

RANCHO MURIETA COMMUNITY FACILITIES
DISTRICT NO. 2014-1

Audited Financial Statements

June 30, 2020

RANCHO MURIETA COMMUNITY FACILITIES DISTRICT NO. 2014-1

June 30, 2020

Table of Contents

Independent Auditor’s Report..... 1

BASIC FINANCIAL STATEMENTS

Statement of Net Assets and Governmental Funds Balance Sheet 3

Statement of Activities and Governmental Funds Revenues,
Expenditures and Changes in Fund Balances 4

Notes to the Basic Financial Statements 5



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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Rancho Murieta Community Facilities District No. 2014-1 (the District), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of June 30, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

_____, 2021

RANCHO MURIETA COMMUNITY FACILITIES DISTRICT NO. 2014-1

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET

As of June 30, 2020

	General Fund	Adjustments (Note G)	Statement of Net Position
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and investments	\$ 281,385		\$ 281,385
Assessments receivable	691,092		691,092
Restricted cash	391,762		391,762
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 1,364,239</u>	<u>-</u>	<u>1,364,239</u>
LIABILITIES			
Accounts payable	\$ 212		212
Due to Community Services District	127,589		127,589
Interest payable, due within one year		\$ 84,912	84,912
Special assessment debt, due within one year		135,000	135,000
Note payable, due after one year		5,565,000	5,565,000
	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES	127,801	5,784,912	5,912,713
DEFERRED INFLOWS			
Unavailable revenue	689,286	(689,286)	
	<u> </u>	<u> </u>	<u> </u>
FUND BALANCES/NET POSITION			
Fund balances:			
Nonspendable			
Unassigned	547,152	(5,095,626)	
	<u> </u>	<u> </u>	<u> </u>
TOTAL FUND BALANCES	547,152	(5,095,626)	
	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,364,239</u>		
Net Position			
Restricted			391,762
Unrestricted			(4,940,236)
		<u> </u>	<u> </u>
TOTAL NET POSITION		<u>\$ -</u>	<u>\$ (4,548,474)</u>

The accompanying notes to component unit financial statements are an integral part of this statement.

RANCHO MURIETA COMMUNITY FACILITIES DISTRICT NO. 2014-1

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

For the Year Ended June 30, 2020

	General Fund	Adjustments (Note H)	Statement of Activities
EXPENDITURES			
General government	\$ 15,145		\$ 15,145
Debt service:			
Principal payments	130,000	\$ (130,000)	
Interest expense	255,440	(1,192)	254,248
TOTAL EXPENDITURES	<u>400,585</u>	<u>(131,192)</u>	<u>269,393</u>
GENERAL REVENUES			
Taxes and assessments	80,261	347,176	427,437
Investment income	5,326		5,326
TOTAL GENERAL REVENUES	<u>85,587</u>	<u>347,176</u>	<u>432,763</u>
(DEFICIENCY) EXCESS OF REVENUES OVER EXPENDITURES	(314,998)	478,368	163,370
FUND BALANCE/NET ASSETS			
Fund balance/net position, beginning of the year, as previously reported	862,150	(5,916,104)	(5,053,954)
Prior period adjustment		342,110	342,110
Net position, beginning of the year, as restated	<u>862,150</u>	<u>(5,573,994)</u>	<u>(4,711,844)</u>
	<u>\$ 547,152</u>	<u>\$ (5,095,626)</u>	<u>\$ (4,548,474)</u>

The accompanying notes to financial statements are an integral part of this statement.

RANCHO MURIETA COMMUNITY FACILITIES DISTRICT NO. 2014-1

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying summary of the more significant accounting policies of the Rancho Murieta Community Facilities District No. 2014-1 (the District) is presented to assist the reader in interpreting the financial statements and other data in this report. The accounting policies of the District conform in all material respects to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies.

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.

Basis of Presentation—Government-wide Financial Statement: The government-wide financial statements (i.e., the statement of net assets and statement of activities) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The District has only governmental activities, which are supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Tax increment revenue and other items not properly included among program revenues are reported instead as general revenues.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources, as they are needed.

Basis of Presentation – Fund Financial Statements: The accounts of the District are organized on the basis of funds. A fund is a separate self-balancing set of accounts. Each fund was established for the purpose of accounting for specific activities in accordance with applicable regulations, restrictions or limitations. Separate financial statements are provided for governmental funds. The District has only a General Fund.

RANCHO MURIETA COMMUNITY FACILITIES DISTRICT NO. 2014-1

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2020

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

Property tax revenue and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Property taxes related to the current fiscal year are accrued as revenue and accounts receivable and considered available if received within 60 days of year end. All other revenue items are considered to be measurable and available only when cash is received by the government.

Governmental funds are used to account for the District's expendable financial resources and related liabilities. The District reports the following major governmental funds:

General Fund – The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

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.

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.

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.

Net Position/Fund Equity: The government-wide financial statements utilize a net assets presentation. Net assets consist of the following:

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.”

RANCHO MURIETA COMMUNITY FACILITIES DISTRICT NO. 2014-1

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2020

NOTE B – CASH AND INVESTMENTS

Cash and investments consisted of the following at June 30, 2020:

Deposits with financial institutions	\$ 146,191
Investments	<u>135,194</u>
Total Cash and Investments	<u><u>\$ 281,385</u></u>

Investments Authorized by the California Government Code and the District’s Investment Policy: The table below identifies the investment types that are authorized for the 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.

<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 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

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.

RANCHO MURIETA COMMUNITY FACILITIES DISTRICT NO. 2014-1

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2020

NOTE B – CASH AND INVESTMENTS (Continued)

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum 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
Money Market Accounts	N/A	None	None

Interest Rate Risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, 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 (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the District’s investments by maturity as of June 30, 2020:

Investment Type	Totals	Remaining Maturity (in Months)	
		12 Months or Less	13-48 Months
Treasury funds	\$ 135,194	\$ 135,194	
Totals	\$ 135,194	\$ 135,194	

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.

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End	
				AAA	Not Rated
Treasury funds	\$ 135,194	N/A		\$ 135,194	
Totals	\$ 135,194			\$ 135,194	

RANCHO MURIETA COMMUNITY FACILITIES DISTRICT NO. 2014-1

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2020

NOTE B – CASH AND INVESTMENTS (Continued)

Concentration of Credit Risk: The investment policy of the District limited the amount that can be invested in any one issuer to the amount stipulated by the California Government Code. As of June 30, 2020, there are no investments in any one issuer that represent 5% or more of total District investments.

Custodial Credit Risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, 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, 2020 there were no CFD 2014-1 deposits with financial institutions in excess of federal depository insurance limits required to be held in collateralized accounts.

Fair Value Measurement: The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, Level 3 inputs are significant unobservable inputs.

The District's investment in the money market mutual fund is considered Level 2 because the value is calculated using amortized cost of the securities held in the fund, not the market value.

NOTE C – 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 FACILITIES DISTRICT NO. 2014-1

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2020

NOTE D – 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.

The 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:

	<u>Balance</u> <u>July 1, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2020</u>	<u>Due Within</u> <u>One Year</u>
Special Assessment					
Debt Series 2014-1	\$ 5,830,000		\$ (130,000)	\$ 5,700,000	\$ 135,000
Total	<u>\$ 5,830,000</u>		<u>\$ (130,000)</u>	<u>\$ 5,700,000</u>	<u>\$ 135,000</u>

Debt service requirements to maturity are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	155,000	236,275	391,275
2026-2030	860,000	1,089,650	1,949,650
2031-2035	1,070,000	880,413	1,950,413
2036-2040	1,345,000	601,350	1,946,350
2041-2045	1,700,000	249,375	1,949,375
Totals	<u>\$ 5,700,000</u>	<u>\$ 4,050,318</u>	<u>\$ 9,750,318</u>

RANCHO MURIETA COMMUNITY FACILITIES DISTRICT NO. 2014-1

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2020

NOTE E – 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, 2020 is \$398,040, which represents the initial deposit plus accrued interest.

NOTE F – NET POSITION DEFICIT

CFD 2014-1 governmental activities had an unrestricted net position (deficit) of \$4,711,844 at June 30, 2020. This is due to reporting the special assessment debt with no offsetting long-term special tax receivable in the statement of net position, as required under GASB Statement No. 6. The net position (deficit) is expected to be offset with special tax revenue used to pay the special assessment debt in future years.

NOTE G – RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS

Amounts reported for governmental activities in the governmental funds balance sheet are being adjusted to arrive at the statement of net assets. The adjustments are as follows:

Total governmental fund balance	\$ 547,152
Special assessment debt and interest payable that is not due and payable in the funds balance sheet current period and, therefore is not reported in the governmental funds balance sheet	(5,784,912)
Certain receivables are not available to pay current period expenditures and, therefore, are reported as deferred inflows of resources in the governmental funds	<u>689,286</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ (4,548,474)</u></u>

RANCHO MURIETA COMMUNITY FACILITIES DISTRICT NO. 2014-1

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2020

NOTE H – RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

Amounts reported for governmental activities in the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances are adjusted to arrive at the Statement of Activities for Government-wide presentation. The adjustments are as follows:

Net change in fund balance	\$ (314,998)
<p>Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of principal is an expenditure in the governmental funds, but in the Statement of Net Position the repayment reduces long term liabilities.</p>	
Principal payments	130,000
<p>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</p>	
	1,192
<p>Some receivables are deferred in the governmental funds because the amounts do not represent current financial resources that are recognized under the accrual basis in the statement of activities</p>	
Deferral of revenue	<u>347,176</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 163,370</u></u>

NOTE I – CONTINGENCIES

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) pandemic. The COVID-19 outbreak is disrupting supply chains and affecting production and sales across a range of industries. The extent of the impact of COVID-19 on the District's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, and the impact on customers, employees, and vendors, all of which are uncertain and cannot be predicted. At this point the extent to which COVID-19 may impact the financial condition or results of operations is uncertain and the accompanying financial statements include no adjustments relating to the effects of the pandemic.

NOTE J – RESTATEMENT

During the year ended June 30, 2020, the District determined that tax assessments totaling \$342,110 for the year ended June 30, 2019 had not been accrued. This correction was made as of June 30, 2020 and, as a result, the District's net position increased as of July 1, 2019 by \$342,110. The amount was not received within the availability period so this adjustment had no impact on the fund balance of the general fund.