

FAIRBANKS RANCH COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

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, and serves approximately 610 homes, along with the Fairbanks Plaza, the Solana Santa Fe Elementary School, 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 Statement 14, as amended by GASB Statement 39. 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 assets and the statements of revenues, expenses and changes in net assets 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 Paragraph 7 of the GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Activities" and as a consequence will continue to apply GASB statements and interpretations.

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 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.

**FAIRBANKS RANCH COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

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

Significant Accounting Policies (Continued)

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

Management believes that all receivables are fully collectible; therefore no allowance for doubtful accounts was recorded as of June 30, 2012 and 2011.

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, 2012 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.

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 \$145,765 and \$143,604 for the years ended June 30, 2012 and 2011, respectively.

**FAIRBANKS RANCH COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

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

Significant Accounting Policies (Continued)

Interest

The District incurred interest charges on noncurrent liabilities. No interest was capitalized as a cost of construction for the years ended June 30, 2012 and 2011.

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 with property taxes to approximately 610 homes, Fairbanks Plaza, the Solana Santa Fe Elementary School, and the Fairbanks Ranch Fire Station.

Cash and Cash Equivalents

For purposes of statement of cash flows, the District considers all 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 January 9, 2012, the date the financial statements were available to be issued.

Reclassification

The District has classified certain prior year information to conform with the current year presentation.

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:

**FAIRBANKS RANCH COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

Note 2 - Cash and Investments: (Continued)

Investments Authorized by the California Government Code and the District's Investment Policy (Continued)

<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 Agencies	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

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>2012 Total</u>	<u>2011 Total</u>
California Local Agency Investment Fund (LAIF)	\$ 3,307,680	\$ 3,307,680	\$ 3,369,702
Deposits with financial institutions	164,709	164,709	51,224
Total Cash and Cash Equivalents	<u>\$ 3,472,389</u>	<u>\$ 3,472,389</u>	<u>\$ 3,420,926</u>

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing over time as necessary to provide the cash flows and liquidity needed for operations.

**FAIRBANKS RANCH COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

Note 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 in the previous table that shows the distribution of the District's investments by maturity as of June 30, 2012.

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>
LAIF	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.

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, 2012, none of the District's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts. At June 30, 2012, no District investments were held by the same broker-dealer (counterparty) that was used by the District to buy the securities.

**FAIRBANKS RANCH COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

Note 2 - Cash and Investments: (Continued)

Investment in State Investment Pool

The District is a voluntary participant in the 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 statement of cash flows has been prepared by considering all investment instruments purchased with a maturity of three months or less to be cash equivalents. Following is a detail:

	<u>2012</u>	<u>2011</u>
California Local Agency Investment Fund (LAIF)	\$ 3,307,680	\$ 3,369,702
Deposits with financial institutions	164,709	51,224
Total	\$ 3,472,389	\$ 3,420,926

Note 3 - Capital Assets:

Capital assets consist of the following at June 30:

	2012			Balance at June 30, 2012
	Balance at June 30, 2011	Additions	Deletions	
Capital Assets Not Being Depreciated:				
Land	\$ 1,121,000	\$ -	\$ -	\$ 1,121,000
Construction-in-progress	-	25,479	-	25,479
Total Capital Assets Not Being Depreciated	1,121,000	25,479	-	1,146,479
Capital Assets Being Depreciated:				
Structures and improvements	5,448,936	-	-	5,448,936
Equipment	1,433,865	17,104	-	1,450,969
Service vehicle	18,423	-	-	18,423
Total Capital Assets Being Depreciated	6,901,224	17,104	-	6,918,328
Less Accumulated Depreciation For:				
Structures and improvements	(2,709,023)	(123,351)	-	(2,832,374)
Equipment	(1,282,666)	(21,493)	-	(1,304,159)
Service vehicle	(2,610)	(921)	-	(3,531)
Total Accumulated Depreciation	(3,994,299)	(145,765)	-	(4,140,064)
Net Capital Assets Being Depreciated	2,906,925		-	2,778,264
Net Capital Assets	\$ 4,027,925	\$ (103,182)	\$ -	\$ 3,924,743

**FAIRBANKS RANCH COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

Note 3 - Capital Assets: (Continued)

	2011			
	Balance at June 30, 2010	Additions	Deletions	Balance at June 30, 2011
Capital Assets Not Being Depreciated:				
Land	\$ 1,121,000	\$ -	\$ -	\$ 1,121,000
Capital Assets Being Depreciated:				
Structures and improvements	5,441,336	7,600	-	5,448,936
Equipment	1,390,538	43,327	-	1,433,865
Service vehicle	18,423	-	-	18,423
Total Capital Assets Being Depreciated	<u>6,850,297</u>	<u>50,927</u>	<u>-</u>	<u>6,901,224</u>
Less Accumulated Depreciation For:				
Structures and improvements	(2,584,821)	(124,202)	-	(2,709,023)
Equipment	(1,264,185)	(18,481)	-	(1,282,666)
Service vehicle	(1,689)	(921)	-	(2,610)
Total Accumulated Depreciation	<u>(3,850,695)</u>	<u>(143,604)</u>	<u>-</u>	<u>(3,994,299)</u>
Net Capital Assets Being Depreciated	<u>2,999,602</u>	<u>(92,677)</u>	<u>-</u>	<u>2,906,925</u>
Net Capital Assets	<u>\$ 4,120,602</u>	<u>\$ (92,677)</u>	<u>\$ -</u>	<u>\$ 4,027,925</u>

Note 4 - Noncurrent Liabilities:

Noncurrent liabilities consist of the following at June 30:

	Balance at June 30, 2011	Additions	Deletions	Balance at June 30, 2012	Due Within One Year
Note payable	\$ <u>568,073</u>	\$ <u>-</u>	\$ <u>(108,980)</u>	\$ <u>459,093</u>	\$ <u>111,091</u>

Note payable consists of the following at June 30:

	<u>2012</u>	<u>2011</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.	\$ <u>459,093</u>	\$ <u>568,073</u>
Less: Current portion	<u>(111,091)</u>	<u>(108,980)</u>
Total Note Payable	<u>\$ 348,002</u>	<u>\$ 459,093</u>

**FAIRBANKS RANCH COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

Note 4 - Noncurrent Liabilities: (Continued)

Debt service requirements on the note payable are as follows:

		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$	111,091	\$ 8,909	\$ 120,000
2014		113,243	6,757	120,000
2015		115,437	4,563	120,000
2016		119,322	678	120,000
Total	\$	<u>459,093</u>	<u>\$ 20,907</u>	<u>\$ 480,000</u>

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.

Note 6 - New Governmental Accounting Standards:

GASB No. 62

In December 2010, the Governmental Accounting Standards Board issued Statement No. 62, "Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 FASB and AICPA Pronouncements". This pronouncement is effective for periods beginning after December 15, 2011. Earlier application is encouraged. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the pronouncements of the FASB and the AICPA that was issued on or before November 30, 1989 which does not conflict with or contradict GASB pronouncements. This pronouncement is not anticipated to have a material effect on the financial statements of the District in the year of implementation.

GASB No. 63

In June 2011, the Governmental Accounting Standards Board issued Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position". This pronouncement is effective for periods beginning after December 15, 2011. Concepts Statement No. 4 "Elements of Financial Statements" introduced and defined deferred outflows and deferred inflows as an acquisition or consumption of net assets by the government that is applicable to a future reporting period, which is distinct from assets and liabilities. Concepts Statement No. 4 also defines net position as the residual of all other elements presented in a statement of financial position and renames that measure net position rather than net assets. This pronouncement is not anticipated to 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, 2012 AND 2011

Note 6 - New Governmental Accounting Standards: (Continued)

GASB No. 64

In June 2011, the Governmental Accounting Standards Board issued Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions - an amendment to GASB 53". This pronouncement is effective for periods beginning after June 15, 2011. This statement clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. The Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The District does not have any hedge transactions at June 30, 2012.

GASB No. 65

In March 2012, the Governmental Accounting Standards Board issued Statement No. 65, "Items Previously Reported as Assets and Liabilities". This pronouncement is effective for periods beginning after December 15, 2012. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement amends the financial statement classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement No. 4. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. This pronouncement is not anticipated to have a material effect on the financial statements of the District in the year of implementation.

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 is not anticipated to 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, 2012 AND 2011

Note 6 - New Governmental Accounting Standards: (Continued)

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 is not anticipated to have a material effect on the financial statements of the District in the year of implementation.

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, 2013. 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 is not anticipated to have a material effect on the financial statements of the District in the year of implementation.