

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT**

**FINANCIAL STATEMENTS**

**For The Fiscal Year Ended June 30, 2019**

# RANCHO MURIETA COMMUNITY SERVICES DISTRICT

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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Rancho Murieta Community Services District  
Rancho Murieta, California

We have audited the accompanying financial statements of the business-type activities, each major fund, and the fiduciary fund of the Rancho Murieta Community Services District (District) as of and for the fiscal year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes 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 controls relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

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 respective financial position of the business-type activities, each major fund and the fiduciary fund of the Rancho Murieta Community Services District, as of June 30, 2019, and the respective changes in financial position and where applicable, cash flows thereof for the fiscal year then ended in conformity with U.S. generally accepted accounting principles.

## **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 3–8 be presented to supplement the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The required supplementary information other than MD&A, as listed in the table of contents as Schedule of the District's Proportionate Share of the Net Pension Liability on page 48, the Schedule of the District Pension Contributions on page 49, and Other Postemployment Benefits (OPEB) Plan Schedule of Changes in the District's Net OPEB Liability and Related Ratios on page 50 is presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## **Other Information**

The Schedules of Operating Revenues and Operating Expenses for the Water, Sewer, Drainage, Solid Waste and Security Funds on pages 35-47, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied by us in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves and other additional procedures in accordance with accounting standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Larry Bain, CPA,  
An Accounting Corporation  
May 18, 2020

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT**  
**Management's Discussion and Analysis**  
**June 30, 2019**

As management of the Rancho Murieta Community Services District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2019. We encourage readers to consider the information presented here in conjunction with the District's financial statements which follow this section.

**Financial Highlights**

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$33,585,929 (net position). Of this amount, \$5,168,629 (unrestricted net position) may be used to meet the District's ongoing obligations to customers and creditors.
- The District's total net position increased by \$551,616 during the 2018-2019 fiscal year; unrestricted net position increased \$809,876.

**Overview of the Basic Financial Statements**

This annual financial report consists of three parts: (1) Management's Discussion and Analysis; (2) the Basic Financial Statements, including the Notes to Basic Financial Statements; and (3) Supplementary Information.

This discussion and analysis provides an introduction and brief description of the District's basic financial statements, which include:

- Statement of Net Position
- Statement of Revenues, Expenses and Changes in Net Position
- Statement of Cash Flows

The *Statement of Net Position*, commonly referred to as the Balance Sheet, presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The Statement of Net Position also 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 Position* reflects all of the current year's revenues and expenses. All of the current year's revenues and expenses are recorded using the accrual basis of accounting by recognizing revenues in the period they are earned and expenses in the period they are incurred without regard to the timing of the related cash flows. This statement measures the success of the District's operations over the past year and determines whether the District has recovered its costs through its rates, fees and other charges. The District's profitability and creditworthiness can also be determined from this statement.

The *Statement of Cash Flows* provides information about the District's cash receipts and cash payments during the reporting period as well as net changes in cash resulting from operations, non-capital financing, capital and related financing activities, and investing. The statement explains where cash came from and where cash was used and the change in the cash balance during the reporting period.

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT**  
**Management's Discussion and Analysis (Continued)**  
**June 30, 2019**

The District's basic financial statements are organized by fund. **Fund Financial Statements** report on groupings of related funds that are used to maintain control over resources that have been segregated for specific activities or objectives. The accounts of the District are organized on the basis of funds, each of which is considered a separate entity. The operations of each fund are accounted for with a separate set of accounts that comprise the fund's assets, liabilities, fund equity, revenues, and expenses. Government resources are allocated to, and accounted for, in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in these basic financial statements into two broad categories which, in aggregate, include two fund types as follows:

1. PROPRIETARY FUND TYPE

Enterprise Funds

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges and special taxes; and (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, managerial control, accountability, or other purposes. Revenues are fully accrued to include unbilled services at fiscal year-end. The District uses enterprise funds to account for the Water, Sewer, Drainage, Solid Waste and Security activities of the District.

2. FIDUCIARY FUND TYPE

Agency Funds

Agency Funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, and other governmental units and/or other funds. Since the resources of these funds are not available to support the District's own activities, they are not reflected in the proprietary fund financial statements.

**Basic financial statements** can be found on pages **9-17** of this report.

**Notes to the basic financial statements** provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages **18-34** of this report.

**Government-wide Financial Analysis**

As noted earlier, net position may serve as a useful indicator of a government's financial position over time. In the case of the District, assets exceeded liabilities by \$33,585,929 (net position) at the close of the most recent fiscal year.

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT**  
**Management's Discussion and Analysis (Continued)**  
**June 30, 2019**

**Condensed Financial Information**  
**Rancho Murieta Community Services District Net Position**

	<b>June 30, 2019</b>	<b>June 30, 2018</b>
<b><u>Assets</u></b>		
Current and Other Assets	\$ 11,352,677	\$ 9,939,712
Capital Assets - net of accumulated depreciation	28,425,653	28,688,058
<b>Total Assets</b>	<b>39,778,330</b>	<b>38,627,770</b>
Deferred Outflow of Resources	915,857	1,169,057
<b><u>Liabilities</u></b>		
Current Liabilities	2,289,854	1,621,157
Long-term Liabilities	4,612,076	4,893,672
<b>Total Liabilities</b>	<b>6,901,930</b>	<b>6,514,829</b>
Deferred Inflow of Resources	206,328	247,685
<b><u>Net Position</u></b>		
Net Investment in Capital Assets	28,417,300	28,675,559
Unrestricted Net Position	5,168,629	4,358,753
<b>Total Net Position</b>	<b>\$ 33,585,929</b>	<b>\$ 33,034,313</b>

- The District's total net position increased by \$551,616 during the current fiscal year. Unrestricted net position increased \$809,876 while the net investment in capital assets, decreased \$258,259. The decrease in capital assets was primarily due to depreciation expense.
- Designated cash and investments, which are capital reserves designated for capital improvements and replacements, increased \$306,115. The District contributes to its capital reserve accounts on a monthly basis.
- The District's Net Pension Liability decreased by \$152,131 year-over-year.
- Accounts payable increased \$539,221, from \$314,045 to \$853,266, mainly as a result of \$537,643 owed to a developer at June 30, 2019 for work performed on the Prop 84 recycled water pipeline and office irrigation project.
- The District had two (2) inter-fund borrowings as of June 30, 2019. Each of these borrowings are being repaid through monthly installments. Interest is calculated based on the earnings reported monthly by LAIF.
  - Water Treatment Plant Phase 1 (WTP#1) Borrowing from Sewer Capital Replacement Reserves - \$856,042
  - Security North Gate Borrowing from Drainage Capital Improvement Reserves - \$17,531
- The largest portion of the District's net position, \$28,425,653 or (84.6%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment). Some of these assets are from contributed capital. The District uses these capital assets to provide services to customers; consequently, these assets are not available for future spending.

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT**  
**Management's Discussion and Analysis (Continued)**  
**June 30, 2019**

**Enterprise-Type Activities – Water, Sewer, Drainage, Solid Waste and Security**  
**Rancho Murieta Community Services District Changes in Net Position**

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
<b>Revenues</b>		
Operating revenues	\$ 5,856,581	\$ 5,748,515
Nonoperating revenues	2,099,788	1,467,893
<b>Total Revenues</b>	<u>7,956,369</u>	<u>7,216,408</u>
<b>Operating Expenses</b>		
Water	796,591	1,199,696
Sewer	655,367	776,311
Drainage	127,097	154,332
Security	1,048,776	1,056,448
Solid waste	627,353	601,420
General and administration	2,663,069	2,229,547
Depreciation	1,464,192	1,439,700
Nonoperating expense	22,308	16,070
Special item-security study	-	49,266
<b>Total Expenses</b>	<u>7,404,753</u>	<u>7,522,790</u>
<b>Change in Net Position</b>	<u>551,616</u>	<u>(306,382)</u>
Net Position, Beginning of Fiscal Year	<u>3,034,313</u>	<u>33,340,695</u>
<b>Net Position, End of Fiscal Year</b>	<u>\$ 3,585,929</u>	<u>\$ 33,034,313</u>

Key elements of the enterprise activities are as follows:

- Total operating revenues increased 1.87% year-over-year. Water operating revenues slightly increased by \$2,357 or 0.1%. Sewer operating revenues increased by \$52,993 or 4%. Security operating revenues increased \$21,058 or 1.5%. Drainage operating revenues increased \$5,476 or 2.8%. Solid Waste revenues increased \$26,183 or 4%.
- Non-operating revenues increased \$619,419 or 43.1% due largely to the Prop 84 grant of \$494,097 and an 81.3% increase in interest income.
- The Water Department collects, treats, and distributes potable drinking water to the Rancho Murieta community. Water operating expenses (excluding depreciation) decreased \$77,736 or 3.7% primarily due to not a lot of turnover of personnel.
- The Sewer Department collects, treats, and disposes of Rancho Murieta community waste water. Wages and employer costs were \$78,079 or 9.8% lower than the prior year. Total Sewer operating expenses (excluding depreciation) decreased \$60,568 or 4.1%.
- The Drainage Department provides and maintains the drainage system for Rancho Murieta. Drainage operating expenses decreased \$38,652 or 15.4%.
- Solid Waste services are provided by contract through California Waste Recovery Services. Operating expenses for Solid Waste increased \$11,782 or 1.7%. This increase is the result of changes in billable services and increased maintenance and repairs expenses.



**RANCHO MURIETA COMMUNITY SERVICES DISTRICT**  
**Management's Discussion and Analysis (Continued)**  
**June 30, 2019**

- The Security department provides gate and patrol services. Operating expenses for Gate services decreased \$11,795 or 2.0%. This decrease is primarily related to less contract staffing needed compared with prior fiscal year because vacancies were filled. Operating expenses for Patrol services increased \$4,123 or 0.9% with increases in contract staffing and vehicle maintenance being offset by a reduction in wages and salaries.
- The Administration department covers the staff located in the District's administration building excluding the Director of Field Operations and the Security Chief. The Administration department is not a reporting entity for financial statement purposes and its activities, revenues, and costs are allocated to the Water, Sewer, Drainage, Solid Waste and Security funds on a prorated basis. Allocated, district-wide Administration costs are combined with individual department administration costs on the Statement of Revenues, Expenses, and Changes in Net Position and are shown as General and Administrative costs. District-wide General and Administrative costs increased \$387,776 or 17.4%. This increase is due to contract staffing and recruitment expenses during multiple vacancies, and legal and consulting expenses related to water rights.

<b>Capital Assets</b>				
	July 1, 2018	Additions	Adjustments/ Deletions	June 30, 2019
<b>Depreciable Capital Assets</b>				
Water Transmission	\$ 7,333,004	\$ 10,932	\$ -	\$ 7,343,936
Water Treatment	22,731,228	722,266	-	23,453,494
Studies	890,585		-	890,585
Collection Facilities	5,036,539	81,508	-	5,118,047
Drainage Facilities	62,301		-	62,301
Sewer treatment and disposal	16,047,636	171,972	-	16,219,608
Lake Chesbro Protection	270,020	43,827	-	313,847
Waste Discharge	549,152	-	-	549,152
Buildings and improvements	802,360			802,360
Vehicles & Equipment	1,730,380	26,989	-	1,757,369
<b>Total Depreciable Capital Assets</b>	<u>55,453,205</u>	<u>1,057,494</u>	<u>-</u>	<u>56,510,699</u>
Less - Accumulated Depreciation	(28,001,109)	(1,464,192)	-	(29,465,301)
<b>Net Depreciable Capital Assets</b>	<u>27,452,096</u>	<u>(406,698)</u>	<u>-</u>	<u>27,045,398</u>
<b>Non-Depreciable Capital Assets</b>				
Construction in Progress	644,272	144,293		788,565
Land	591,690	-	-	591,690
<b>Total Non-Depreciable Capital Assets</b>	<u>1,235,962</u>	<u>144,293</u>	<u>-</u>	<u>1,380,255</u>
<b>Net Capital Assets</b>	<u>\$ 28,688,058</u>	<u>\$ (262,405)</u>	<u>\$ -</u>	<u>\$ 28,425,653</u>

**Capital Assets.** The District's investment in capital assets as of June 30, 2019 amounted to \$28,425,653 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, vehicles, and equipment. The total decrease in the District's investment in capital assets for the current fiscal year was (0.9%).

Major capital asset events during the current fiscal year included the following:

- Cantova Lift Station Repairs
- Water Treatment Plant Culvert
- Dam Inundation Mapping and Emergency Action Plan
- Saturation Tank
- 2019 F-150 Vehicle for Water/Sewer/Drainage
- Well Site & Easement Area

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT**  
**Management's Discussion and Analysis (Continued)**  
**June 30, 2019**

- Water Treatment Plant Effluent Pump
- Wastewater Reclamation Plant Compressors Replacement
- Wastewater Reclamation Plant - PLC Replacement

**Economic Factors and Next Year's Budget and Rates**

The Board of Directors adopted the District's 2019-2020 annual budget on June 19, 2019 which provides for the District's operating and capital costs for the 2019-2020 fiscal year.

The District's rates for Water, Sewer, Drainage, Security and Solid Waste services are reviewed annually by staff and the Board of Directors. For fiscal year 2019-2020, the District increased rates by approximately 8.4% for Water services. Sewer service rates increased by 5% and Solid Waste rates went up 3.6%. Special tax rates for Security and Drainage each went up 2.0%. Overall, the average customer's monthly bill for 2019-2020 is projected to be \$7.45 higher than during the previous year.

New capital asset projects provided for in the fiscal year 2019-2020 budget include:

- Cantova Lift Station Repairs
- Waste Water Chlorine Gas to Bleach Conversion
- Bobcat Compact Track Loader
- Rio Oso Booster Pump Replacement

Development will continue to be a major focus for the District in the coming year(s). Rancho Murieta Properties, LLC originally submitted preliminary development plans to Sacramento County that included the proposed addition of eight residential villages and one commercial site. Within the eight residential villages, 827 single-family detached lots were planned on roughly 350 net developable acres. As of December 2018, the development (as shown on the Sacramento County planning website) included 795 single-family lots on roughly 338 acres and approximately 39 acres of general commercial property. These proposed development plans will continue to be revised and modified as the various projects move forward. Construction on The Murieta Inn & Spa was completed in fiscal year 2017-2018. Construction of the Murieta Gardens II homes is planned to be completed in fiscal year 2019-2020.

The District continues to manage and account for CFD 2014-1. This CFD (Community Facilities District) was formed at the request of the developers of the Murieta Inn & Spa and Rancho Murieta North Properties to finance their portion of the WTP#1 Expansion and Upgrade project. Under CFD 2014-1 tax exempt bonds were sold on January 29, 2015 and provided \$4,358,245 of bond revenue for the project. Bond maturities stretch from 2018 to 2044 and tax assessments are levied annually (through Sacramento County) for payment of interest and principle to bond investors.

**Requests for Information**

This financial report is designed to provide a general overview of the Rancho Murieta Community Services District's finances for all those with an interest in the District's financial operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Rancho Murieta Community Services District, General Manager, P.O. Box 1050, Rancho Murieta, CA 95683.

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**RANCHO MURIETA COMMUNITY SERVICES DISTRICT**

**Statement of Net Position  
Proprietary Funds  
June 30, 2019  
(With Comparative Totals for June 30, 2018)**

	Major Funds		
	Water Fund	Sewer Fund	Drainage Fund
<u>Assets</u>			
Current Assets:			
Cash and investments	\$ 1,059,560	\$ 822,136	\$ -
Accounts receivable	466,931	217,506	34,013
Interest receivable	-	2,404	332
Prepaid Expenses	86,967	22,459	4,504
Due from other government	494,097	-	-
Due from other funds	-	856,097	17,531
Due from developers	189,022	7,393	-
Total Current Assets	2,296,577	1,927,995	56,380
Capital Assets - net of accumulated depreciation	18,780,448	9,175,854	54,563
Other Assets:			
Cash and investments -designated	2,543,193	2,985,632	452,520
Interest receivable - designated	14,879	16,454	2,359
Total Other Assets	2,558,072	3,002,086	454,879
Total Assets	23,635,097	14,105,935	565,822
<u>Deferred Outflows of Resources</u>			
Deferred outflows-OPEB	62,763	44,522	8,276
Deferred outflows-pensions	240,135	176,980	33,046
Total Deferred Outflows of Resources	302,898	221,502	41,322
<u>Liabilities</u>			
Current Liabilities:			
Accounts payable	683,048	43,209	16,495
Accrued payroll	44,643	4,937	2,430
Developer deposits	169,304	59	12
Due to CFD	275,504	-	-
Due to other funds	856,097	-	-
Due to others	-	-	-
Customer deposits	12,348	9,427	1,936
Capital lease	-	-	-
Total Current Liabilities	2,040,944	57,632	20,873
Noncurrent Liabilities:			
Capital lease	-	-	-
Net pension liability	1,032,881	761,236	142,140
Net OPEB liability	470,675	333,883	62,067
Compensated absences	32,726	30,194	1,679
Total Noncurrent Liabilities	1,536,282	1,125,313	205,887
Total Liabilities	3,577,226	1,182,945	226,760
<u>Deferred Inflows of Resources</u>			
Deferred inflows-OPEB	12,634	8,962	1,666
Deferred inflows-pensions	55,522	40,920	7,641
Total Deferred Inflows of Resources	68,156	49,882	9,307
<u>Net Position (Deficit)</u>			
Net investment in capital assets	18,780,448	9,175,854	54,563
Net Position:			
Unrestricted	1,512,165	3,918,756	316,515
Total Net Position (Deficit)	\$ 20,292,613	\$ 13,094,610	\$ 371,078

The accompanying notes are an integral part of these basic financial statements.

Solid Waste Fund	Security Fund	Total Business-Type Activities	
		2019	2018
\$ 281,001	\$ -	\$ 2,162,697	\$ 1,531,460
67,360	593,592	1,379,402	1,401,751
1,216	639	4,591	2,631
1,719	19,158	134,807	89,160
-	-	494,097	-
-	-	873,628	1,037,116
-	-	196,415	87,343
<u>351,296</u>	<u>613,389</u>	<u>5,245,637</u>	<u>4,149,461</u>
-	414,788	28,425,653	28,688,058
6,418	84,953	6,072,716	5,766,601
-	632	34,324	23,650
<u>6,418</u>	<u>85,585</u>	<u>6,107,040</u>	<u>5,790,251</u>
<u>357,714</u>	<u>1,113,762</u>	<u>39,778,330</u>	<u>38,627,770</u>
2,323	63,616	181,500	210,589
8,812	275,384	734,357	958,468
<u>11,135</u>	<u>339,000</u>	<u>915,857</u>	<u>1,169,057</u>
101,690	8,824	853,266	314,045
1,815	28,386	82,211	82,376
10	41	169,426	149,763
-	-	275,504	-
-	17,531	873,628	1,037,116
-	-	-	609
1,587	6,444	31,742	33,103
-	4,077	4,077	4,145
<u>105,102</u>	<u>65,303</u>	<u>2,289,854</u>	<u>1,621,157</u>
-	4,277	4,277	8,354
37,904	1,184,497	3,158,658	3,310,789
17,422	477,073	1,361,120	1,491,585
1,376	22,046	88,021	82,944
<u>56,702</u>	<u>1,687,893</u>	<u>4,612,076</u>	<u>4,893,672</u>
<u>161,805</u>	<u>1,753,196</u>	<u>6,901,930</u>	<u>6,514,829</u>
468	12,806	36,536	47,848
2,037	63,672	169,792	199,837
<u>2,505</u>	<u>76,478</u>	<u>206,328</u>	<u>247,685</u>
-	406,435	28,417,300	28,675,559
204,540	(783,347)	5,168,629	4,358,753
<u>\$ 204,540</u>	<u>\$ (376,912)</u>	<u>\$ 33,585,929</u>	<u>\$ 33,034,313</u>

The accompanying notes are an integral part of these basic financial statements.

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT**

**Statement of Revenues, Expenses, and Changes in Net Position  
Proprietary Funds  
For the Fiscal Year Ended June 30, 2019  
(With Comparative Totals for the Fiscal Year Ended June 30, 2018)**

	Major Funds		
	Water Fund	Sewer Fund	Drainage Fund
Operating Revenues:			
Service charges	\$ 2,120,524	\$ 1,360,771	\$ -
Special taxes	-	-	200,225
Other charges	55,839	25,922	1,567
Total Operating Revenues	<u>2,176,363</u>	<u>1,386,693</u>	<u>201,792</u>
Operating Expenses:			
Source of supply	163,230	-	-
Treatment	397,154	-	-
Transmission and distribution	236,207	-	-
Sewer collection	-	263,148	-
Sewer treatment and disposal	-	392,219	-
Drainage	-	-	127,097
Gate services	-	-	-
Patrol services	-	-	-
Solid waste	-	-	-
General and administrative	1,296,469	747,439	85,276
Depreciation	817,198	589,252	6,349
Total Operating Expenses	<u>2,910,258</u>	<u>1,992,058</u>	<u>218,722</u>
Operating (Losses)	<u>(733,895)</u>	<u>(605,365)</u>	<u>(16,930)</u>
Non-operating Revenues (Expenses):			
Taxes	265,640	202,815	41,656
Capital reserve fees	258,044	227,308	-
Debt reserve fee	187,537	-	-
Interest revenue	65,016	99,613	10,820
Water augmentation	16,228	-	-
Gain (Loss) on disposal of capital assets	-	-	-
Interest expense	(21,026)	-	-
Grant revenue	494,097	-	-
Miscellaneous	21,021	14,699	2,118
Total Non-operating Revenues (Expenses)	<u>1,286,557</u>	<u>544,435</u>	<u>54,594</u>
Special Item			
Security Study	-	-	-
Change in Net Position	552,662	(60,930)	37,664
Net Position (Deficit), Beginning of Fiscal Year	<u>19,739,951</u>	<u>13,155,540</u>	<u>333,414</u>
Net Position (Deficit), End of Fiscal Year	<u>\$ 20,292,613</u>	<u>\$ 13,094,610</u>	<u>\$ 371,078</u>

The accompanying notes are an integral part of these basic financial statements.

		Total Business-Type Activities	
Solid Waste Fund	Security Fund	2019	2018
\$ 680,682	\$ -	\$ 4,161,977	\$ 4,017,249
-	1,348,028	1,548,253	1,509,811
422	62,601	146,351	221,455
<u>681,104</u>	<u>1,410,629</u>	<u>5,856,581</u>	<u>5,748,515</u>
-	-	163,230	204,717
-	-	397,154	605,561
-	-	236,207	389,418
-	-	263,148	218,477
-	-	392,219	557,834
-	-	127,097	154,332
-	566,061	566,061	577,856
-	482,715	482,715	478,592
627,353	-	627,353	601,420
62,304	471,581	2,663,069	2,229,547
-	51,393	1,464,192	1,439,700
<u>689,657</u>	<u>1,571,750</u>	<u>7,382,445</u>	<u>7,457,455</u>
(8,553)	(161,121)	(1,525,864)	(1,708,940)
34,144	138,625	682,880	570,913
-	2,700	488,052	565,152
-	-	187,537	187,241
4,744	5,896	186,089	102,661
-	-	16,228	8,246
-	-	-	250
-	(1,282)	(22,308)	(16,070)
-	-	494,097	-
842	6,225	44,905	33,430
<u>39,730</u>	<u>152,164</u>	<u>2,077,480</u>	<u>1,451,823</u>
-	-	-	(49,266)
31,177	(8,957)	551,616	(306,382)
<u>173,363</u>	<u>(367,955)</u>	<u>33,034,313</u>	<u>33,340,695</u>
<u>\$ 204,540</u>	<u>\$ (376,912)</u>	<u>\$ 33,585,929</u>	<u>\$ 33,034,313</u>

The accompanying notes are an integral part of these basic financial statements.

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT**

**Statement of Cash Flows  
Proprietary Funds  
For the Fiscal Year Ended June 30, 2019  
(With Comparative Totals for the Fiscal Year Ended June 30, 2018)**

	Major Funds		
	Water Fund	Sewer Fund	Drainage Fund
Cash Flows from Operating Activities:			
Receipts from customers	\$ 2,144,297	\$ 1,378,578	\$ 200,687
Payments to employees	(1,078,071)	(755,939)	(158,730)
Payments to suppliers	(516,422)	(701,101)	(56,361)
Net Cash Provided By (Used In) Operating Activities	549,804	(78,462)	(14,404)
Cash Flows from Non-capital Financing Activities:			
Taxes received	265,640	202,815	41,656
Debt reserve fee	187,537	-	-
Due to CFD	275,504	-	-
Miscellaneous	37,250	14,699	2,118
Net Cash Provided By (Used In) Non-capital Financing Activities	765,931	217,514	43,774
Cash Flows from Capital and Related Financing Activities:			
Purchase of capital assets	(746,692)	(455,094)	-
Interfund lending	(161,678)	140,652	22,836
Cash received from sale of assets	-	-	-
Security study	-	-	-
Debt activity	-	-	-
Capital reserve fees	258,044	227,308	-
Net Cash Provided By (Used In) Capital and Related Financing Activities	(650,326)	(87,134)	22,836
Cash Flows from Investing Activities:			
Interest received	61,000	92,482	9,933
Net Cash Provided by Investing Activities	61,000	92,482	9,933
Net Increase (Decrease) in Cash and Cash Equivalents	726,409	144,400	62,139
Cash and Cash Equivalents, Beginning of Fiscal Year	2,876,344	3,663,368	390,381
Cash and Cash Equivalents, End of Fiscal Year	<u>\$ 3,602,753</u>	<u>\$ 3,807,768</u>	<u>\$ 452,520</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position:			
Cash and investments	\$ 1,059,560	\$ 822,136	\$ -
Designated cash and investments	2,543,193	2,985,632	452,520
Total Cash and Cash Equivalents	<u>\$ 3,602,753</u>	<u>\$ 3,807,768</u>	<u>\$ 452,520</u>

The accompanying notes are an integral part of these basic financial statements.



Solid Waste Fund	Security Fund	Total Business-Type Activities	
		2019	2018
\$ 678,698	\$ 1,385,290	\$ 5,787,550	\$ 5,247,450
(42,940)	(1,203,052)	(3,238,732)	(3,148,754)
(658,695)	(319,207)	(2,251,786)	(2,645,347)
(22,937)	(136,969)	297,032	(546,651)
34,144	138,625	682,880	570,913
-	-	187,537	187,241
-	-	275,504	-
842	6,225	61,134	41,676
34,986	144,850	1,207,055	799,830
-	-	(1,201,786)	(415,639)
-	(22,836)	(21,026)	(4,392)
-	-	-	-
-	-	-	(49,266)
-	(5,427)	(5,427)	(19,981)
-	2,700	488,052	565,152
-	(25,563)	(740,187)	75,874
4,311	5,726	173,452	88,949
4,311	5,726	173,452	88,949
16,360	(11,956)	937,352	418,002
271,059	96,909	7,298,061	6,880,059
<u>\$ 287,419</u>	<u>\$ 84,953</u>	<u>\$ 8,235,413</u>	<u>\$ 7,298,061</u>
\$ 281,001	\$ -	\$ 2,162,697	\$ 1,531,460
6,418	84,953	6,072,716	5,766,601
<u>\$ 287,419</u>	<u>\$ 84,953</u>	<u>\$ 8,235,413</u>	<u>\$ 7,298,061</u>

The accompanying notes are an integral part of these basic financial statements.

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT**

**Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2019  
(With Comparative Totals for the Fiscal Year Ended June 30, 2018)**

	Major Enterprise Funds		
	Water Fund	Sewer Fund	Drainage Fund
Reconciliation of Operating Losses to Net Cash Provided (Used) by Operating Activities			
Operating losses	\$ (733,895)	\$ (605,365)	\$ (16,930)
Noncash items included in operating loss			
Depreciation	817,198	589,252	6,349
Changes in assets and liabilities			
Decrease (increase) in operating assets			
Accounts receivable	58,511	(7,724)	(1,025)
Prepaid expenses	(18,819)	(13,542)	(3,297)
Due from others	(109,072)	-	-
Increase (decrease) in operating liabilities			
Accounts payable	537,669	(4,482)	12,303
Accrued payroll	15,456	(14,831)	(1,683)
Post retirement medical liability	(38,968)	(27,643)	(5,138)
GASB 68 adjustments	(32)	(3,477)	(1,788)
Developer deposits	19,633	14	3
Due to others	(609)	-	-
Compensated absences	3,261	9,741	(3,116)
Customer deposits	(529)	(405)	(83)
Net Cash Provided By (Used In) Operating Activities	<u>\$ 549,804</u>	<u>\$ (78,462)</u>	<u>\$ (14,404)</u>

The accompanying notes are an integral part of these basic financial statements.

Solid Waste Fund	Security Fund	Totals	
		2019	2018
\$ (8,553)	\$ (161,121)	\$ (1,525,864)	\$ (1,708,940)
-	51,393	1,464,192	1,439,700
(2,340)	(25,073)	22,349	(413,895)
(730)	(9,259)	(45,647)	30,836
-	-	(109,072)	(87,343)
(2,321)	(3,945)	539,224	(19,241)
707	186	(165)	37,247
(1,441)	(39,499)	(112,689)	(53,089)
(8,357)	55,587	41,933	233,650
2	11	19,663	(4,932)
-	-	(609)	609
164	(4,973)	5,077	(6,354)
(68)	(276)	(1,360)	5,101
<u>\$ (22,937)</u>	<u>\$ (136,969)</u>	<u>\$ 297,032</u>	<u>\$ (546,651)</u>

The accompanying notes are an integral part of these basic financial statements.

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT**

**Statement of Fiduciary Net Position  
June 30, 2019**

	PARS OPEB Trust Fund	CFD Agency Funds
<u>Assets</u>		
Cash and investments	\$ 2,000,082	\$ 565,135
Prepaid expense	-	1,619
Due from others	-	297,158
	<hr/>	<hr/>
Total Assets	<u>\$ 2,000,082</u>	<u>\$ 863,911</u>
 <u>Liabilities</u>		
Due to others	\$ -	\$ 863,911
	<hr/>	<hr/>
Total Liabilities	-	863,911
 <u>Net Position</u>		
Held in trust for OPEB benefits	2,000,082	-
	<hr/>	<hr/>
Total Liabilities and Net Position	<u>\$ 2,000,082</u>	<u>\$ 863,911</u>

**Changes in Fiduciary Net Position-PARS Trust Fund**

Additions:	
Employer contributions	\$ 181,500
Total contributions	<hr/> 181,500
Investment income (loss):	
Net adjustment to fair value of investments	115,641
Total Additions (Deductions)	<hr/> 115,641
Change in plan net position	<hr/> 297,141
Net Position:	
Held in trust for OPEB benefits:	
Beginning of year	1,702,941
End of year	<u>\$ 2,000,082</u>

The accompanying notes are an integral part of these basic financial statements.

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

Note 1: Significant Accounting Policies

The Rancho Murieta Community Services District (District) was formed in 1982, under California State Government Code 61600 and currently provides water, sewer, drainage, solid waste and security services throughout the Rancho Murieta Community. The District's financial and administrative functions are governed by a five member Board of Directors elected by the voting population within the District.

The accounting policies of the Rancho Murieta Community Services District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

A. Reporting Entity

The District's basic financial statements include the operations of all organizations for which the District's Board of Directors exercises oversight responsibility. Oversight responsibility is demonstrated by financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

Based upon the aforementioned oversight criteria, the following entities have been included within the reporting entity as blended component units:

Special Assessment Districts – The special assessment district is the Community Facilities District No. 2014-1. The Special Assessment District was created for the purpose of acquiring, constructing and maintaining water facilities within the Rancho Murieta boundaries. The District is not obligated to repay debt of the Special Assessment District but functions as an agent for the property owners by collecting assessments, forwarding collections to special assessment debt holders, and, if appropriate, initiating foreclosures on delinquent property owners. Because of the special financing relationships, the Community Facilities District 2014-1 has been included in the financial statements as a fiduciary fund type.

B. Basis of Presentation

The District's basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America.

Fund Financial Statements

The proprietary fund financial statements provide information about the District's funds. Separate statements for each fund category - *proprietary and fiduciary* - are presented. The emphasis of fund financial statements is on major individual funds, each of which is displayed in a separate column. All remaining funds are aggregated and reported as non-major funds.

Proprietary fund financial statements include a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows.

Proprietary funds are accounted for using the "*economic resources*" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Net Position presents increases (revenues) and decreases (expenses) in total Net Position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

Note 1: Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

Operating revenues in the proprietary funds are those revenues that are generated from the primary operation of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. Fiduciary funds use the “economic resources” measurement focus and the accrual basis of accounting.

C. Major Funds

Major funds are defined as funds that have assets, liabilities, revenues, or expenditures/expenses equal to or greater than ten percent of their fund-type total or five percent of all fund-type totals. The District may also select other funds it believes should be presented as major funds. The District reports all of its proprietary funds as major funds.

The District reports on the following major proprietary funds:

Water

This fund accounts for the activities of providing water to the residents of the District.

Sewer

This fund accounts for the activities of collecting and treating wastewater of the residents in the District.

Drainage

This fund accounts for the activities of providing drainage to the residents of the District.

Solid Waste

This fund accounts for the activities of collecting solid waste of the residents of the District.

Security

This fund accounts for the activities of providing security to the residents of the District.

The District reports the following additional fund types:

PARS Trust Fund

Accounts for activities associated with the District’s other post-employment benefits (OPEB) trust fund used for administration of health insurance for retirees.

Agency Fund

The Agency fund accounts for assets held by the District as an agent for community facility district 2014-1.

D. Basis of Accounting

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both government-wide financial statements and proprietary funds financial statements to the extent that those standards do not conflict with or contradict with the guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and proprietary funds, subject to this same limitation. Rancho Murieta Community Services District has elected not to follow subsequent private-sector guidance.

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

Note 1: Significant Accounting Policies (Continued)

E. Budget and Budgeting

Budget integration is employed as a management control device. Budgets are formally adopted by the Board of Directors and take effect the following July 1. The budgets are a management tool and not a legal requirement.

F. Comparative Data

Comparative total data for the prior fiscal year has been presented in the accompanying basic financial statements in order to provide an understanding of changes in the District's financial position, operations, and cash flows. Certain amounts presented in the prior fiscal year data may have been reclassified in order to be consistent with the current fiscal year.

G. Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. Amounts held in the State of California Local Agency Investment Fund (LAIF) are considered to be cash and cash equivalents due to their highly liquid nature.

H. Property Taxes

Secured property taxes are levied on January 1 and are payable in two installments on November 1 and February 1, which become delinquent after December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. Sacramento County (County) bills and collects the property taxes and allocates a portion to the District. Property tax revenues are recognized in the fiscal year for which they become available. Available means when due, or past due and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period.

The District is under the Teeter Plan and thus can receive 100% of the property tax apportionment each fiscal year, eliminating the need for an allowance for uncollectible tax. The County, in return, receives all penalties and interest. Under the Teeter Plan, the County remits property taxes to the District based on assessments, not on collections, according to the following schedule: 55 percent in December, 40 percent in April, and 5 percent at the end of the fiscal year.

I. Capital Assets

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are recorded at fair value at the date of donation. The District's policy is to capitalize all capital assets with costs exceeding \$5,000.

The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each fiscal year represents that year's pro rata share of the cost of capital assets. GASB Statement No. 34 requires that all capital assets with limited useful lives be depreciated over their estimated useful lives. Depreciation is provided using the straight line method which means the costs of the capital asset is divided by its expected useful life in years and the result is charged to expense each year until the capital asset is fully depreciated. The District has assigned the useful lives listed below to capital assets:

Buildings	40 years
Improvements	20-50 years
Equipment	5-15 years

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

Note 1: Significant Accounting Policies (Continued)

J. Compensated Absences

All earned vacation, which is payable upon termination or retirement, is accrued as compensated absences, in accordance with GASB Statement No. 16. Sick leave benefits are not vested to the employee.

K. Net Position

GASB Statement No. 34 requires that the difference between assets and liabilities be reported as net position. Net position is classified as either invested in capital assets, net of related debt, restricted, or unrestricted.

Net position that is invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation and reduced by the outstanding principal of related debt. Restricted net position is the net position that has external constraints placed on it by creditors, grantors, contributors, laws, or regulations of other governments, or through constitutional provisions or enabling legislation. Unrestricted net position consists of net position that does not meet the definition of invested in capital assets, net of related debt, or restricted net position.

L. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions and pension expense, information about the fiduciary net position of the District's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

M. Deferred Compensation Plan

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death, or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributed to those amounts, are maintained in a trust. Participants have sole rights under the plan in an amount equal to the fair value of the deferred account for each participant.

N. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America as prescribed by the GASB and the American Institute of Certified Public Accountants (AICPA), requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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.



**RANCHO MURIETA COMMUNITY SERVICES DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

Note 2: Cash and Investments

Classification

The cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted under the terms of District debt instruments or District agreements:

Cash and investments	\$	2,162,697
Designated cash and investments		6,072,716
Cash and investments, Statement of Net Position		8,235,413
Cash and investments, Statement of Fiduciary Net Assets		2,565,217
Total cash and investments	\$	10,800,630

Cash and investments as of June 30, 2019 consisted of the following:

Cash on hand	\$	250
Deposits with financial institutions		1,499,240
Investments		9,301,140
Total cash and investments	\$	10,800,630

A. 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 Rancho Murieta Community Services District (District) by the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address **interest rate risk**, **credit risk**, and **concentration of credit risk**. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California government Code or the District's investment policy:

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Percentage of Portfolio</u>	<u>Investment in One Issuer</u>
Investment pools authorized under CA			
Statutes governed by Government Code	N/A	None	\$40 million
U.S. Treasury Obligations	5 years	None	None
Bank Savings Account	N/A	25%	None
Federal Agencies	5 years	75%	None
Commercial Paper	180 days	20%	None
Negotiable Certificates of Deposit	180 days	20%	None
Re-purchase Agreements	180 days	20%	None
Corporate Debt	5 years	25%	None

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

Note 2: Cash and Investments (Continued)

B. Investments Authorized by Debt Agreements

Investments held by trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy. The table below identifies the **investment types** that are authorized for investments held by trustees. The table also identifies certain provisions of these debt agreements that address **interest rate risk**, **credit risk**, and **concentration of credit risk**.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Investment pools authorized under CA			
Statutes governed by Government Code	N/A	None	\$40 million
U.S. Treasury Obligations	5 years	None	None
Bank Savings Account	N/A	25%	None
Federal Agencies	5 years	75%	None
Commercial Paper	180 days	20%	None
Negotiable Certificates of Deposit	180 days	20%	None
Re-purchase Agreements	180 days	20%	None
Corporate Debt	5 years	25%	None
Money Market Accounts	N/A	None	None

C. 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

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity:

<u>Investment Type</u>	<u>Totals</u>	<u>Remaining Maturity (in Months)</u>	
		<u>12 Months or Less</u>	<u>13-48 Months</u>
CAMP*	\$ 628,845	\$ 628,845	\$ -
State Investment Pool*	6,107,078	6,107,078	-
PARS Trust*	2,000,082	2,000,082	-
Money Market*	565,135	565,135	-
Totals	<u>\$ 9,301,140</u>	<u>\$ 9,301,140</u>	<u>\$ -</u>

\*Not subject to categorization

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

Note 2: Cash and Investments (Continued)

D. Disclosures Relating to Credit Risk:

<u>Investment Type</u>	<u>Amount</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Fiscal Year End Not Rated</u>
CAMP Investment Pool	\$ 628,845	N/A	\$ -	\$ 628,845
State Investment Pool	6,107,078	N/A	-	6,107,078
Pars Trust	2,000,082	N/A	-	2,000,082
Money Market	565,135	N/A	-	565,135
Total investments	<u>\$ 9,301,140</u>		<u>\$ -</u>	<u>\$ 9,301,140</u>

Generally, credit risk is the risk that the issuer of an investment will not fulfil its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required (where applicable) by the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of fiscal year end for each investment type.

E. Concentration of Credit Risk

The investment policy of the District contains limitations on the amount that can be invested in any one issuer. There are no investments in any one issuer that represent 5% or more of total District investments.

F. Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the government unit). The fair 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 the District's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2019, \$1,323,424 of the District's deposits with financial institutions in excess of FDIC limits were held in public funds collateralized accounts. As of June 30, 2019, the District did not hold any investments in any broker-dealer (counterparty) that was used by the District to buy the securities.

G. Investment in State Investment Pool

LAIF is included in the State's Pooled Money Investment Account. The total amount invested by all public agencies in the State's Pooled Money Investment Account approximates \$106.05 billion. Of the \$106.05 billion managed by the State Treasurer, 100% is invested in non-derivative financial products and 3.54% is invested in structured notes and asset-backed securities. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by state statute.

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

Note 3: Capital Assets

Capital Assets at June 30, 2019, consist of the following:

	Balance July 1, 2018	Additions	Adjustments/ Deletions	Balance June 30, 2019
<b>Water</b>				
Depreciable assets:				
Water Transmission	\$ 7,333,004	\$ 10,932	\$ -	\$ 7,343,936
Water Treatment	22,731,228	722,266	-	23,453,494
Studies	810,476	-	-	810,476
Vehicles and equipment	576,430	13,494	-	589,924
Subtotal	31,451,138	746,692	-	32,197,830
Less: Accumulated Depreciation	(13,029,564)	(817,198)	-	(13,846,762)
Net Capital Assets	18,421,574	(70,506)	-	18,351,068
Non-depreciable assets:				
Construction in progress	415,741	-	-	415,741
Land	13,640	-	-	13,640
Subtotal	429,381	-	-	429,381
Net Capital Assets	\$ 18,850,954	\$ (70,506)	\$ -	\$ 18,780,448
<b>Sewer</b>				
Depreciable assets:				
Collection Facilities	\$ 5,036,539	\$ 81,508	\$ -	\$ 5,118,047
Pumping facility	42,763	74,899	-	117,662
Treatment Plant/Facilities	16,004,874	97,073	-	16,101,947
Studies	71,208	-	-	71,208
Vehicles and equipment	631,713	13,494	-	645,207
Lake Chesbro Protection	270,020	43,827	-	313,847
Waste Discharge	549,152	-	-	549,152
Telemetry Building	514,972	-	-	514,972
Subtotal	23,121,241	310,801	-	23,432,042
Less: Accumulated Depreciation	(14,617,810)	(589,252)	-	(15,207,062)
Net Capital Assets	8,503,431	(278,451)	-	8,224,980
Non-depreciable assets:				
Construction in progress	228,531	144,293	-	372,824
Land	578,050	-	-	578,050
Subtotal	806,581	144,293	-	950,874
Net Capital Assets	\$ 9,310,012	\$ (134,158)	\$ -	\$ 9,175,854
<b>Drainage</b>				
Depreciable assets:				
Vehicle and equipment	\$ 62,301	\$ -	\$ -	\$ 62,301
Studies	1,786	-	-	1,786
Subtotal	64,087	-	-	64,087
Less: Accumulated Depreciation	(3,175)	(6,349)	-	(9,524)
Net Capital Assets	\$ 60,912	\$ (6,349)	\$ -	\$ 54,563
<b>Security</b>				
Depreciable assets:				
Vehicle and equipment	\$ 522,237	\$ -	\$ -	\$ 522,237
Studies	7,116	-	-	7,116
Buildings and improvements	287,388	-	-	287,388
Subtotal	816,741	-	-	816,741
Less: Accumulated Depreciation	(350,560)	(51,393)	-	(401,953)
Net Capital Assets	\$ 466,181	\$ (51,393)	\$ -	\$ 414,788

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

Note 4: Long-Term Liabilities

Long-term liabilities activity for the fiscal year ended June 30, 2019, was as follows:

	Balance July 1, 2018	Additions	Retirements	Balance June 30, 2019	Amount Due in One Year
Compensated absences	\$ 82,945	\$ 102,779	\$ (97,703)	\$ 88,021	\$ -
Capital lease	12,499	-	(4,145)	8,354	4,077
Net OPEB liability (note 7)	1,491,585	29,091	-	1,520,676	-
Net pension liability (note 6)	3,310,789	-	(152,131)	3,158,658	-
Total	<u>\$ 4,897,818</u>	<u>\$ 131,870</u>	<u>\$ (253,979)</u>	<u>\$ 4,775,709</u>	<u>\$ 4,077</u>

Capital Leases

On June 7, 2016, the District Board of Directors authorized the financing and purchase of a security vehicle. The cost of the vehicle was \$20,095 and the District took out a \$10,249 lease to finance a portion of the purchase. The District will make monthly payments of \$240 for four years with the interest rate set at 5.85%.

On August 26, 2016, the District Board of Directors authorized the financing and purchase of a security vehicle. The cost of the vehicle was \$22,521 and the District took out a \$9,521 lease to finance a portion of the purchase. The District will make monthly payments of \$157 for four years with the interest rate set at 5.70%.

Note 5: Net Position

Net Position is the excess of all the District's assets over all its liabilities, regardless of fund. Net position is divided into three captions under GASB Statement No. 34. These captions apply only to net position, which is determined at the proprietary or fiduciary fund level, and are described below.

Net Investment in Capital Assets

Net investment in capital assets describes the portion of net position which is represented by the current net book value of the District's capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted Net Position

Restricted net position consists of constraints placed on net position use through external creditors (such as through debt covenants), grants, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation which the District cannot unilaterally alter. These principally include connection fees received for use on capital projects and debt service requirements.

Unrestricted Net Position

Unrestricted net position describes the portion of net position which is not restricted as to use.

Note 6: Defined Benefit Pension Cost-Sharing Employer Plan

A. General Information about the Pension Plans

Plan Descriptions

All qualified permanent and probationary employees are eligible to participate in the District's Miscellaneous Employee Pension Plan, which is a cost-sharing, multiple employer, defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and District resolution. CalPERS issues publicly available reports that include full descriptions of the pension plans, benefit provisions, assumptions and membership information and can be found on the CalPERS website.

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

Note 6: Defined Benefit Pension Cost-Sharing Employer Plan (Continued)

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees or beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2019, are summarized as follows:

	<u>Prior to January 1, 2013</u>	<u>On or after January 1, 2013</u>
Hire date		
Benefit formula	2.00% @ 55	2.00% @ 62
Benefit vesting s schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50-55	52-67
Monthly benefits , as a % of compensation	1.50% to 2.00%	1.00% to 2.00%
Required employee contribution rates	7.00%	6.25%
Required employer contribution rates	9.41%	6.84%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2019, the contributions recognized as part of pension expense for each Plan were as follows:

Contributions-employer	\$	336,982
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B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2019, the District reported net pension liabilities for its proportionate share of the net pension liability of the Plan as follows:

	<b><u>Proportionate share of Net pension liability</u></b>
Miscellaneous Plan	\$ 3,158,658

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2018 and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

Note 6: Defined Benefit Pension Cost-Sharing Employer Plan (Continued)

The District's proportionate share of the net pension liability as of June 30, 2017 and 2018 was as follows:

Proportion - June 30, 2017	0.08399%
Proportion - June 30, 2018	0.08381%
Change - Increase (Decrease)	(0.000002)

For the year ended June 30, 2019, the District recognized pension expense of \$378,914. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 79,951	\$ -
Changes of assumptions	271,843	-
Net difference between projected and actual earnings on pension plan investments	15,616	-
Changes in proportion	29,965	-
Differences between district contributions and Proportionate share of contributions	-	-
District contributions subsequent to the measurement date	336,982	-
Total	<u>\$ 734,357</u>	<u>\$ (169,792)</u>

The \$336,982 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2020.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Measurement Period Ended June 30:</u>	
2020	\$ (257,068)
2021	(122,918)
2022	123,991
2023	28,412

C. Actuarial Assumptions

The total pension liabilities in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Payroll Growth	3.00%
Projected Salary Increase	3.3% - 14.2% (1)
Investment Rate of Return	7.15%

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

Note 6: Defined Benefit Pension Cost-Sharing Employer Plan (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.15% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans ran out of assets. Therefore, the current 7.15% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15% will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years). Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1-10 (1)</u>	<u>Real Return Years 11+ (2)</u>
Global Equity	47.0%	4.90%	5.38%
Global Fixed Income	19%	0.80%	2.27%
Inflation Sensitive	6%	0.60%	1.39%
Private Equity	12%	6.60%	6.63%
Real Estate	11%	2.80%	5.21%
Infrastructure and Forestland	3%	3.90%	5.36%
Liquidity	2%	-0.4%	-0.90%

(1) An expected inflation of 2.5% used for this period

(2) An expected inflation of 3.0% used for this period

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>Discount Rate -1% (6.15%)</u>	<u>Current Discount Rate (7.15%)</u>	<u>Discount Rate +1% (8.15%)</u>
Misc Tier I	\$ 5,073,681	\$ 3,158,658	\$ 1,577,837



**RANCHO MURIETA COMMUNITY SERVICES DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

Note 7: Other Postemployment Benefits (OPEB)

General Information about the OPEB Plan

***Plan Description.***

Rancho Murieta Community Services District’s Post-Retirement Healthcare Plan is a single employer, defined benefit healthcare plan administered by Public Employees’ Retirement System (PERS). PERS provides medical benefits to eligible retirees and their eligible dependents. Medical benefits are also paid to the surviving spouse of an eligible retiree. The District approved post-retirement health insurance benefits for all of its employees under the Public Employees’ Medical and Hospital Care Act (PEMHCA).

**Benefits Provided**

For an employee hired prior to January 1, 2016 retiring from the District with 5 or more years of service with a CalPERS agency, the District will contribute the health benefit cost for the retiree and family members up to 100% of the lowest health benefit plan offered by PERS for unrepresented employees and up to 80% of the lowest health plan offered by PERS for represented employees. A retiree hired prior to January 1, 2016 with less than 5 complete years of service with a CalPERS agency who retires at the District receives no benefit. The PERS minimum is set by law. Employees hired on or after January 1, 2016 must have 10 or more years of PERS service. After 10 years of PERS service the employee is eligible for 50% of employer contributions towards the other post-employment benefit (OPEB) increasing 5% per year until reaching 100% after 20 years. The retiree is on the same medical plan as the District’s active employees, however monthly rates for coverage of covered active and retired employees are computed separately. The minimum age for receiving benefits is 50 and older who qualify for a CalPERS pension. The plan also provides coverage for eligible spouses and surviving spouses. For employees who are eligible to participate in the plan the District will contribute the health benefit cost for the retiree and eligible spouse up to the lesser of the premium rate for their chosen plan or the District’s monthly premium of the lowest cost HMO for Unrepresented employees and 80% of the monthly premium of the lowest cost HMO for Represented employees. A retiree with less than the required years of service with the District will receive no benefit, unless they have previous employment qualifying them for CalPERS retirement, in which case they are eligible to receive the CalPERS minimum at the time of retirement. The CalPERS minimum is set by law.

**Employees Covered By Benefit Terms**

At the OPEB liability measurement date of June 30, 2018, the following employees were covered by the benefit terms:

Retirees currently receiving benefit payments	15
Active employees	24
Total	39

**Contributions**

The District’s annual other post-employment benefit (OPEB) cost (expense) is calculated based on the actuarially determined contribution of the employer (ADC), an amount actuarially determined in accordance with the parameters of GASB Statement 75. The ADC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The District chose a 30 year period to amortize the unfunded actuarial liability.

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

Note 7: Other Postemployment Benefits (OPEB) (Continued)

The contribution requirement of plan members is established by the District's Board of Directors. The 2018-19 fiscal year contribution was based on the actuarially determined contribution using entry age normal cost with calculated as a level percentage of payroll, as required by GASB 75. For the June 30, 2018 measurement period, the District contributed \$181,500 towards the unfunded actuarial liability (UAL). The District chose the Public Agency Retirement Services (PARS) as the trustee for the plan. The District also paid the retiree premiums for the measurement period ending June 30, 2019 directly to health insurance providers totalling \$146,902. Plan members receiving benefits contributed \$0 of the total premiums.

*Net OPEB Liability:* At June 30, 2019 the District reported a net OPEB liability of \$1,361,120. The net OPEB liability was measured from July 1, 2017 to June 30, 2018 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation with a valuation date of June 30, 2017.

**Actuarial Assumptions**

The net OPEB liabilities in the June 30, 2016 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2018
Actuarial Assumptions:	
Discount Rate	7.00%
Healthcare trend rates	5% to 8%
Salary increase	3.25%
Inflation	2%
Investment Rate of Return	7.00%

**OPEB Assets**

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Discount Rate

<u>Asset Class</u>	<u>Asset Allocation (1)</u>	<u>Long-term Expected Real Rate of Return (2)</u>
Equity	48.25%	5.65%
Fixed income	45.00%	1.39%
REIT's	1.75%	5.06%
Cash	5.00%	0.00%
Total	100.00%	

(1) The table shows the target asset allocation in the PARS Moderate investment policy.

(2) JP Morgan arithmetic Long Term Capital Market Assumptions and expected inflation of 2.26%

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

Note 7: Other Postemployment Benefits (OPEB) (Continued)

The OPEB assets are held by US Bank, the trustee for the Public Agency Retirement Services (PARS). The OPEB assets are not FDIC insured there is no bank guarantee and the assets may lose value. The investment objective is for the Balanced Index PLUS. The dual goals of the Balanced Strategy are growth of principal and income. It is expected that while dividend and interest income are an important component of the objective's total return, it is expected that capital appreciation will comprise a larger portion of the total return. The portfolio will be allocated between equity and fixed income investments.

The discount rate used to measure the total OPEB liability was 7 percent. The projection of cash flows used to determine the discount rate assumed the District's contributions will continue based upon the current OPEB funding policy. Based on those assumptions, the OPEB plans fiduciary net position was projected to be available to make projected future benefit payments for current members for all future years. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments determine the total OPEB liability.

**Changes in the Net OPEB Liability**

The table below shows the changes in the total OPEB liability, the Plan Fiduciary Net Position (i.e. fair value of Plan assets), and the net OPEB liability:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
	(a)	(b)	(a-c)
Balances at 6/30/2018	\$ 2,886,797	\$ 1,395,211	\$ 1,491,586
Changes for the year:			
Service cost	120,587	-	120,587
Interest	202,076	-	202,076
Difference between expected and actual experience	(9,086)	-	(9,086)
Contribution-employer	-	328,402	(328,402)
Net investment income	-	121,097	(121,097)
Actuarial determined benefit payments	(114,202)	(114,202)	-
Administrative expense	-	(5,456)	5,456
Net changes	199,375	329,841	(130,466)
Balances at 6/30/19	\$ 3,086,172	\$ 1,725,052	\$ 1,361,120

**Sensitivity of the Net OPEB Liability to Changes in the Discount Rate**

The following presents the District's share of the net OPEB liability if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	1% Decrease	Discount Rate	1% Increase
	6%	7%	8%
Net OPEB liability (asset)	\$ 1,674,178	\$ 1,361,120	\$ 1,061,674

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

Note 7: Other Postemployment Benefits (OPEB) (Continued)

**OPEB Expense and Deferred Outflows and Deferred Inflows of Resources Related to OPEB**

For the fiscal year ended June 30, 2019, the District recognized OPEB expense of \$215,711. OPEB expense represents the change in the net OPEB liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, and actuarial assumptions or methods. At June 30, 2019, the District reported deferred outflows and inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ (9,086)
Changes in assumptions	-	-
Net difference between projected and actual earnings on retirement plan investments	-	(27,450)
District contributions subsequent to measurement date	181,500	-
<b>Totals</b>	<b>\$ 181,500</b>	<b>\$ (36,536)</b>

\$181,500 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30,	
2020	(11,314)
2021	(11,314)
2022	(11,313)
2023	(2,164)
2024	(431)
<b>Total</b>	<b>\$ (36,536)</b>

Note 8: Special Assessment District

The Rancho Murieta Community Services District adopted a resolution for the formation of Rancho Murieta Community Services District Community Facilities District No. 2014-1 (Rancho North/Murieta Gardens) (“CFD No. 2014-1”). CFD No. 2014-1 was formed as part of a financing plan for public infrastructure Facilities and other governmental Facilities to support the development of a hotel and other commercial, residential and mixed use properties being developed on approximately 828 acres of land within the District boundaries of CFD No. 2014-1. On January 29, 2015 bonds in the amount of \$5,960,000 were issued to finance the costs of the Facilities and to finance costs associated with the issuance of bonds. During the 2014-2015 fiscal year, a special tax was approved by voters and has been authorized by the Board of Directors to be levied on lots and parcels within CFD No. 2014-1 commencing with the fiscal year 2016-17 tax levy. Proceeds from the Special Tax will be used to repay the bonded indebtedness and associated costs. Rancho Murieta Community Services District is acting as an agent for the property owners and is not liable for repayment of the bonds.

The amount of special assessment debt at June 30, 2019, is:

Community Facilities District No. 2014-1	<b>\$ 5,830,000</b>
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**RANCHO MURIETA COMMUNITY SERVICES DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2019**

Note 9: Net Position (Deficit)

The Security Fund had a deficit net position of \$376,912 as of June 30, 2019. The deficit net position is expected to be eliminated by collecting delinquent accounts receivable and with future rate increases.

Note 10: Revenue Limitation Imposed by California Proposition 218

Proposition 218, which was approved by the voters in November 1996 will regulate the District's ability to impose, increase, and extend taxes and assessments. Any new, increased, or extended taxes and assessments subject to the provisions of Proposition 218 requires voter approval before it can be implemented. Additionally, Proposition 218 provides that these taxes and assessments are subject to voter initiative process and may be rescinded in future years by the voters.

Note 11: Commitments and Contingencies

Grants

Amounts received or receivable from grant and lending agencies are subject to audit and adjustment by grantor and lending agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor or lender cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

Commitments

The District had ongoing engineering, and professional service agreements as of June 30, 2019. The solid waste agreement with California Waste Recovery System from July 1, 2019 to June 30, 2020 averages approximately \$55,000 per month and the contract engineering services with Coastland Engineers averages approximately \$23,000 per month.

Note 12: Subsequent Events

On September 9, 2019 the District approved a developer reimbursement agreement to pay Cosumnes River Land, LLC \$173,606 for costs incurred by the developer to construct a 12" recycled water main line as part of their Murieta Gardens development project. The recycled water line will become the property of the District after certain conditions are met per the agreement.

In December 2019, a novel strain of coronavirus has spread around the world resulting in business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The operations and business results of Rancho Murieta Community Services District could potentially be adversely affected by this global pandemic. The extent to which the coronavirus may impact business activity or investment results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions required to contain the coronavirus. The District has not included any contingencies in the financial statements specific to this issue.

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT**

**Schedule of Operating Revenues**

**Water Fund**

**For the Fiscal Year Ended June 30, 2019**

**(With Comparative Totals for the Fiscal Year Ended June 30, 2018)**

	<u>2019</u>	<u>2018</u>
Service Charges:		
Water sales - residential	\$ 1,895,972	\$ 1,842,339
Water sales - commercial	214,849	204,085
Water availability charges	230	300
Water sales - others	<u>9,473</u>	<u>9,171</u>
Total Service Charges	<u>2,120,524</u>	<u>2,055,895</u>
Other Charges:		
Water telephone line contracts	6,866	8,372
Ditch service charge	-	700
District project charges	24,459	83,512
Late charges	20,474	20,913
Water inspection fees	759	633
Transfer fees	<u>3,281</u>	<u>3,981</u>
Total Other Charges	<u>55,839</u>	<u>118,111</u>
Total Operating Revenues	<u><u>\$ 2,176,363</u></u>	<u><u>\$ 2,174,006</u></u>

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT**

**Schedule of Operating Expenses  
Water Fund  
For the Fiscal Year Ended June 30, 2019  
(With Comparative Totals for the Fiscal Year Ended June 30, 2018)**

	<u>2019</u>	<u>2018</u>
Source of Supply:		
Wages and salaries	\$ 7,578	\$ 41,846
Employer costs	3,826	19,167
Maintenance and repairs	35,757	30,323
Purchased power	57,378	62,517
Dam inspection costs	52,877	39,207
Chemical	5,813	9,494
Equipment rental	<u>1</u>	<u>2,164</u>
Total Source of Supply	<u>163,230</u>	<u>204,717</u>
Treatment:		
Wages and salaries	89,635	192,027
Employer costs	42,629	96,838
Purchased power	78,384	99,906
Chemicals	63,512	80,924
Maintenance and repairs	87,294	114,403
Supplies	13,841	8,950
Equipment rental	1,706	-
Lab tests	19,948	12,514
Miscellaneous	<u>205</u>	<u>-</u>
Total Treatment	<u>397,154</u>	<u>605,561</u>
Transmission and Distribution:		
Wages and salaries	76,990	176,980
Employer costs	38,897	87,389
Water meters	23,766	13,509
Maintenance and repairs	36,246	42,257
Purchased power	36,715	43,006
Equipment rentals	-	1,477
Road paving	22,547	24,700
Supplies	<u>1,046</u>	<u>100</u>
Total Transmission and Distribution	<u>236,207</u>	<u>389,418</u>
General and Administrative:		
Wages and salaries	565,398	288,917
Employer costs	<u>232,836</u>	<u>239,751</u>
Subtotal General and Administrative	<u>798,234</u>	<u>528,668</u>

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT**

**Schedule of Operating Expenses  
Water Fund  
For the Fiscal Year Ended June 30, 2019  
(With Comparative Totals for the Fiscal Year Ended June 30, 2018)**

	<u>2019</u>	<u>2018</u>
Subtotal General and Administrative:	\$ 798,234	\$ 528,668
Clerical and temp services	45,775	21,967
Recruitment	3,747	1,467
Contingency expenditure	9,725	5,128
Communications	25,315	18,137
Maintenance and repairs	65,332	67,537
Insurance	54,933	46,787
Permits	27,371	28,510
Supplies	13,003	11,055
Directors' meeting and expenses	6,438	5,756
Elections	2,308	-
Legal and audit	26,772	30,100
Training and safety	5,946	10,236
Vehicle expenses	23,171	32,614
Tools	3,506	5,116
Sacramento Water Authority	21,555	21,188
Miscellaneous	7,853	13,472
Postage	7,894	7,334
Travel and meetings	2,556	3,154
Consulting services	67,586	34,788
Dues and memberships	6,907	8,215
Uniforms	4,902	4,850
Purchased power	491	934
Equipment lease	1,169	1,265
Bad debts	-	79
Water conservation	11,348	12,118
Janitorial and pest control	4,092	2,113
CIA ditch operations	<u>48,541</u>	<u>2,766</u>
Total General and Administrative	<u>1,296,469</u>	<u>925,354</u>
Depreciation	<u>817,198</u>	<u>822,408</u>
Total Operating Expenses	<u>\$ 2,910,258</u>	<u>\$ 2,947,458</u>



**RANCHO MURIETA COMMUNITY SERVICES DISTRICT**

**Schedule of Operating Revenues  
Sewer Fund  
For the Fiscal Year Ended June 30, 2019  
(With Comparative Totals for the Fiscal Year Ended June 30, 2018)**

	<u>2019</u>	<u>2018</u>
Service Charges:		
Sewer service - residential	\$ 1,228,186	\$ 1,182,886
Sewer service - commercial	132,276	123,278
Sewer availability charges	<u>309</u>	<u>359</u>
Total Service Charges	<u>1,360,771</u>	<u>1,306,523</u>
Other Charges:		
Sewer inspection fees	759	506
District project charges	2,184	2,184
Ditch charge	-	535
Late charges	20,474	20,913
Transfer fees	<u>2,505</u>	<u>3,039</u>
Total Other Charges	<u>25,922</u>	<u>27,177</u>
Total Operating Revenues	<u>\$ 1,386,693</u>	<u>\$ 1,333,700</u>

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT**

**Schedule of Operating Expenses**

**Sewer Fund**

**For the Fiscal Year Ended June 30, 2019**

**(With Comparative Totals for the Fiscal Year Ended June 30, 2018)**

	<u>2019</u>	<u>2018</u>
Collections:		
Wages and salaries	\$ 147,449	\$ 103,213
Employer costs	50,737	53,058
Maintenance and repairs	44,280	41,005
Purchased power	17,879	17,554
Equipment rental	-	3,374
Supplies	2,775	273
Miscellaneous	28	-
	<hr/>	<hr/>
Total Collections	263,148	218,477
	<hr/>	<hr/>
Treatment and Disposal:		
Wages and salaries	72,385	165,184
Employer costs	35,749	81,948
Purchased power	106,149	100,772
Chemicals	36,785	34,652
Lab tests	12,351	13,489
Maintenance and repairs	103,302	150,988
Supplies	25,498	10,524
Miscellaneous	-	278
	<hr/>	<hr/>
Total Treatment and Disposal	392,219	557,834
	<hr/>	<hr/>
General and Administrative:		
Wages and salaries	302,981	215,970
Employer costs	110,429	178,436
Recruitment	2,906	1,467
Elections	1,762	-
Contingency expenditure	7,425	3,916
Communications	24,090	14,454
Maintenance and repairs	62,442	61,377
Insurance	33,542	27,323
Vehicle expenses	37,093	29,910
Supplies	10,531	9,215
Directors' meetings and expenses	4,915	4,395
Legal and audit	21,884	24,237
Training and safety	7,195	11,793
Permits	42,695	40,165
Miscellaneous	796	5,173
Postage	6,027	5,599
Tools	6,445	11,333
	<hr/>	<hr/>
Subtotal General and Administrative	683,158	644,763
	<hr/>	<hr/>

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT**

**Schedule of Operating Expenses**

**Sewer Fund**

**For the Fiscal Year Ended June 30, 2019**

**(With Comparative Totals for the Fiscal Year Ended June 30, 2018)**

	<u>2019</u>	<u>2018</u>
Subtotal General and Administrative:	\$ 683,158	\$ 644,763
Travel and meetings	2,226	2,670
Clerical and temp services	36,265	21,461
Consulting	16,135	5,034
Uniforms	4,745	4,850
Dues and memberships	1,552	4,494
Purchased power	375	713
Janitorial and pest control	2,091	2,113
Equipment lease	892	966
	<u>747,439</u>	<u>687,063</u>
Total General and Administrative		
Depreciation	<u>589,252</u>	<u>567,301</u>
Total Operating Expenses	<u><u>\$ 1,992,058</u></u>	<u><u>\$ 2,030,675</u></u>

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT**

**Schedule of Operating Revenue  
Drainage Fund  
For the Fiscal Year Ended June 30, 2019  
(With Comparative Totals for the Fiscal Year Ended June 30, 2018)**

	<u>2019</u>	<u>2018</u>
Special Taxes:		
Drainage service - residential	\$ 167,968	\$ 164,007
Drainage service - commercial	<u>32,257</u>	<u>31,576</u>
Total Special Taxes	<u>200,225</u>	<u>195,583</u>
Other Charges:		
Ditch charge	-	110
Drainage inspection fees	253	-
District project charges	800	-
Transfer fees	<u>514</u>	<u>624</u>
Total Other Charges	<u>1,567</u>	<u>734</u>
Total Operating Revenues	<u>\$ 201,792</u>	<u>\$ 196,317</u>

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT**

**Schedule of Operating Expenses  
Drainage Fund  
For the Fiscal Year Ended June 30, 2019  
(With Comparative Totals for the Fiscal Year Ended June 30, 2018)**

	<u>2019</u>	<u>2018</u>
Drainage:		
Wages and salaries	\$ 70,936	\$ 80,752
Maintenance and repairs	1,789	4,227
Purchased power	9,150	8,202
Employer costs	26,997	34,978
Equipment rental	-	2,953
Legal and audit	1,440	310
Chemicals	8,174	13,199
Improvements	-	86
Permits	5,865	6,552
Miscellaneous	<u>2,746</u>	<u>3,074</u>
Total Drainage	<u>127,097</u>	<u>154,332</u>
General and Administrative:		
Wages and salaries	34,971	33,897
Employer costs	14,101	34,623
Clerical and temp services	6,306	336
Elections	362	-
Contingency expenditure	1,525	804
Communications	810	857
Insurance	6,889	5,612
Uniforms	430	-
Maintenance and repairs	9,126	8,589
Directors' meeting and expenses	1,010	903
Office supplies	1,563	1,218
Legal and audit	3,255	4,115
Postage	1,238	1,150
Miscellaneous	1,816	2,614
Travel and meeting	651	321
Tuition reimbursement	-	-
Memberships	362	537
Training and safety	601	774
Purchased power	77	146
Equipment lease	<u>183</u>	<u>198</u>
Total General and Administrative	<u>85,276</u>	<u>96,693</u>
Depreciation	<u>6,349</u>	<u>3,175</u>
Total Operating Expenses	<u>\$ 218,722</u>	<u>\$ 254,200</u>

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT**

**Schedule of Operating Revenues  
Solid Waste Fund  
For the Fiscal Year Ended June 30, 2019  
(With Comparative Totals for the Fiscal Year Ended June 30, 2018)**

	<u>2019</u>	<u>2018</u>
Service Charges:		
Solid Waste - residential	<u>\$ 680,682</u>	<u>\$ 654,831</u>
Total Service Charges	<u>680,682</u>	<u>654,831</u>
Other Charges:		
Ditch charge	<u>422</u>	<u>90</u>
Total Operating Revenues	<u><u>\$ 681,104</u></u>	<u><u>\$ 654,921</u></u>

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT**

**Schedule of Operating Expenses  
Solid Waste Fund  
For the Fiscal Year Ended June 30, 2019  
(With Comparative Totals for the Fiscal Year Ended June 30, 2018)**

	<u>2019</u>	<u>2018</u>
Solid Waste:		
Contract charges	\$ 590,162	\$ 565,974
Miscellaneous	<u>37,191</u>	<u>35,446</u>
 Total Solid Waste	 <u>627,353</u>	 <u>601,420</u>
 General and Administrative:		
Wages and salaries	28,829	27,784
Employer costs	5,184	25,960
Clerical and temp services	5,523	275
Elections	297	-
Contingency expenditure	1,250	659
Travel-Meetings	485	263
Communications	664	-
Office supplies	1,281	999
Mail machine lease	150	163
Insurance	5,647	4,600
Postage	1,015	943
Professional services	2,732	8,630
Utilities	63	516
Maintenance and repairs	7,480	2,631
Miscellaneous	877	2,294
Directors' meeting and expenses	<u>827</u>	<u>739</u>
 Total General and Administrative	 <u>62,304</u>	 <u>76,455</u>
 Total Operating Expenses	 <u>\$ 689,657</u>	 <u>\$ 677,875</u>

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT**

**Schedule of Operating Revenues  
Security Fund  
For the Fiscal Year Ended June 30, 2019  
(With Comparative Totals for the Fiscal Year Ended June 30, 2018)**

	<u>2019</u>	<u>2018</u>
Special Taxes:		
Security service - residential	\$ 1,150,409	\$ 1,125,438
Security service - commercial	<u>197,619</u>	<u>188,790</u>
Total Special Taxes	<u>1,348,028</u>	<u>1,314,228</u>
Other Charges:		
Late charges	40,949	41,827
Transfer fees	5,929	7,194
Fines and permits	11,510	11,930
Other	<u>4,213</u>	<u>14,392</u>
Total Other Charges	<u>62,601</u>	<u>75,343</u>
Total Operating Revenues	<u>\$ 1,410,629</u>	<u>\$ 1,389,571</u>



**RANCHO MURIETA COMMUNITY SERVICES DISTRICT**

**Schedule of Operating Expenses  
Security Fund  
For the Fiscal Year Ended June 30, 2019  
(With Comparative Totals for the Fiscal Year Ended June 30, 2018)**

	<u>2019</u>	<u>2018</u>
Gate Services:		
Wages and salaries	\$ 282,388	\$ 266,251
Employer costs	195,715	189,698
Temp staffing	42,573	62,686
Recruitment	2,397	1,455
Miscellaneous	2,162	5,134
Equipment repairs and maintenance	17,701	20,564
Supplies	5,678	9,589
Communications	2,253	5,842
Janitor and pest controls	4,614	5,843
Purchased power	7,040	7,732
Training and safety	-	127
Uniforms	3,540	2,935
	<hr/>	<hr/>
Total Gate Services	566,061	577,856
	<hr/>	<hr/>
Patrol Services:		
Wages and salaries	227,522	235,882
Employer costs	179,868	188,393
Temp staffing	28,447	9,645
Recruitment	1,575	2,606
Vehicle fuel	11,763	14,113
Off-duty sheriff patrol	3,051	6,895
Vehicle maintenance	14,907	5,317
Uniforms	2,588	4,335
Miscellaneous	314	1,321
Cellular phone	5,653	5,408
Equipment repairs and maintenance	961	141
Janitor and pest control	4,508	3,632
Supplies	-	-
Travel/meetings	825	39
Training and safety	733	865
	<hr/>	<hr/>
Total Patrol Services	482,715	478,592
	<hr/>	<hr/>
General and Administrative:		
Wages and salaries	195,870	161,642
Employer costs	132,990	139,627
Clerical and temp services	20,984	1,117
Recruitment	1,475	3,715
Elections	1,205	-
Contingency and reserve expenditures	5,075	2,676
Insurance	22,926	18,675
Legal and audit	18,106	44,976
Supplies	10,483	10,812
Directors' meetings and expenses	3,359	3,004
Training and safety	1,976	5,471
Purchased power	256	487
	<hr/>	<hr/>
Subtotal General and Administrative	414,705	392,202
	<hr/>	<hr/>

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT**

**Schedule of Operating Expenses  
Security Fund  
For the Fiscal Year Ended June 30, 2019  
(With Comparative Totals for the Fiscal Year Ended June 30, 2018)**

	<u>2019</u>	<u>2018</u>
Subtotal General and Administrative:	\$ 414,705	\$ 392,202
Communications	25,840	4,060
Maintenance and repairs	16,868	28,796
Postage	4,119	3,827
Travel and meetings	-	1,067
Miscellaneous	7,952	10,489
Memberships	1,205	1,788
Equipment lease	610	660
Uniform	<u>282</u>	<u>1,093</u>
 Total General and Administrative	 <u>471,581</u>	 <u>443,983</u>
 Depreciation	 <u>51,393</u>	 <u>46,816</u>
 Total Operating Expenses	 <u>\$ 1,571,750</u>	 <u>\$ 1,547,246</u>

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE  
OF THE NET PENSION LIABILITY  
JUNE 30, 2019**

Actuarial Valuation Date	District's proportion of the net pension liability (asset)	District's proportionate share of the net pension liability (asset)	District's covered-employee payroll	District's proportionate share of the net pension liability (asset) (asset) as a percentage of its covered-employee payroll	Plan fiduciary net position as a percentage of the total pension liability
Miscellaneous					
6/30/2014	0.08554%	\$2,114,104	\$1,777,986	118.90%	79.18%
6/30/2015	0.07967%	\$2,185,709	\$1,854,042	117.89%	81.69%
6/30/2016	0.07992%	\$2,776,304	\$1,844,259	150.54%	78.44%
6/30/2017	0.08399%	\$3,310,789	\$1,700,521	194.69%	73.42%
6/30/2018	0.08381%	\$3,158,658	\$1,777,349	177.72%	75.68%

The schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, only information for those years for which information is available is presented.

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF THE DISTRICT'S PENSION CONTRIBUTIONS  
 JUNE 30, 2019**

<u>Actuarial Valuation Date</u>	<u>Contractually required contribution</u>	<u>Contributions in relation to the contractually required contribution</u>	<u>Contribution deficiency (excess)</u>	<u>District's covered employees payroll</u>	<u>Contributions as a percentage of covered employee payroll</u>
6/30/2014	\$222,235	(\$222,235)	\$0	\$1,777,986	12.50%
6/30/2015	\$250,997	(\$250,997)	\$0	\$1,854,042	13.54%
6/30/2016	\$269,924	(\$269,924)	\$0	\$1,844,259	14.64%
6/30/2017	\$282,817	(\$282,817)	\$0	\$1,700,521	16.63%
6/30/2018	\$336,982	(\$336,982)	\$0	\$1,777,349	18.96%

The schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, only information for those years for which information is available is presented.

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
OTHER POST EMPLOYMENT BENEFITS (OPEB) PLAN SCHEDULE OF  
CHANGES IN THE DISTRICT'S NET OPEB LIABILITY AND RELATED RATIOS  
JUNE 30, 2019**

<b>Total OPEB liability</b>	<u>6/30/2019</u>	<u>6/30/2018</u>
Service cost	\$ 120,587	\$ 120,587
Interest	202,076	193,101
Changes in benefit terms	-	-
Differences between expected and actual experience	(9,086)	(13,414)
Changes of assumptions	-	-
Benefit payments	<u>(114,202)</u>	<u>(101,226)</u>
Net change in total OPEB liability	199,375	199,048
Total OPEB liability-beginning	<u>2,886,797</u>	<u>2,687,749</u>
Total OPEB liability-ending (a)	<u><u>\$ 3,086,172</u></u>	<u><u>\$ 2,886,797</u></u>
<b>Plan fiduciary net position</b>		
Contributions-employer	\$ 214,200	\$ 189,009
Net investment income	121,097	127,890
Benefit payments from trust	-	-
Administrative expenses	<u>(5,456)</u>	<u>(4,337)</u>
Net change in plan fiduciary net position	329,841	312,562
Plan fiduciary net position-beginning	<u>1,395,211</u>	<u>1,082,649</u>
Plan fiduciary net position-ending (b)	<u><u>\$ 1,725,052</u></u>	<u><u>\$ 1,395,211</u></u>
District's net OPEB liability (a-b)	<u><u>\$ 1,361,120</u></u>	<u><u>\$ 1,491,586</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability	56%	48%
Covered-employee payroll	\$ 1,755,788	\$ 1,700,521
District's net OPEB liability as a percentage of covered-employee payroll	78%	88%
Measurement date	6/30/2018	6/30/2017

\* Amounts presented above were determined as of June 30. Additional years will be presented as they become available.

The Notes to RSI are integral to the above schedule.

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT**  
**COMMUNITY FACILITIES DISTRICT NO. 2014-1**  
**COMPONENT UNIT FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT  
COMMUNITY FACILITIES DISTRICT NO. 2014-1  
JUNE 30, 2019**

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# LARRY BAIN, CPA

An Accounting Corporation

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## **INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Rancho Murieta Community Services District  
Community Facilities District No. 2014-1  
Rancho Murieta, California

We have audited the accompanying financial statements of the governmental activities and the major fund of Rancho Murieta Community Services District, Community Facilities District No. 2014-1 (CFD 2014-1), a component unit of the Rancho Murieta Community Services District, as of and for the fiscal year ended June 30, 2019, and the notes to the financial statements which collectively comprise the CFD 2014-1's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes 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 District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

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 basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Rancho Murieta Community Services District, Community Facilities District No. 2014-1 as of June 30, 2019, and the respective changes in financial position, thereof for the fiscal year then ended in conformity with the accounting principles generally accepted in the United States of America.

**Other Matters***Required Supplementary Information*

Management has omitted the Management Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

*Larry Bain, CPA,*  
*An Accounting Corporation*  
May 18, 2020

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT  
COMMUNITY FACILITIES DISTRICT NO. 2014-1**

**STATEMENT OF NET POSITION  
JUNE 30, 2019**

Current Assets	
Restricted cash and investments	\$ 167,094
Assessments receivable	21,654
Prepaid expense	1,619
Due from other government	273,947
Total Current Assets	<u>464,314</u>
Noncurrent assets	
Restricted cash and investments	<u>398,040</u>
Total Assets	<u>862,354</u>
Liabilities	
Current	
Accounts payable	204
Accrued interest payable	86,104
Current portion - special assessment debt	130,000
Total Current Liabilities	<u>216,308</u>
Noncurrent	
Special assessment debt	<u>5,700,000</u>
Total Liabilities	<u>5,916,308</u>
Net Position (Deficit)	
Restricted	862,354
Unrestricted (Deficit)	<u>(5,916,308)</u>
Total Net Position (Deficit)	<u>\$ (5,053,954)</u>

The accompanying notes are an integral part of these basic financial statements.

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT  
COMMUNITY FACILITIES DISTRICT NO. 2014-1**

**STATEMENT OF ACTIVITIES  
JUNE 30, 2019**

	Expenses	Program Revenues Capital Grants and Contributions	Total
Governmental Activities:			
Community facilities district	\$ 20,373	\$ 423,565	\$ 403,192
Interest expense	258,852	-	(258,852)
Total Governmental Activities	\$ 279,225	\$ 423,565	144,340

General Revenues:

Investment income	7,642
Total general revenues	7,642
Change in net position	151,982
Net Position - Beginning of Fiscal Year	362,473
Prior period adjustment	(5,568,409)
Net Position - End of Fiscal Year	\$ (5,053,954)

The accompanying notes are an integral part of these basic financial statements.

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT  
COMMUNITY FACILITIES DISTRICT NO. 2014-1**

**GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2019**

Assets

Current

Restricted cash and investments	\$ 167,094
Assessments receivable	21,654
Prepaid expense	1,619
Due from other governments	273,947
Total Current Assets	<u>464,314</u>

Non-Current

Restricted cash and investments	<u>398,040</u>
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Total Assets	<u><u>\$ 862,354</u></u>
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Liabilities and Fund Balances

Liabilities

Due to other governments	<u>\$ 204</u>
Total Liabilities	<u>204</u>

Fund Balance

Fund balances

Restricted for CFD # 2014-1	<u>862,150</u>
Total Fund Balance	<u>862,150</u>
Total Liabilities and Fund Balance	<u><u>\$ 862,354</u></u>

The accompanying notes are an integral part of these basic financial statements.

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT  
COMMUNITY FACILITIES DISTRICT NO. 2014-1**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO STATEMENT OF NET POSITION  
JUNE 30, 2019**

Fund Balances of Governmental Funds	\$ 862,150
Amounts reported for governmental activities in the statement of net position are different because:	
Certain liabilities, including long-term debt and accrued interest are not due and payable in the current period and therefore are not reported in the funds.	<u>(5,916,104)</u>
Net position of governmental activities	<u><u>\$ (5,053,954)</u></u>

The accompanying notes are an integral part of these basic financial statements.

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT  
COMMUNITY FACILITIES DISTRICT NO. 2014-1**

**GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

Revenues		
Tax and assessments	\$	423,565
Investment income		<u>7,642</u>
Total Revenues		<u>431,207</u>
Expenditures		
Current:		
Administration		20,373
Debt Service		
Principal		130,000
Interest		<u>259,935</u>
Total Expenditures		<u>410,308</u>
Net Change in Fund Balance		<u>20,899</u>
Fund Balance, Beginning of Fiscal Year		<u>841,251</u>
Fund Balance, End of Fiscal Year	\$	<u><u>862,150</u></u>

The accompanying notes are an integral part of these basic financial statements.

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT  
COMMUNITY FACILITIES DISTRICT NO. 2014-1**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

Net Change in Fund Balances - Total Governmental Funds	\$ 20,899
Amounts reported for governmental activities in the Statement of Activities differs from the amounts reported in the Statement of Revenues, Expenditures and Changes in Fund Balances because:	
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	130,000
The change in accrued interest is recorded as a current liability in the statement of activity, however interest expense is recorded when paid in the governmental funds.	<u>1,083</u>
Change in net position of governmental activities	<u><u>\$ 151,982</u></u>

The accompanying notes are an integral part of these basic financial statements.

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT  
COMMUNITY FACILITIES DISTRICT NO. 2014-1**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Rancho Murieta Community Services District, Community Services District No. 2014-1, (CFD 2014-1) conform to accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA), as applied to governmental units. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the CFD 2014-1's accounting policies are described below.

**A. Financial Reporting Entity**

The Rancho Murieta Community Services District, Community Facilities District No. 2014-1 (Rancho North/Murieta Gardens) was formed on September 5, 2014, by resolution of the Rancho Murieta Community Services District's Board of Directors for the sole purpose of acquiring and constructing water facilities that will benefit the inhabitants within the Rancho Murieta Community. In order to finance the expansion of water facilities, special tax bonds totalling \$5,960,000 were issued pursuant to the Mello-Roos Community Facilities Act of 1982.

During the 2016/17 fiscal year, the new water facility was paid for with CFD 2014-1 bond proceeds and transferred to the Rancho Murieta Community Services District. Additional construction costs were funded by developers under financing agreements and by the Rancho Murieta Community Services District.

The CFD 2014-1, a component unit of Rancho Murieta Community Services District, is a legally constituted governmental entity governed by the Board of Directors of the Rancho Murieta Community Services District. The financial records of the CFD 2014-1 are maintained by the Rancho Murieta Community Services District staff.

The financial statements present only the financial position and changes in financial position of the CFD 2014-1 and are not intended to present fairly the financial position of Rancho Murieta Community Services District and the changes in its financial position in conformity with accounting principles generally accepted in the U.S.

**B. Basis of Presentation**

**Government-wide Statements:** The Statement of Net Position and the Statement of Activities include the financial activities of the overall CFD 2014-1 government. The CFD 2014-1 does not have any business-type activities.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the CFD 2014-1's activities. Direct expenses are those that are specially associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

**Fund Financial Statements:** The fund financial statements provide information about the CFD 2014-1's funds. Separate statements for each governmental fund are presented. The emphasis of fund financial statements is on major individual funds, each of which is displayed in a separate column.



**RANCHO MURIETA COMMUNITY SERVICES DISTRICT  
COMMUNITY FACILITIES DISTRICT NO. 2014-1**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Measurement Focus and Basis of Accounting:**

The government-wide financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

Governmental Funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measureable and available*.

The CFD 2014-1 considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after fiscal year-end. Expenditures are recorded when related fund liability is incurred, except for principle and interest on long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions under capital leases are reported as *other financing sources*.

*Non-exchange transactions*, in which the CFD 2014-1 gives or receives value without directly receiving or giving equal value in exchange, include grants, entitlements, and donations, are recognized in the fiscal year in which all eligibility requirements have been satisfied.

When program expenses are incurred, and both restricted and unrestricted net position are available to finance the program, the CFD 2014-1's policy is to first apply restricted revenues, followed by general revenues.

**D. Budget and Budgetary Accounting**

The CFD 2014-1 is not required to adopt an annual appropriated budget but does, however, adopt a budget for management purposes. Therefore, no budgetary comparison is required.

**E. Restricted Assets**

Cash held with fiscal agent, as well as certain resources set aside for special assessment debt repayment, are classified as restricted assets on the balance sheet because their use is limited by loan covenants.

**F. Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America as prescribed by the GASB and the American Institute of Certified Public Accountants (AICPA), requires management to make estimates and assumptions that affect the reported amounts of 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.

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT  
COMMUNITY FACILITIES DISTRICT NO. 2014-1**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

G. Net Position/Fund Equity

**Government-wide Financial Statements**

Restricted Net Position - This amount consists of amounts restricted from external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Position- This amount is all net position that does not meet the definition of “invested in capital assets, net of related debt” or “restricted net position”.

**Fund Financial Statements**

Fund Equity- Restricted fund balance of the governmental fund is created to satisfy the debt covenant reserve, not available for future expenditures.

**NOTE 2: CASH AND INVESTMENTS**

Deposits with financial institutions	\$	160,331
Investments		404,803
Total cash and investments	\$	565,134

A. 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 Rancho Murieta Community Services District Community Facilities District No. 2014-1. (District) by the California Government Code (or the District’s investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District’s investment policy, where more restrictive) that address **interest rate risk**, **credit risk** and **concentration of credit risk**. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District investment policy.

Authorized Investment Type	Maximum Maturity	Percentage of Portfolio	Investment in One Issuer
Investment pools authorized under CA Statutes governed by Government Code	N/A	None	\$40 million
U.S. Treasury Obligations	5 years	None	None
Bank Savings Accounts	N/A	25%	None
Federal Agencies	5 years	75%	None
Commercial Paper	180 days	20%	None
Negotiable Certificates of Deposit	180 days	20%	None
Re-Purchase Agreements	180 days	20%	None
Corporate Debt	5 years	25%	None

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT  
COMMUNITY FACILITIES DISTRICT NO. 2014-1**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 2: CASH AND INVESTMENTS (CONTINUED)**

**B. Investments Authorized by Debt Agreements**

Investments held by trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy. The Table below identifies the investment types that are authorized for investments held by trustees. The table also identifies certain provisions of the debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Investment pools authorized under CA			
Statutes governed by Government Code	N/A	None	\$40 million
U.S. Treasury Obligations	5 years	None	None
Bank Savings Account	N/A	25%	None
Federal Agencies	5 years	75%	None
Commercial Paper	180 days	20%	None
Negotiable Certificates of Deposit	180 days	20%	None
Re-purchase Agreements	180 days	20%	None
Corporate Debt	5 years	25%	None
Money Market Accounts	N/A	None	None

**C. 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.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investment maturity:

<u>Investment Type</u>	<u>Totals</u>	<u>Remaining Maturity (in Months)</u>	
		<u>12 Months or Less</u>	<u>13-48 Months</u>
Treasury funds	\$ 404,803	\$ 404,803	\$ -
Totals	<u>\$ 404,803</u>	<u>\$ 404,803</u>	<u>\$ -</u>

\*Not subject to categorization

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT  
COMMUNITY FACILITIES DISTRICT NO. 2014-1**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 2: CASH AND INVESTMENTS (CONTINUED)**

**D. Disclosures Relating to Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfil its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) California Government Code, the District’s investment policy, or debt agreements, and the actual rating as of fiscal year end for each investment type.

<u>Investment Type</u>	<u>Amount</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Fiscal Year End</u>	
				<u>AAA</u>	<u>Not Rated</u>
Treasury funds	\$ 404,803	N/A	\$ -	\$ 404,803	\$ -
Total investments	<u>\$ 404,803</u>		<u>\$ -</u>	<u>\$ 404,803</u>	<u>\$ -</u>

**E. Concentration of Credit Risk**

The investment policy of the District contains limitations on the amount that can be invested in any one issuer. There are no investments in any one issuer that represent 5% or more of total District investment.

**F. Custodial Credit Risk**

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposit or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment of 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 government unit). The fair 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 the District’s deposits by pledging first deed mortgage notes having a value of 150% of the secured public deposits.

At June 30, 2019 there were no CFD 2014-1 deposits with financial institutions in excess of federal depository insurance limits required to be held in collateralized accounts.

**NOTE 3: SPECIAL TAX**

The CFD 2014-1 started levying the special tax against property owners during the 2016/17 fiscal year. The special taxes are collected through the secured property tax rolls of the County of Sacramento. The special tax represents the amount to be assessed to the property owners to pay bond principle and interest. In the event property owners are delinquent in their payments, the CFD 2014-1 is required to initiate foreclosure proceedings within 150 days following the date of delinquency. CFD 2014-1 will refer pending delinquency cases to the CFD 2014-1’s legal counsel for collection.

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT  
COMMUNITY FACILITIES DISTRICT NO. 2014-1**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 4: SPECIAL ASSESSMENT DEBT**

The Rancho Murieta Community Services District adopted a resolution for the formation of Rancho Murieta Community Services District Community Facilities District No. 2014-1 (Rancho North/Murieta gardens) (“CFD No. 2014-1”). CFD No. 2014-1 was formed as part of a financing plan for public infrastructure Facilities and other governmental Facilities to support development of a hotel, commercial, residential and mixed use properties being developed on approximately 828 acres of land within the District boundaries of CFD No. 2014-1. On January 29, 2015 bonds in the amount of \$5,960,000 were issued to finance the costs of the Facilities and to finance costs associated with the issuance of bonds. During the 2014-15 fiscal year a special tax was approved by voters and has been authorized by the Board of Directors to be levied on lots and parcels within CFD No. 2014-1 commencing with the fiscal year 2016-17 fiscal year tax levy. Proceeds from the Special Tax will be used to repay the bonded indebtedness and associated costs and to pay directly for the acquisition or construction of authorized Facilities.

\$5,960,000 CFD 2014-1 bonds are due in annual payments of \$154,029 to \$391,560 through September 1, 2044, with interest at 4.4% per annum payable from revenues generated through ad valorem tax assessed by the CFD 2014-1 against properties located within the boundaries of the CFD 2014-1.

Long-term liabilities activity for the fiscal year ended June 30, 2019, was as follows:

	Balance July 1, 2018	Additions	Reductions	Balance June 30, 2019	Due within One Year
Special Assessment Debt					
Series 2014-1	\$ 5,960,000	\$ -	\$ (130,000)	\$ 5,830,000	\$ 130,000
Total	<u>\$ 5,960,000</u>	<u>\$ -</u>	<u>\$ (130,000)</u>	<u>\$ 5,830,000</u>	<u>\$ 130,000</u>

Debt service requirements to maturity are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2020	\$ 130,000	\$ 258,310	\$ 388,310
2021	135,000	254,735	389,735
2022	140,000	250,685	390,685
2023	145,000	246,310	391,310
2024	150,000	241,525	391,525
2025-2029	830,000	1,121,675	1,951,675
2030-2034	1,020,000	928,864	1,948,864
2035-2039	1,285,000	662,388	1,947,388
2040-2044	1,625,000	326,563	1,951,563
2045	370,000	17,572	387,572
Totals	<u>\$ 5,830,000</u>	<u>\$ 4,308,627</u>	<u>\$ 10,138,627</u>

**RANCHO MURIETA COMMUNITY SERVICES DISTRICT  
COMMUNITY FACILITIES DISTRICT NO. 2014-1**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 5: RESERVE FOR BOND SERVICE**

By the terms of the bond indenture, \$392,831 of the proceeds from the bond issue were set aside for the purpose of paying any delinquent bond interest and principle payments. The balance held in reserve as of June 30, 2019 is \$398,040, which represents the initial deposit plus accrued interest.

**NOTE 6: NET POSITION DEFICIT**

CFD 2014-1 governmental activities had an unrestricted net position (deficit) of \$5,053,954 at June 30, 2019. This is due to reporting the special assessment debt with no offsetting long-term special tax receivable in the statement of net position. The net position (deficit) is expected to be eliminated in future years upon collecting the special tax used to pay the special assessment debt.

**NOTE 7: PRIOR PERIOD ADJUSTMENT**

A prior period adjustment was recorded reducing beginning net position by \$5,568,409, to eliminate the deferred revenue offset to revenue in a prior fiscal year.

**NOTE 8: SUBSEQUENT EVENT**

In December 2019, a novel strain of coronavirus has spread around the world resulting in business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The operations and business results of CFD 2014-1 could potentially be adversely affected by this global pandemic. The extent to which the coronavirus may impact special tax assessment revenue or investment results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions required to contain the coronavirus. CFD 2014-1 has not included any contingencies in the financial statements specific to this issue.