

**FAIRBANKS RANCH
COMMUNITY SERVICES DISTRICT
FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**



Leaf & Cole, LLP
Certified Public Accountants

**FAIRBANKS RANCH COMMUNITY SERVICES DISTRICT
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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
605 Third 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, 2017 and 2016, 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, 2017 and 2016, 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 to 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 5, 2018

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, 2017 and 2016. 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 following 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 \$107,252 to \$6,558,263 for the year ended June 30, 2017.
- The District's total revenues increased from \$627,728 for the year ended June 30, 2016, to \$636,877 for the year ended June 30, 2017, mostly as a result of higher interest rates.
- The District's total expenses increased from \$712,345 for the year ended June 30, 2016, to \$744,129 for the year ended June 30, 2017. This was driven by an increase in sewage collection and treatment, depreciation, and administrative expenses.

Financial Analysis of the District

Net Position

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

	<u>2017</u>	<u>2016</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
<u>Assets:</u>				
Current assets	\$ 3,064,014	\$ 2,985,631	\$ 78,383	2.63
Capital assets	3,564,049	3,735,533	(171,484)	(4.59)
Total Assets	<u>\$ 6,628,063</u>	<u>\$ 6,721,164</u>	<u>\$ (93,101)</u>	(1.39)
<u>Liabilities:</u>				
Current liabilities	\$ 69,800	\$ 55,649	\$ 14,151	25.43
Total liabilities	<u>\$ 69,800</u>	<u>\$ 55,649</u>	<u>\$ 14,151</u>	25.43
<u>Net Position:</u>				
Net investment in capital assets	\$ 3,564,049	\$ 3,735,533	\$ (171,484)	(4.59)
Unrestricted	2,994,214	2,929,982	64,232	2.19
Total Net Position	<u>\$ 6,558,263</u>	<u>\$ 6,665,515</u>	<u>\$ (107,252)</u>	(1.61)

As you can see from the table above, net position decreased by \$107,252 from fiscal year 2016 to 2017. Looking more carefully you will note that this is being driven by net investment in capital assets which decreased \$171,484 in fiscal year 2017. This decrease is the result of its lower investment in capital assets, net of depreciation expense, exceeding the current year capital expenditures.

Unrestricted net position (that which can be used to finance day-to-day operations) increased \$64,232 in fiscal year 2017. This is due to an increase in net working capital, resulting from cash receipts from customers exceeding payments to suppliers.

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>2017</u>	<u>2016</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Operating revenues	\$ 615,440	\$ 615,786	\$ (346)	(0.06)
Nonoperating revenues	21,437	11,942	9,495	79.51
Total Revenues	<u>636,877</u>	<u>627,728</u>	<u>9,149</u>	1.46
Depreciation expense	220,768	211,581	9,187	4.34
Other operating expense	523,361	500,511	22,850	4.57
Nonoperating expense	-	253	(253)	(100.00)
Total Expenses	<u>744,129</u>	<u>712,345</u>	<u>31,784</u>	4.46
Change in Net Position	(107,252)	(84,617)	(22,635)	26.75
Net Position at Beginning of Year	<u>6,665,515</u>	<u>6,750,132</u>	<u>(84,617)</u>	(1.25)
Net Position at End of Year	<u>\$ 6,558,263</u>	<u>\$ 6,665,515</u>	<u>\$ (107,252)</u>	(1.61)

The District's operating revenues decreased by \$346 in fiscal year 2017. Nonoperating revenues increased by \$9,495 in fiscal year 2017 due to an increase in investment income. Operating expenses, exclusive of depreciation, increased \$22,850 in fiscal year 2017 due to increased utilities and repairs and maintenance.

Capital Assets

Capital assets consist of the following at June 30:

	<u>2017</u>	<u>2016</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
<u>Capital Assets Not Being Depreciated:</u>				
Land	\$ 1,121,000	\$ 1,121,000	\$ -	-
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	5,458,308	5,448,936	9,372	0.17
Equipment	2,054,301	2,014,389	39,912	1.98
Service vehicle	18,423	18,423	-	-
Total Capital Assets Being Depreciated	<u>7,531,032</u>	<u>7,481,748</u>	<u>49,284</u>	0.66
Less: Accumulated depreciation	<u>(5,087,983)</u>	<u>(4,867,215)</u>	<u>(220,768)</u>	4.54
Net Capital Assets Being Depreciated	<u>2,443,049</u>	<u>2,614,533</u>	<u>(171,484)</u>	(6.56)
Net Capital Assets	<u>\$ 3,564,049</u>	<u>\$ 3,735,533</u>	<u>\$ (171,484)</u>	(4.59)

The net additions of capital assets being depreciated for fiscal year 2017 totaled \$49,284. Capital asset additions consisted of a polymer pump, digester aerator, gear reducer, and other capital acquisitions.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 2018 and 2017 budgets, operating revenues remain relatively similar, except for the reduction in the District's annual service charge in 2018 from \$900 to \$800 as approved by the Board of Directors. Operating expenses will remain similar to the 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, 2017 AND 2016**

<u>ASSETS</u>	<u>2017</u>	<u>2016</u>
<u>Current Assets:</u> (Notes 1 and 2)		
Cash and cash equivalents	\$ 3,023,860	\$ 2,971,965
Accounts receivable	19,710	9,810
Accrued interest receivable	6,741	3,856
Prepaid expenses	13,703	-
Total Current Assets	<u>3,064,014</u>	<u>2,985,631</u>
<u>Noncurrent Assets:</u> (Notes 1 and 3)		
Capital Assets:		
Nondepreciable	1,121,000	1,121,000
Depreciable, net of accumulated depreciation	2,443,049	2,614,533
Total Capital Assets, net	<u>3,564,049</u>	<u>3,735,533</u>
Total Noncurrent Assets	<u>3,564,049</u>	<u>3,735,533</u>
TOTAL ASSETS	<u>\$ 6,628,063</u>	<u>\$ 6,721,164</u>
 LIABILITIES		
<u>Current Liabilities:</u>		
Accounts payable	\$ <u>69,800</u>	\$ <u>55,649</u>
Total Current Liabilities	<u>69,800</u>	<u>55,649</u>
Total Liabilities	<u>69,800</u>	<u>55,649</u>
<u>Contingencies</u> (Note 4)		
<u>NET POSITION:</u>		
Net investment in capital assets	3,564,049	3,735,533
Unrestricted	2,994,214	2,929,982
Total Net Position	<u>\$ 6,558,263</u>	<u>\$ 6,665,515</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, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<u>Operating Revenues:</u>		
Sewer service charges	\$ <u>615,440</u>	\$ <u>615,786</u>
<u>Operating Expenses:</u>		
Sewage collection and treatment	422,328	402,519
Depreciation	220,768	211,581
Administrative expenses	<u>101,033</u>	<u>97,992</u>
Total Operating Expenses	<u>744,129</u>	<u>712,092</u>
Operating Loss	<u>(128,689)</u>	<u>(96,306)</u>
<u>Nonoperating Revenues and (Expenses):</u>		
Investment income	21,437	11,942
Interest expense	<u>-</u>	<u>(253)</u>
Total Nonoperating Revenues and (Expenses)	<u>21,437</u>	<u>11,689</u>
Change in Net Position	(107,252)	(84,617)
Net Position at Beginning of Year	<u>6,665,515</u>	<u>6,750,132</u>
NET POSITION AT END OF YEAR	<u><u>\$ 6,558,263</u></u>	<u><u>\$ 6,665,515</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, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<u>Cash Flow From Operating Activities:</u>		
Receipts from customers	\$ 605,540	\$ 606,426
Payments to suppliers	(522,913)	(524,328)
Net Cash Provided by Operating Activities	<u>82,627</u>	<u>82,098</u>
<u>Cash Flows From Capital and Related Financing Activities:</u>		
Principal paid on note payable	-	(119,322)
Interest paid	-	(677)
Net Cash Used in Capital and Related Financing Activities	<u>-</u>	<u>(119,999)</u>
<u>Cash Flows From Investing Activities:</u>		
Acquisition and construction of capital assets	(49,284)	(93,488)
Investment income	18,552	10,220
Net Cash Used in Investing Activities	<u>(30,732)</u>	<u>(83,268)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	51,895	(121,169)
Cash and Cash Equivalents at Beginning of Year	<u>2,971,965</u>	<u>3,093,134</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 3,023,860</u>	<u>\$ 2,971,965</u>
<u>Reconciliation of Operating Loss to Net</u>		
<u>Cash Provided by Operating Activities:</u>		
Operating loss	\$ (128,689)	\$ (96,306)
Adjustments to reconcile operating loss to		
net cash provided by operating activities:		
Depreciation	220,768	211,581
Change in assets and liabilities:		
Accounts receivable	(9,900)	(9,360)
Prepaid expenses	(13,703)	-
Accounts payable	14,151	(23,817)
Net Cash Provided by Operating Activities	<u>\$ 82,627</u>	<u>\$ 82,098</u>

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

**FAIRBANKS RANCH COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

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. Sewer 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 (Community Services District Law) 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 140,000 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, 2017 AND 2016

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 receivable was recorded at June 30, 2017 and 2016.

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, 2017 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, 2017 AND 2016**

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 \$220,768 and \$211,581 for the years ended June 30, 2017 and 2016, respectively.

Interest

The District incurs interest charges on noncurrent liabilities. No interest was capitalized as a cost of construction for the years ended June 30, 2017 and 2016.

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.

Fair Value Measurements

Fair value accounting standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 or 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

- Level 1 inputs are quoted prices in active markets for identical investments that the investment manager has the ability to access at the measurement date.

FAIRBANKS RANCH COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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

Significant Accounting Policies (Continued)

Fair Value Measurements (Continued)

- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the investment, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the investment.

The District's statements of financial position include the following financial instruments that are required to be measured at fair value on a recurring basis:

- Investments in the California Local Agency Investment Fund (LAIF) are considered Level 2 assets and are reported at the fair value of the underlying assets as provided LAIF.

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 statements 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 5, 2018, the date the financial statements were available to be issued.

FAIRBANKS RANCH COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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>2017 Total</u>	<u>2016 Total</u>
California Local Agency Investment Fund (LAIF)	\$ 2,927,324	\$ 2,927,324	\$ 2,913,772
Deposits with financial institutions	96,536	96,536	58,193
Total Cash and Cash Equivalents	<u>\$ 3,023,860</u>	<u>\$ 3,023,860</u>	<u>\$ 2,971,965</u>

FAIRBANKS RANCH COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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 at June 30, 2017.

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</u> <u>Standard & Poor's</u>
California Local Agency Investment Fund (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.

**FAIRBANKS RANCH COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

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, 2017, none of the District's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts. At June 30, 2017, 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>2017</u>	<u>2016</u>
California Local Agency Investment Fund (LAIF)	\$ 2,927,324	\$ 2,913,772
Deposits with financial institutions	<u>96,536</u>	<u>58,193</u>
Total	<u>\$ 3,023,860</u>	<u>\$ 2,971,965</u>

**FAIRBANKS RANCH COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

Note 3 - Capital Assets:

Capital assets consist of the following at June 30:

	2017			
	Balance at June 30, 2016	Additions	Deletions	Balance at June 30, 2017
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	9,372	-	5,458,308
Equipment	2,014,389	39,912	-	2,054,301
Service vehicle	18,423	-	-	18,423
Total Capital Assets Being Depreciated	<u>7,481,748</u>	<u>49,284</u>	<u>-</u>	<u>7,531,032</u>
Less Accumulated Depreciation For:				
Structures and improvements	(3,325,777)	(123,404)	-	(3,449,181)
Equipment	(1,534,222)	(96,443)	-	(1,630,665)
Service vehicle	(7,216)	(921)	-	(8,137)
Total Accumulated Depreciation	<u>(4,867,215)</u>	<u>(220,768)</u>	<u>-</u>	<u>(5,087,983)</u>
Net Capital Assets Being Depreciated	<u>2,614,533</u>	<u>(171,484)</u>	<u>-</u>	<u>2,443,049</u>
Net Capital Assets	<u>\$ 3,735,533</u>	<u>\$ (171,484)</u>	<u>\$ -</u>	<u>\$ 3,564,049</u>
	2016			
	Balance at June 30, 2015	Additions	Deletions	Balance at June 30, 2016
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	1,920,901	93,488	-	2,014,389
Service vehicle	18,423	-	-	18,423
Total Capital Assets Being Depreciated	<u>7,388,260</u>	<u>93,488</u>	<u>-</u>	<u>7,481,748</u>
Less Accumulated Depreciation For:				
Structures and improvements	(3,202,426)	(123,351)	-	(3,325,777)
Equipment	(1,446,913)	(87,309)	-	(1,534,222)
Service vehicle	(6,295)	(921)	-	(7,216)
Total Accumulated Depreciation	<u>(4,655,634)</u>	<u>(211,581)</u>	<u>-</u>	<u>(4,867,215)</u>
Net Capital Assets Being Depreciated	<u>2,732,626</u>	<u>(118,093)</u>	<u>-</u>	<u>2,614,533</u>
Net Capital Assets	<u>\$ 3,853,626</u>	<u>\$ (118,093)</u>	<u>\$ -</u>	<u>\$ 3,735,533</u>

FAIRBANKS RANCH COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

Note 4 - 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 5 - New Governmental Accounting Standards:

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." 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 did not have a material effect on the financial statements of the District in the year of implementation.

GASB No. 74

In June 2015, the Governmental Accounting Standards Board issued Statement No. 74, "Financial Reporting for Postemployment Benefit Plans Other than Pension Plans." This pronouncement is effective for financial statements for fiscal years beginning after June 15, 2016. Earlier application is encouraged. This pronouncement did not have a material effect on the financial statements of the District in the year of implementation.

GASB No. 75

In June 2015, the Government Accounting Standards Board issued Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pension". This Statement is effective for financial statements for fiscal years beginning after June 15, 2017. 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. 77

In August 2015, the Governmental Accounting Standards Board issued Statement No. 77, "Tax Abatement Disclosures". The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. Earlier application is encouraged. This pronouncement did not have a material effect on the financial statements of the District in the year of implementation.

GASB No. 78

In December 2015, the Governmental Accounting Standards Board issued Statement No. 78, "Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plan". The requirements of this Pronouncement are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged. 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, 2017 AND 2016

Note 5 - New Governmental Accounting Standards: (Continued)

GASB No. 80

In January 2016, the Government Accounting Standards Board issued Statement No. 80, “Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14”. The requirements of this pronouncement are effective for reporting period beginning after June 15, 2016. Earlier application is encouraged. This pronouncement did not have a material effect on the financial statements of the District in the year of implementation.

GASB No. 81

In March 2016, the Governmental Accounting Standards Board issued Statement No. 81, “Irrevocable Split-Interest Agreements”. The requirements of this Pronouncement are effective for financial statements for period beginning after December 15, 2016, and should be applied retroactively. 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. 82

In March 2016, the Governmental Accounting Standards Board issued Statement No. 82, “Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73”. The requirements of this Pronouncement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer’s pension liability is measured as of a date other than the employer’s most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. 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. 83

In November 2016, the Governmental Accounting Standards Board issued Statement No. 83 “ Certain Asset Retirement Obligations”. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier Application is encouraged. The District has not determined the effects of this pronouncement on the financial statements of the District in the year of implementation.

GASB No. 84

In January 2017, the Governmental Accounting Standards Board issued Statement No. 84 “Fiduciary Activities”. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier Application is encouraged. The District has not determined the effects of this pronouncement on the financial statements of the District in the year of implementation.

FAIRBANKS RANCH COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

Note 5 - New Governmental Accounting Standards: (Continued)

GASB No. 85

In March 2017, the Governmental Accounting Standards Board issued Statement No. 85 “Omnibus 2017”. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The District has not determined the effects of this pronouncement on the financial statements of the District in the year of implementation.

GASB No. 86

In May 2017, the Governmental Accounting Standards Board issued Statement No. 86 “Certain Debt Extinguishment Issues”. The requirements of this Statement are effective for reporting periods beginning after December 15, 2017. Earlier Application is encouraged. The District has not determined the effects of this pronouncement on the financial statements of the District in the year of implementation.

GASB No. 87

In June 2017, the Governmental Accounting Standards Board issued Statement No. 87 “Leases”. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The District has not determined the effects of this pronouncement on the financial statements of the District in the year of implementation.