

CUTLER PUBLIC UTILITY DISTRICT

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

CUTLER PUBLIC UTILITY DISTRICT
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CUTLER PUBLIC UTILITY DISTRICT
Cutler, California

June 30, 2016

BOARD OF DIRECTORS/ADMINISTRATION

Members

Robert Rodriguez

Armando Porras

Fernie Rubalcaba

Jose F. Guerrero

Javier E. Hernandez

Office

President

Vice President

Treasurer

Director

Director

Administrative Staff

Dionicio Rodriguez, Jr.

Martha Lowrey

Superintendent

Office Manager/
Executive Secretary/
Assistant Treasurer

Attorney for District

Pat Sullivan

Engineer

Dennis Keller

CUTLER PUBLIC UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016

This section of the Cutler Public Utility District's annual financial report presents a discussion and analysis, prepared by District management, of the District's financial performance during the fiscal year that ended on June 30, 2016. This management discussion and analysis is the result of Cutler Public Utility District (District) implementing Governmental Accounting Standards Board (GASB) Statement No. 34. GASB No. 34 establishes financial reporting standards for state and local governments, including special districts such as the District. You are invited to read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The District's total net position was \$8,058,679 at June 30, 2016, which was a \$607,059 increase compared to the previous year.
- During the year, the District's expenses were \$1,318,408 which was \$386,461 more than the total operating revenue generated during the year.
- The budget was of sufficient strength to allow for a net decrease in the cash position of the District for the fiscal year of \$672,331.
- All restricted reserve balances are reviewed with the Board of Directors at least annually. Reserves are maintained to cover defined expenses. Contingency funds are established on an annual basis to enable the District to handle unexpected emergencies. The use of planned reserve funds for plant or system expansions, or for renovation, is less of a burden on the District than the use of borrowed interest-bearing funds.

USING THIS ANNUAL REPORT

Governments that are engaged only in business-type activities should present only the financial statements required for enterprise funds. Since the District meets this criterion, its basic financial statements consist only of Enterprise fund financial statements, not Government-wide financial statements, which begin on page 11.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements following this report include the activities of the Cutler Public Utility District using the reporting model as prescribed by Governmental Accounting Standards Board Statement No. 34 (GASB 34). The report consists of three parts. First is management's discussion and analysis (this section), followed by the basic financial statements and required supplementary information, if any. In addition, the auditors have included other supplementary information pertinent to these financial statements. The basic financial statements also include notes that further explain some of the information presented in the financial statements and provide more detailed data.

CUTLER PUBLIC UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016

REQUIRED FINANCIAL STATEMENTS

The Financial Statements of the District report information utilizing the full accrual basis of accounting. The Financial Statements conform to accounting principles which are generally accepted in the United States of America. The Statement of Net Position include information on the District's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). The Statement of Revenues, Expenses and Changes in Fund Net Position identify the District's revenues and expenses for the fiscal year ended June 30, 2016. This statement provides information on the District's operations over the past fiscal year and can be used to determine whether the District has recovered all of its actual and projected costs through user fees and other charges. The third financial statement is the Statement of Cash Flows. This statement provides information on the District's cash receipts, cash payments and changes in cash resulting from operations, investments, and financing activities. From the Statement of Cash Flows, the reader can obtain information on the source and use of cash and the change in cash and cash equivalents balance for the last fiscal year.

FINANCIAL ANALYSIS OF THE DISTRICT

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Fund Net Position

One of the most important questions asked about the District's finances is, "Is the District as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Fund Net Position report information about the District as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net position and changes in them. You can think of the District's net position—the difference between assets and liabilities—as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating. To assess the overall health of the District, however, one needs to consider additional non-financial factors such as changes in the District's customer base, the ability to adjust rates and the availability of funding from outside sources.

CUTLER PUBLIC UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016

FINANCIAL ANALYSIS OF THE DISTRICT (continued)

Condensed Comparative Financial Statement Information

A presentation of condensed financial information, as compared to the previous year, is as follows:

| | Net Position | | | |
|--|---------------------|---------------------|--------------------------------|---------------------|
| | <u>2016</u> | <u>2015</u> | <u>Increase (Decrease)</u> | <u>% Change</u> |
| Assets | | | | |
| Current and other assets | \$ 1,605,160 | \$ 2,290,968 | \$ (685,808) | (29.94)% |
| Restricted assets | 64,515 | 52,652 | 11,863 | 22.53% |
| Capital assets | 8,177,863 | 6,992,165 | 1,185,698 | 16.96% |
| Investment in Cutler-Orosi Joint Powers Authority | 107,666 | 88,439 | 19,227 | 21.74% |
| Deferred outflows of resources | <u>41,416</u> | <u>49,542</u> | <u>(8,126)</u> | (16.40)% |
| Total Assets | <u>9,996,620</u> | <u>9,473,766</u> | <u>522,854</u> | 5.52% |
| Liabilities | | | | |
| Current liabilities | 93,208 | 126,726 | (33,518) | (26.45)% |
| Noncurrent liabilities | 1,772,460 | 1,842,441 | (69,981) | (3.80)% |
| Restricted liabilities | 2,450 | 2,450 | 0 | 0.00% |
| Deferred inflows of resources | <u>69,823</u> | <u>50,529</u> | <u>19,294</u> | 38.18% |
| Total Liabilities | <u>1,937,941</u> | <u>2,022,146</u> | <u>(84,205)</u> | (4.16)% |
| Net Position | | | | |
| Net investment in capital assets | 6,539,863 | 5,323,165 | 1,216,698 | 22.86% |
| Restricted | 62,065 | 50,202 | 11,863 | 23.63% |
| Unrestricted | <u>1,456,751</u> | <u>2,078,253</u> | <u>(651,502)</u> | (29.91)% |
| Total Net Position | <u>\$ 8,058,679</u> | <u>\$ 7,451,620</u> | <u>\$ 607,059</u> | 8.15% |

Capital assets increased as a result of the construction costs of the blending tank and water pipeline projects. They were also adjusted as a result of the normal depreciation of aging facilities and equipment. The net result is an increase to capital assets.

CUTLER PUBLIC UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016

FINANCIAL ANALYSIS OF THE DISTRICT (continued)

Change in Net Position

| | <u>2016</u> | <u>2015</u> | <u>Increase (Decrease)</u> | <u>% Change</u> |
|--|---------------------|---------------------|--------------------------------|---------------------|
| Revenues | | | | |
| Charges for services | | | | |
| Water and light | \$ 435,722 | \$ 439,446 | \$ (3,724) | (0.85)% |
| Wastewater | 496,225 | 501,719 | (5,494) | (1.10)% |
| Nonoperating | 993,520 | 86,415 | 907,105 | 1,049.71% |
| Total Revenues | <u>1,925,467</u> | <u>1,027,580</u> | <u>897,887</u> | 87.38% |
| Expenses | | | | |
| Service related | | | | |
| Water and light | 552,000 | 461,686 | 90,314 | 19.56% |
| Wastewater | 766,408 | 770,772 | (4,364) | (0.57)% |
| Total Expenses | <u>1,318,408</u> | <u>1,232,458</u> | <u>85,950</u> | 6.97% |
| Increase (Decrease) in Net Position | <u>607,059</u> | <u>(204,878)</u> | <u>811,937</u> | 396.30% |
| Net Position – Beginning of Year | 7,451,620 | 7,656,498 | (204,878) | (2.68)% |
| Net Position – End of Year | <u>\$ 8,058,679</u> | <u>\$ 7,451,620</u> | <u>\$ 607,059</u> | 8.15% |

CAPITAL ASSETS

At the end of June 30, 2016, the District had \$8,177,863 invested in capital assets. (See schedule below.) This represents a net increase of \$1,185,698 over last year. The net increase is mostly attributable to construction costs of the blending tank and water pipeline projects.

Capital Assets

| | <u>2016</u> | <u>2015</u> |
|--|---------------------|---------------------|
| Land and improvements | \$ 263,922 | \$ 263,922 |
| General plant | 320,772 | 320,772 |
| Office building and shop | 391,126 | 391,126 |
| Source of supply | 1,323,412 | 1,112,664 |
| Transmission distribution and pumping plant | 780,199 | 780,199 |
| Wastewater system | 618,327 | 618,327 |
| 1980 wastewater plant addition | 3,253,999 | 3,240,780 |
| 2009 wastewater plant rehabilitation | 1,788,608 | 1,788,608 |
| 2015 wastewater pipeline | 3,238,319 | 3,238,319 |
| Collection pipeline | 8,000 | 8,000 |
| Construction in progress | 2,039,525 | 719,017 |
| Accumulated depreciation | <u>(5,848,346)</u> | <u>(5,489,569)</u> |
| Totals | <u>\$ 8,177,863</u> | <u>\$ 6,992,165</u> |

CUTLER PUBLIC UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016

ECONOMIC FACTORS RELATIVE TO FUTURE PERIODS

- Change billing rates. Rates are set consistent with adopted budget costs.
- Planned asset acquisition and financing:

The District has several water and wastewater system improvements that are at various stages from planning through completion as follows:

- Construction and development of wells
- Water blending tank system for wells
- Water distribution system improvements
- Water meter installation program
- Surface water treatment plant
- Wastewater treatment plant improvement

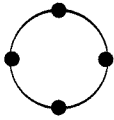
Funding is anticipated from the following agencies:

- Safe Drinking Water State Revolving Fund Grants and Loans
- Cutler Public Utility District – Local Funds
- United States Department of Agriculture Grant and Loan
- Water Quality, Supply, and Infrastructure Improvement Act of 2014 (Prop 1)
- California Department of Water Resources
- Clean Water State Revolving Fund

- Budget cuts/changes: A November, 2005, California ballot issue passed which calls for a more rigid policy that now exists for the State to divert funds from cities, counties and special districts to make up for State budget shortfalls.
- No property tax revenues are designated to the budget.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Business Office at (559) 528-3859, 40526 Orosi Drive, Cutler, CA 93615.



MORRIS, SPRAGUE, GROEN & NEESE
Certified Public Accountants

Independent Auditors' Report

To the Board of Directors
Cutler Public Utility District
Cutler, California

Report on the Financial Statements

We have audited the accompanying financial statements of each major fund of the Cutler Public Utility District, as of and for the year ended June 30, 2016, 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.

Auditors' 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, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements for California Special Districts. 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 auditors' 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 auditors consider 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 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.

GARY J. MORRIS
Certified Public Accountant
Partner

KEITH M. SPRAGUE
Certified Public Accountant
Partner

GREG D. GROEN
Certified Public Accountant
Partner

D. CHRIS NEESE
Enrolled Agent
Partner

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of Cutler Public Utility District, as of June 30, 2016, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

Emphasis of Matter

As described in Note 1 to the financial statements, the District adopted the provisions of *Governmental Accounting Standards Board (GASB) Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* and *GASB Statement No. 82, Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73* for the year ended June 30, 2016. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Schedule of the District's Proportionate share of the Net Pension Liability and the Schedule of the District's Contributions on pages 3 through 7 and pages 32 and 33, 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.

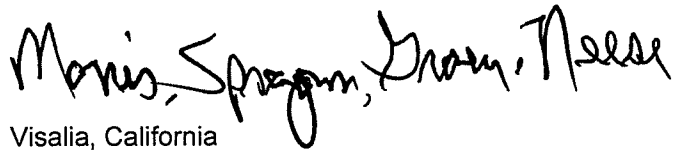
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Cutler Public Utility District's basic financial statements. The schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying other supplementary schedules as supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of expenditures of federal awards and other supplementary schedules as supplementary information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and other supplementary schedules as supplementary information are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2016 (except as to Note 4 of the schedule of expenditures of federal awards, which is as of June 30, 2020), on our consideration of Cutler Public Utility District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Cutler Public Utility District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cutler Public Utility District's internal control over financial reporting and compliance.



Visalia, California

December 30, 2016 (except as to Note 4 of the schedule of expenditures of federal awards, which is as of June 30, 2020)

CUTLER PUBLIC UTILITY DISTRICT
STATEMENT OF NET POSITION
June 30, 2016

| | <u>Water & Light Enterprise</u> | <u>Wastewater Enterprise</u> | <u>Total</u> |
|---|---|----------------------------------|---------------------|
| ASSETS | | | |
| Current Assets: | | | |
| Cash and cash investments | \$ 343,801 | \$ 1,245,500 | \$ 1,589,301 |
| Accounts receivable | 3,462 | 6,002 | 9,464 |
| Accrued interest receivable | 410 | 1,251 | 1,661 |
| Inventory | 902 | 902 | 1,804 |
| Prepaid insurance | <u>1,465</u> | <u>1,465</u> | <u>2,930</u> |
| Total Current Assets | <u>350,040</u> | <u>1,255,120</u> | <u>1,605,160</u> |
| Noncurrent Assets: | | | |
| Restricted Assets: | | | |
| Cash and cash investments | 34,421 | 30,094 | 64,515 |
| Investment in Cutler-Orosi Joint Powers Wastewater Authority | - | 107,666 | 107,666 |
| Capital assets (net) | <u>3,114,812</u> | <u>5,063,051</u> | <u>8,177,863</u> |
| Total Noncurrent Assets | <u>3,149,233</u> | <u>5,200,811</u> | <u>8,350,044</u> |
| Deferred Outflows of Resources | <u>26,908</u> | <u>14,508</u> | <u>41,416</u> |
| Total Assets and Deferred Outflows of Resources | <u>3,526,181</u> | <u>6,470,439</u> | <u>9,996,620</u> |
| LIABILITIES | | | |
| Current Liabilities: | | | |
| Accounts payable | 24,961 | 24,144 | 49,105 |
| Accrued payroll and vacation | 8,023 | 5,080 | 13,103 |
| Customer deposits, payable from restricted assets | 2,450 | - | 2,450 |
| Certificate of Participation - USDA loan | <u>-</u> | <u>31,000</u> | <u>31,000</u> |
| Total Current Liabilities | <u>35,434</u> | <u>60,224</u> | <u>95,658</u> |
| Noncurrent Liabilities: | | | |
| Net pension liability | 107,818 | 57,642 | 165,460 |
| Certificate of Participation - USDA loan | <u>0</u> | <u>1,607,000</u> | <u>1,607,000</u> |
| Total Noncurrent Liabilities | <u>107,818</u> | <u>1,664,642</u> | <u>1,772,460</u> |
| Deferred Inflows of Resources | <u>45,458</u> | <u>24,365</u> | <u>69,823</u> |
| Total Liabilities and Deferred Inflows of Resources | <u>188,710</u> | <u>1,749,231</u> | <u>1,937,941</u> |
| NET POSITION | | | |
| Net investment in capital assets | 3,114,812 | 3,425,051 | 6,539,863 |
| Restricted for: | | | |
| Capacity right fees | 31,971 | 30,094 | 62,065 |
| Unrestricted | <u>190,688</u> | <u>1,266,063</u> | <u>1,456,751</u> |
| Total Net Position | <u>\$ 3,337,471</u> | <u>\$ 4,721,208</u> | <u>\$ 8,058,679</u> |

See independent auditor's report and accompanying notes.

CUTLER PUBLIC UTILITY DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
For the year ended June 30, 2016

| | Water & Light Enterprise | Wastewater Enterprise | Total |
|--|-----------------------------|--------------------------|---------------------|
| OPERATING REVENUES | | | |
| Water service charges | \$ 413,648 | \$ - | \$ 413,648 |
| Light service charges | 22,074 | - | 22,074 |
| Wastewater service charges | - | 496,225 | 496,225 |
| Total Operating Revenues | <u>435,722</u> | <u>496,225</u> | <u>931,947</u> |
| OPERATING EXPENSES | | | |
| Salaries | 131,693 | 70,422 | 202,115 |
| Retirement | 26,363 | 14,190 | 40,553 |
| Employee benefits | 70,652 | 33,169 | 103,821 |
| Plant maintenance and operations | - | 248,820 | 248,820 |
| Surface water – regional project | 4,429 | - | 4,429 |
| Utilities-pumping | 62,294 | - | 62,294 |
| Utilities-lights | 12,538 | - | 12,538 |
| Depreciation | 69,967 | 300,464 | 370,431 |
| Consulting engineer | 23,164 | 5,750 | 28,914 |
| Insurance | 5,718 | 5,718 | 11,436 |
| Repairs and maintenance | 76,549 | 4,304 | 80,853 |
| Legal and professional | 12,905 | 5,928 | 18,833 |
| Lab and Health department fees | 4,982 | - | 4,982 |
| Auditing services | 20,110 | 20,110 | 40,220 |
| Auto expenses | 1,800 | 1,800 | 3,600 |
| Office expense | 16,576 | 16,199 | 32,775 |
| Communications | 2,477 | 2,477 | 4,954 |
| Directors' fees | 9,738 | 3,063 | 12,801 |
| Interest expense | - | 33,380 | 33,380 |
| Taxes and assessments | 45 | 58 | 103 |
| Yettem Seville | - | 556 | 556 |
| Total Operating Expenses | <u>552,000</u> | <u>766,408</u> | <u>1,318,408</u> |
| Operating Loss | <u>(116,278)</u> | <u>(270,183)</u> | <u>(386,461)</u> |
| NONOPERATING REVENUES | | | |
| Capacity right fees | 4,661 | 10,956 | 15,617 |
| Interest income | 1,983 | 4,624 | 6,607 |
| Grant revenue - State of California | 870,435 | - | 870,435 |
| Grant revenue - DWR | 55,919 | - | 55,919 |
| Miscellaneous income | 842 | - | 842 |
| Net income on investment in Cutler-Orosi | | | |
| Joint Powers Wastewater Authority | - | 44,100 | 44,100 |
| Net Nonoperating Revenues | <u>933,840</u> | <u>59,680</u> | <u>993,520</u> |
| Increase (Decrease) in Net Position | 817,562 | (210,503) | 607,059 |
| Net Position, Beginning of Year | <u>2,519,909</u> | <u>4,931,711</u> | <u>7,451,620</u> |
| Net Position, End of Year | <u>\$ 3,337,471</u> | <u>\$ 4,721,208</u> | <u>\$ 8,058,679</u> |

See independent auditor's report and accompanying notes.

CUTLER PUBLIC UTILITY DISTRICT
STATEMENT OF CASH FLOWS
For the year ended June 30, 2016

| | <u>Water & Light Enterprise</u> | <u>Wastewater Enterprise</u> | <u>Total</u> |
|--|---|----------------------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Receipts from customers | \$ 438,137 | \$ 496,512 | \$ 934,649 |
| Payments to suppliers | (387,015) | (400,046) | (787,061) |
| Payments to employees | (134,549) | (71,732) | (206,281) |
| Net Cash Provided (Used) by Operating Activities | <u>(83,427)</u> | <u>24,734</u> | <u>(58,693)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | | |
| Miscellaneous income | <u>842</u> | <u>-</u> | <u>842</u> |
| Net Cash Provided by Noncapital Financing Activities | <u>842</u> | <u>-</u> | <u>842</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | | |
| Capacity right fees | 4,661 | 10,956 | 15,617 |
| Acquisition and construction of capital assets | (1,531,256) | - | (1,531,256) |
| Grant revenue - State of California | 870,435 | - | 870,435 |
| Grant revenue - DWR | 55,919 | - | 55,919 |
| Certificate of Participation - USDA Loan payments | <u>-</u> | <u>(31,000)</u> | <u>(31,000)</u> |
| Net Cash (Used) by Capital and Related Financing Activities | <u>(600,241)</u> | <u>(20,044)</u> | <u>(620,285)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Interest income | <u>1,926</u> | <u>3,879</u> | <u>5,805</u> |
| Net Cash Provided by Investing Activities | <u>1,926</u> | <u>3,879</u> | <u>5,805</u> |
| Net Increase (Decrease) in Cash and Cash Investments | (680,900) | 8,569 | (672,331) |
| Cash and Cash Investments, Beginning of Year | <u>1,059,122</u> | <u>1,267,025</u> | <u>2,326,147</u> |
| Cash and Cash Investments, End of Year | <u>\$ 378,222</u> | <u>\$1,275,594</u> | <u>\$ 1,653,816</u> |
| <u>CASH SUMMARY</u> | | | |
| Current Assets | | | |
| Cash and cash investments | \$ 343,801 | \$1,245,500 | \$ 1,589,301 |
| Noncurrent Restricted Assets | | | |
| Cash and cash investments | <u>34,421</u> | <u>30,094</u> | <u>64,515</u> |
| Cash and Cash Investments, End of Year | <u>\$ 378,222</u> | <u>\$1,275,594</u> | <u>\$ 1,653,816</u> |
| Interest Paid During the Year | <u>\$ -</u> | <u>\$ 33,380</u> | <u>\$ 33,380</u> |

See independent auditor's report and accompanying notes.

CUTLER PUBLIC UTILITY DISTRICT
STATEMENT OF CASH FLOWS (CONTINUED)
For the year ended June 30, 2016

| | <u>Water & Light Enterprise</u> | <u>Wastewater Enterprise</u> | <u>Total</u> |
|---|---|----------------------------------|--------------------|
| RECONCILIATION OF OPERATING | | | |
| LOSS TO NET CASH | | | |
| PROVIDED (USED) BY OPERATING | | | |
| ACTIVITIES: | | | |
| Operating Loss | \$ (116,278) | \$ (270,183) | \$ (386,461) |
| Depreciation | 69,967 | 300,464 | 370,431 |
| (Increase) Decrease in: | | | |
| Accounts receivable | 2,415 | 287 | 2,702 |
| Prepaid insurance | (143) | (143) | (286) |
| Deferred outflows | 5,374 | 2,752 | 8,126 |
| Increase (Decrease) in: | | | |
| Accounts payable | (29,043) | (309) | (29,352) |
| Accrued payroll and vacation | (2,856) | (1,310) | (4,166) |
| Pension liability | (25,396) | (13,585) | (38,981) |
| Deferred inflows | <u>12,533</u> | <u>6,761</u> | <u>19,294</u> |
| Net Cash Provided (Used) by Operating Activities | <u>\$ (83,427)</u> | <u>\$ 24,734</u> | <u>\$ (58,693)</u> |

See independent auditor's report and accompanying notes.

CUTLER PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Cutler Public Utility District (District) was formed during 1922, for the purpose of operating a water pumping and distribution system and subsequently a wastewater collection system, and streetlights. The District is governed by an elected five-member board of directors.

The District adopted the provisions of GASB Statement No. 34 "*Basic Financial Statements— and Management's Discussion and Analysis— for State and Local Governments*" in fiscal year 2003-2004. Statement 34 established standards for external financial reporting for all state and local governmental entities which includes a management's discussion and analysis section, a statement of net position, a statement of activities and changes in fund net position and a statement of cash flows. It requires the classification of net position into three components—net investment in capital assets; restricted; and unrestricted.

Financial Reporting Entity

The District does not have a relationship with any other related activities, organization or functions of government which should be included in the financial reporting entity of the District as required by GASB Statement No. 14, "The Financial Reporting Entity."

Basis of Presentation

The accounts of the District are organized on the basis of a proprietary fund type, specifically an enterprise fund. The District is composed of two proprietary funds. The activities of these funds are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net position, revenues and expenses. Enterprise funds account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net position. Net position (i.e., total assets net of total liabilities) is segregated into net investment in capital assets; restricted; and unrestricted components.

The District's basic financial statements are presented on the full accrual basis of accounting and conform to accounting principles generally accepted in the United States of America, and with the policies and procedures of the State Controller's Office, State of California.

CUTLER PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Budgetary Procedures

The District operates under a budget prepared and approved annually by the Board of Directors. The budget is prepared on a detailed line item basis. Revenues are budgeted by source; expenditures or expenses are budgeted by use (salaries and employee benefits, services and supplies, other charges, fixed asset acquisitions and contingencies). Once approved, the Board of Directors may amend the adopted budget when unexpected modifications are required in estimated revenues and expenditures or expenses.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to July 1, the budget is legally enacted through passage of a resolution.
2. Formal budgetary integration is not employed for enterprise funds.
3. Budgets are adopted on a basis consistent with U.S. generally accepted accounting principles (GAAP) except that bond and loan proceeds are treated as other financing sources and bond and loan principal payments and fixed asset purchases are treated as expenditures, and depreciation is not provided in budgeted expenses except for a limited amount of designation for wastewater treatment plant replacement funding in the wastewater enterprise.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures or expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Pensions

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by the CalPERS Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. CalPERS audited financial statements are publicly available reports that can be obtained at CalPERS website under Forms and Publications.

Cash Equivalents and Investments

The District considers all highly liquid investments (including restricted cash and investments) with maturities of less than one year when purchased to be cash equivalents. This includes bank accounts and deposits with the State of California Local Agency Investment Fund (LAIF). Investments in the District's cash and investment pools are stated at cost. Accrued interest on the District's investments is separately stated.

See independent auditor's report.

CUTLER PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allowance for Doubtful Accounts

The District considers all accounts receivable to be fully collectible. Therefore, an allowance for doubtful accounts is not reflected in these financial statements.

Capital Assets

All capital assets are stated at historical cost. Depreciation of all exhaustible capital assets used by the proprietary funds is charged as an expense against their operations. Land and construction in progress are not being depreciated. Accumulated depreciation is reported on the proprietary fund statement of net position. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

| | |
|---|---------------|
| Buildings and structural components and wells | 25 - 50 years |
| Pumping, distribution and treatment equipment | 5 - 15 years |
| Office equipment | 5 - 15 years |
| Automotive equipment | 5 years |

Material interest cost incurred during the construction of proprietary capital assets is capitalized as part of the cost of the capital asset. The capitalized interest cost for the fiscal year ended June 30, 2016 is zero.

Joint Venture Investment

The investment in the Cutler-Orosi Joint Powers Wastewater Authority is accounted for by using the equity method.

Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as a liability of the District. Employees do not gain a vested right to accumulated sick leave; therefore, accumulated employee sick leave benefits are not recognized as a liability of the District, but are recorded as expenses in the year that sick leave is taken.

Operating Revenues and Expenses

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities and result from nonexchange transactions or ancillary activities. When an expense is incurred for purposes for which there are both restricted and unrestricted net position available, it is the District's policy to apply those expenses to restricted net position to the extent such are available and then to unrestricted net position.

Net Position

Net position comprises the various net earnings from operating income, nonoperating revenues and expenses, and capital contributions. Net position is classified in the following three components:

CUTLER PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Position (continued)

Net investment in capital assets—This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvements of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted—This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position—This component of net position consists of net position that do not meet the definition of “restricted” or “net investment in capital assets.”

Nature and Purpose of Designations of Net Position

Net position designations are amounts representing tentative management plans and are subject to change. The District’s designations by the Board of Directors are for general and specific future capital outlays to replace and improve existing and future facilities and equipment.

Income Taxes

The District is a governmental agency and is not subject to income or property taxes.

General and Administrative Expenses Allocation

General and administrative expenses and other expenses not directly related to the wastewater and water functions are charged fifty percent to each function.

Deferred Outflows and Deferred Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflow of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Implementation of New Accounting Pronouncements

For the year ended June 30, 2016, the District implemented the following Governmental Accounting Standards Board pronouncement:

CUTLER PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Implementation of New Accounting Pronouncements (continued)

In June 2015, the Governmental Accounting Standards Board GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The District has implemented the guidance under GASB Statement No. 76 into their accounting policies effective for the fiscal year ended June 30, 2016.

In March 2016, the GASB issued Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*. This Statement amends Statements 67 and 68 to define covered payroll as the payroll on which contributions to a pension plan are based, and ratios that use that measure. This Statement also clarifies that a deviation, as the term is used in Actuarial Standards of Practice issued by the Actuarial Standards Board, from the Guidance in an Actuarial Standard of Practice is not considered to be in conformity with the requirements of Statement 67, Statement 68, or Statement 73 for the selection of assumptions used in determining the total pension liability and related measures. Lastly, this Statement clarifies that payments made by an employer to satisfy contribution requirements identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. It also requires that an employer’s expense and expenditures for those amounts be recognized in the period for which the contribution was assessed and classified in the same manner as the employer classifies similar compensation other than pensions. The provisions of this Statement are effective for reporting periods beginning after June 30, 2016, with earlier application encouraged. The provisions of this Statement have been implemented in the financial statements for the year ended June 30, 2016. The statements contained herein reflect the changes in financial reporting and presentation.

CUTLER PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 2 – CASH AND CASH INVESTMENTS

Cash and cash investments as of June 30, 2016 are classified in the accompanying financial statements as follows:

| | <u>Water & Light Enterprise</u> | <u>Wastewater Enterprise</u> | <u>Total</u> |
|----------------------------|---|----------------------------------|---------------------|
| Statement of net position: | | | |
| Cash and cash investments | | | |
| Current, unrestricted | \$ 343,801 | \$ 1,245,500 | \$ 1,589,301 |
| Noncurrent, restricted | <u>34,421</u> | <u>30,094</u> | <u>64,515</u> |
| Total | <u>\$ 378,222</u> | <u>\$ 1,275,594</u> | <u>\$ 1,653,816</u> |

Cash and cash investments at June 30, 2016, consist of the following:

| | <u>Water & Light Enterprise</u> | <u>Wastewater Enterprise</u> | <u>Total</u> |
|----------------------------------|---|----------------------------------|---------------------|
| Cash on hand | \$ 70 | \$ 70 | \$ 140 |
| Cash in bank - Business checking | (21,800) | 74,828 | 53,028 |
| Cash in bank - Money market | 96,127 | 281,258 | 377,385 |
| Cash in bank - SRF #1 | 2,650 | - | 2,650 |
| Cash in bank - SRF #3 | 90 | - | 90 |
| State Treasurer's Office | | | |
| Local Agency Investment Fund | <u>301,085</u> | <u>919,438</u> | <u>1,220,523</u> |
| Total cash and cash investments | <u>\$ 378,222</u> | <u>\$ 1,275,594</u> | <u>\$ 1,653,816</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 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.

| <u>Authorized Investment Type</u> | <u>Maximum Maturity</u> | <u>Maximum Percentage of Portfolio</u> | <u>Maximum Investment in One Issuer</u> |
|---------------------------------------|-----------------------------|--|---|
| Local Agency Investment Fund (LAIF) | N/A | 100% | 100% |

Disclosures Relating to Interest Rate Risk

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

CUTLER PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 2 – CASH AND CASH INVESTMENTS (continued)

Disclosures Relating to Interest Rate Risk (continued)

As of June 30, 2016, the District had the following investments.

| | | |
|-----------------------|---------------------|---|
| State investment pool | <u>\$ 1,220,523</u> | <u>Maturity Date</u> 5.48 months average |
| Total | <u>\$ 1,220,523</u> | |

Disclosures Relating to Credit Risk

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

| | | <u>Rating as of Year End</u> | |
|------------------------|---------------------|------------------------------|---------------------|
| <u>Investment Type</u> | | <u>Minimum Legal Rating</u> | <u>Not Rated</u> |
| State investment pool | <u>\$ 1,220,523</u> | N/A | <u>\$ 1,220,523</u> |
| Total | <u>\$ 1,220,523</u> | | <u>\$ 1,220,523</u> |

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer (other than U.S. Treasury securities, mutual funds and external investment pools) that represent 5% or more of total District investments.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, 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 provisions for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies.

CUTLER PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 2 – CASH AND CASH INVESTMENTS (continued)

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

NOTE 3 – CHANGES IN PROPRIETARY CAPITAL ASSETS

A summary of changes in proprietary capital assets follows:

| | Balance 06/30/15 | Additions | Deletions | Balance 06/30/16 |
|--|---------------------|---------------------|---------------------|---------------------|
| <u>Water & Light Enterprise</u> | | | | |
| Land and improvements | \$ 19,091 | \$ - | \$ - | \$ 19,091 |
| General plant | 138,474 | - | - | 138,474 |
| Office and shop building | 195,563 | - | - | 195,563 |
| Source of supply | 1,112,664 | 210,748 | - | 1,323,412 |
| Transmission, distribution & pumping plant | 780,199 | - | - | 780,199 |
| Construction in progress | 719,017 | 1,531,256 | (210,748) | 2,039,525 |
| Total water & light enterprise | 2,965,008 | 1,742,004 | (210,748) | 4,496,264 |
| Accumulated depreciation | (1,311,485) | (69,967) | - | (1,381,452) |
| Net water & light enterprise | <u>\$ 1,653,523</u> | <u>\$ 1,672,037</u> | <u>\$ (210,748)</u> | <u>\$ 3,114,812</u> |
| <u>Wastewater Enterprise</u> | | | | |
| Land and improvements | \$ 244,831 | \$ - | \$ - | \$ 244,831 |
| General plant | 182,298 | - | - | 182,298 |
| Office and shop building | 195,563 | - | - | 195,563 |
| Wastewater system | 618,327 | - | - | 618,327 |
| 1980 wastewater plant addition | 3,240,780 | 24,873 | (11,654) | 3,253,999 |
| 2009 wastewater plant rehabilitation | 1,788,608 | - | - | 1,788,608 |
| 2015 Wastewater pipeline | 3,238,319 | - | - | 3,238,319 |
| Collection pipeline | 8,000 | - | - | 8,000 |
| Construction in progress | - | - | - | - |
| Total wastewater enterprise | 9,516,726 | 24,873 | (11,654) | 9,529,945 |
| Accumulated depreciation | (4,178,084) | (300,464) | 11,654 | (4,466,894) |
| Net wastewater enterprise | <u>\$ 5,338,642</u> | <u>\$ (275,591)</u> | <u>\$ -</u> | <u>\$ 5,063,051</u> |
| Total proprietary capital assets | \$12,481,734 | \$ 1,766,877 | \$ (222,402) | \$14,026,209 |
| Total accumulated depreciation | (5,489,569) | (370,431) | 11,654 | (5,848,346) |
| Net capital assets | <u>\$ 6,992,165</u> | <u>\$ 1,396,446</u> | <u>\$ (210,748)</u> | <u>\$ 8,177,863</u> |

Included in the wastewater enterprise's current year additions are assets purchased by the Joint Powers Wastewater Authority (see Note 4) and distributed to Cutler Public Utility District. Current year distributions are \$24,873.

CUTLER PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 4 – INVESTMENT IN CUTLER-OROSI JOINT POWERS WASTEWATER AUTHORITY

In March 1980, the Cutler Public Utility District entered into the Joint Wastewater Treatment and Disposal Facilities Agreement (the Agreement) with the Orosi Public Utility District, forming the Cutler-Orosi Joint Powers Wastewater Authority (the Authority) for the purpose of operating a wastewater treatment and disposal facility. Under the terms of the Agreement, which expires July 1, 2022, the Cutler Public Utility District owns 50 percent of the property and 40 percent of the plant and equipment of the Authority, and is charged for its share of the costs of the Authority based upon its pro-rata share of gallonage flows into the facility. The Orosi Public Utility District owns 50 percent of the property and 60 percent of the plant and equipment of the Authority, and is charged for its share of the costs of the Authority based upon its pro-rata share of gallonage flows into the facility. The governing board of the Authority is made up of three appointed members from the Orosi Public Utility District's Board of Directors and three appointed members from the Cutler Public Utility District's Board of Directors. The Authority's Board of Directors controls its own operations, including selection of management and approval of operating budgets. The separate boards of the Orosi Public Utility District and Cutler Public Utility District must approve capital expenditures.

The project was funded by a 75 percent of cost grant from the Environmental Protection Agency, a 12.5 percent of cost grant from the State Water Resources Control Board, and 12.5 percent of cost from proceeds of revenue bond sales. The project was completed during 1982-83. The District paid its Farmers Home Administration Revenue Bond liability under the Discount Purchase Program on September 10, 1987.

The investment in the Authority is being accounted for under the equity method of accounting.

The Joint Wastewater Treatment and Disposal Facility Amended Agreement between the two Districts states that all assets accumulated by the Authority, other than cash, accounts receivable, prepaid expenses and motor vehicles shall be treated as owned by the Districts and in accordance with their participation in the Authority. The cost of any property and equipment is to be removed from the books of the Authority annually. During the current year, the Authority distributed to the District plant and equipment improvements of \$24,873. Cutler Public Utility District's allocated share of Authority fixed assets is recorded and depreciated as part of property, plant and equipment, and its share of cash and all other assets is recorded as Investment in Cutler-Orosi Joint Powers Wastewater Authority.

This District incurred wastewater plant expenses of \$248,820 with Cutler-Orosi Joint Powers Wastewater Authority during the year ended June 30, 2016, and has a payable of \$20,735.

CUTLER PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 4 – INVESTMENT IN CUTLER-OROSI JOINT POWERS WASTEWATER AUTHORITY (continued)

The following is a summary of financial information for Cutler-Orosi Joint Powers Wastewater Authority. The District's equity interest in the Authority is forty percent.

STATEMENT OF NET POSITION
As of June 30, 2016

| | |
|--------------------------------|-------------------|
| Current assets | \$ 491,795 |
| Deferred outflows of resources | 8,562 |
| Total assets | <u>500,357</u> |
| Current liabilities | 43,940 |
| Long-term liabilities | 76,369 |
| Deferred inflows of resources | <u>40,732</u> |
| Total liabilities | 161,041 |
| Total net position | <u>\$ 339,316</u> |

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
For the year ended June 30, 2016

| | |
|-------------------------------------|-------------------|
| Operating revenues | \$ 784,257 |
| Operating expenses | <u>672,283</u> |
| Operating income | 111,974 |
| Non-operating revenues and expenses | <u>10,801</u> |
| Net income | <u>\$ 122,775</u> |

Separate financial statements for the Authority are available at the business office located at 40401 Road 120, Cutler, California.

NOTE 5 – U.S.D.A. – RURAL UTILITY SERVICE

In 2009 and 2010, a loan was funded for expenditures for the rehabilitation of the wastewater treatment project. As of 6/30/10, \$1,900,000 has been funded, \$760,000 of which is the District's portion. This loan is the responsibility of Tulare County Redevelopment Agency (TCRA). The District has no obligation to pay it back.

NOTE 6 – DESIGNATIONS

Wastewater Treatment Plant Replacement

During 1980 the District received a grant from the Environmental Protection Agency to rehabilitate and add to the wastewater treatment plant. Part of the provisions of the grant required the establishment of a wastewater capital reserve to fund future rehabilitation to the plant. The reserve requirement is no longer being enforced; therefore the District has reclassified the accumulated budgeted amount as designated. The designation is funded annually in an amount equal to the estimated depreciation on the current plant. The current balance is \$367,304.

CUTLER PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 6 – DESIGNATIONS (continued)

Capital Projects

The Board of Director's designations for general and specific future capital outlays to replace and improve existing and future facilities and equipment are as follows:

| | <u>Water</u> | <u>Wastewater</u> | <u>Total</u> |
|--------------------------------------|-------------------|-------------------|-------------------|
| Well construction | \$ 390,950 | \$ - | \$ 390,950 |
| Pipeline replacement | 61,684 | - | 61,684 |
| Pickup and service truck replacement | 4,000 | 4,000 | 8,000 |
| Wastewater pipeline | - | 50,851 | 50,851 |
| Total capital projects | <u>\$ 456,634</u> | <u>\$ 54,851</u> | <u>\$ 511,485</u> |

Insurance Deductible

The Board of Directors has designated the following amounts to cover the District's deductibles in the event the District is exposed to various risks of loss:

| | <u>Water</u> | <u>Wastewater</u> | <u>Total</u> |
|----------------------|-----------------|-------------------|-----------------|
| Insurance deductible | <u>\$ 3,000</u> | <u>\$ 5,000</u> | <u>\$ 8,000</u> |

NOTE 7 – RESTRICTED NET POSITION

Capacity right fees are established, collected and used for development of water and wastewater capacity and for expenses related to the inspection and administration of physical connections to the District's water and wastewater systems. The accumulation of capacity right fees, although not actually segregated from other District assets, are legally segregated for accounting purposes and restricted for their intended use. All of the District's restricted net position are expendable.

NOTE 8 – PENSION PLAN

Plan Description

Qualified employees are covered under a multiple-employer, cost-sharing defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and Local Government resolution. The benefit terms of the CalPERS plan may be amended through legislation and Public Employers' Retirement Law. CalPERS issue publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

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 and beneficiaries. To be eligible for retirement, the member must be at least age 50 and have a minimum of 5 years of credited service. Monthly benefits are based on three factors: Service credit, benefit factor and final compensation. Service credit is based on years of credited service, equal to one year of full time employment. The benefit factor which is a percentage of pay to which the member is entitled for each year of

CUTLER PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 8 – PENSION PLANS (continued)

Benefits Provided (continued)

service, is determined by their age at retirement and the retirement formula based on their membership date with each employer. The miscellaneous retirement formula is 2 percent at age 60, with benefit factor ranging from 1.1 percent-2.5 percent with retirement ages of 50-63. Final compensation is the highest average pay rate and special compensation during any consecutive one-year or three-year period, which period is used, depends on the members' retirement formula. 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 and the 1959 Survivor Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees Retirement Law.

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 July 1 following notice of a change in the rate. The CalPERS' Board retains the authority to amend contribution rates. The total plan contributions are determined through CalPERS' periodic actuarial valuation process or by state statute. 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 employer is required to contribute the difference between the actuarially determined rate and the contribution rate of the employees. For the measurement period ended June 30, 2015 (the measurement date), the active employee contribution rate is 7 percent of annual pay, and the average employer's contribution rate is 6.709 percent of annual payroll. Employer contributions rates may change if plan contracts are amended. It is the responsibility of the employer to make necessary accounting adjustments to reflect the impact due to any Employer Paid Member Contributions or situations where members are paying a portion of the employer contribution. Contributions to the pension plan from the District were \$52,113 for the year ended June 30, 2016.

Pension Assets, Pension Liabilities, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of June 30, 2016, the District reported a net pension liability of \$165,460 for its proportionate share of the net pension liability for the Miscellaneous Plan.

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability is measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014, rolled forward to June 30, 2015, 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 plan relative to the projected contributions of all participating employers, actuarially determined.

CUTLER PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 8 – PENSION PLANS (continued)

Pension Assets, Pension Liabilities, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

The following represents the change in the proportionate share of net pension liability by the year (the measurement date):

| | |
|--------------------------------------|------------------|
| Proportionate share at June 30, 2014 | 0.008272% |
| Proportionate share at June 30, 2015 | <u>0.006031%</u> |
| Change decrease | <u>0.002241%</u> |

For the year ended June 30, 2016, the District recognized pension expense of \$40,553. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions as follows:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Pension contributions subsequent to measurement date | \$ 39,061 | \$ - |
| Differences between actual and expected experience | 2,355 | - |
| Changes in assumptions | - | (22,285) |
| Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions | - | (36,366) |
| Net differences between projected and actual earnings on plan investments | <u>-</u> | <u>(11,172)</u> |
| Totals | <u>\$ 41,416</u> | <u>\$ (69,823)</u> |

\$39,061 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 year ended June 30, 2017.

CUTLER PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 8 – PENSION PLANS (continued)

Pension Assets, Pension Liabilities, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

The 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> | <u>Deferred Outflows</u> | <u>Deferred Inflows</u> | <u>Net Effects on Expenses</u> |
|---|------------------------------|-----------------------------|------------------------------------|
| 2017 | \$ 841 | \$ (35,876) | \$ (35,035) |
| 2018 | 841 | (32,267) | (31,426) |
| 2019 | 673 | (15,961) | (15,288) |
| 2020 | <u>-</u> | <u>14,281</u> | <u>14,281</u> |
| Total | <u>\$ 2,355</u> | <u>\$ (69,823)</u> | <u>\$ (67,468)</u> |

Actuarial Assumptions

Valuation Date
Measurement Date
Actuarial Cost Method
Actuarial Assumptions

Miscellaneous Plan

June 30, 2014
June 30, 2015
Entry-Age Normal Cost Method

| | |
|---------------------------|----------------------|
| Discount Rate | 7.65% |
| Inflation | 2.75% |
| Payroll Growth | 3.00% |
| Projected Salary Increase | Varies (1) |
| Experience Study | 7/1/1996 - 6/30/2011 |
| Investment Rate of Return | 7.65% (2) |

- (1) Depending on age, service and type of employment
(2) Net of pension plan investment expenses, including inflation

CalPERS uses mortality tables developed based on CalPERS specific data for all funds. The mortality table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

Change in Assumptions

The discount rate of 7.5 percent used for the June 30, 2014, measurement date was net of administrative expenses. The discount rate of 7.65 percent used for the June 30, 2015, measurement date is without reduction of pension plan administrative expenses.

Discount Rate

The discount rate used to measure the total pension liability for CalPERS was 7.65 percent. CalPERS' projection of the expected benefits and contributions were performed to determine if assets would run out. The test revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the CalPERS Plan. The results of the crossover testing for the Plan are presented in a detailed report that can be obtained at the CalPERS' website.

CUTLER PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 8 – PENSION PLANS (continued)

Pension Assets, Pension Liabilities, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

Discount Rate (continued)

CalPERS utilized historical returns of all the Plan's asset classes to determine the expected compounded (geometric returns over the short-term (first 10 years) and the long-term (11-60 years) using the building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated. 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 1 percent. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and assets allocation.

The table below reflects long-term expected real rate of return by asset class as follows:

| <u>Asset Class</u> | <u>New Strategic Allocation</u> | <u>Real Return Years 1 - 10 (a)</u> | <u>Real Return Years 11+ (b)</u> |
|-------------------------------|---------------------------------|-------------------------------------|----------------------------------|
| Global Equity | 51.00% | 5.25% | 5.71% |
| Global Fixed Income | 19.00% | 0.99% | 2.43% |
| Inflation Sensitive | 6.00% | 0.45% | 3.36% |
| Private Equity | 10.00% | 6.83% | 6.95% |
| Real Estate | 10.00% | 4.50% | 5.13% |
| Infrastructure and Forestland | 2.00% | 4.50% | 5.09% |
| Liquidity | 2.00% | (0.55)% | 1.05% |
| Total | 100.00% | | |

(a) An expected inflation of 2.50% used for this period

(b) An expected inflation of 3.00% used for this period.

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

The following represents the District's proportionate share of the net pension liability calculated using the discount rate as well as what the District's proportionate share of the 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>Miscellaneous Plan</u> |
|-----------------------|---------------------------|
| 1.00% Decrease | 6.65% |
| Net Pension Liability | \$53,432 |
| Current Discount Rate | 7.65% |
| Net Pension Liability | \$165,460 |
| 1.00% Increase | 8.65% |
| Net Pension Liability | \$257,954 |

CUTLER PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 8 – PENSION PLANS (continued)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial reports on their website. The plan's fiduciary net position has been determined on the same basis as that used by the plan.

NOTE 9 – RISK MANAGEMENT

The District has purchased commercial insurance policies for various risks of loss related to torts; theft, damage or destruction of assets; wrongful acts; injuries to employees; and employee health and life. Payments of premiums for these policies are recorded as expenses of the District. Insurance settlements have not exceeded insurance coverage in any of the past three years. There are no significant reductions in coverage compared to the prior years.

NOTE 10 – CERTIFICATE OF PARTICIPATION – USDA LOAN, TRUST AGREEMENT AND INSTALLMENT SALE AGREEMENT

A trust agreement, entered into as of May 1, 2012, by and among the treasurer of the Cutler Public Utility District, as trust administrator (the "Trust Administrator"), the Public Property Financing Corporation of California, (the "Corporation"), and the Cutler Public Utility District, (the "District").

The District and the Corporation have entered into an installment sale agreement (the "Installment Sale Agreement"), dated as of May 1, 2012, whereby the Corporation has agreed to sell certain improvements to the District's domestic wastewater system, including related structures, improvements and equipment (the "Project") to the District and the District has agreed to purchase the Project from the Corporation.

The Corporation has assigned and transferred certain of its rights under the Installment Sale Agreement to the Trust Administrator and, in consideration of such assignment and the execution of the Trust Agreement, the Trust Administrator has executed and delivered a certificate of participation, evidencing a direct, undivided fractional interest in the Installment Payments and Prepayments to be made by the District, to fund the project.

The certificate of participation dated May 1, 2012 represents a loan in the amount of \$1,761,000 made to the District for the wastewater pipeline project. As of June 30, 2016, \$1,761,000 has been funded and expended. The loan bears interest at the rate of 2% per annum, payable semi-annually on October 1 and April 1. The loan is secured by the net revenues of the District, which is gross revenues less operation and maintenance expenses. The certificate of participation matures on April 1 of each year beginning in 2013 and ending in 2052 with annual maturities ranging from \$30,000 to \$63,000.

The following activity occurred during the year:

| <u>6/30/15</u> | | <u>Principal</u> | <u>6/30/16</u> |
|----------------|------------------|------------------|----------------|
| <u>Balance</u> | <u>Additions</u> | <u>Payments</u> | <u>Balance</u> |
| \$ 1,669,000 | \$ 0 | \$ 31,000 | \$ 1,638,000 |

See independent auditor's report.

CUTLER PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 10 – CERTIFICATE OF PARTICIPATION – USDA LOAN, TRUST
AGREEMENT AND INSTALLMENT SALE AGREEMENT (continued)

Certificate of Participation at June 30, 2016 are as follows:

| <u>Maturity Dates During Each Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--|---------------------|-------------------|---------------------|
| 2017 | \$ 31,000 | \$ 32,760 | \$ 63,760 |
| 2018 | 32,000 | 32,140 | 64,140 |
| 2019 | 33,000 | 31,500 | 64,500 |
| 2020 | 33,000 | 30,840 | 63,840 |
| 2021 | 34,000 | 30,180 | 64,180 |
| 2022 to 2026 | 181,000 | 140,420 | 321,420 |
| 2027 to 2031 | 199,000 | 121,600 | 320,600 |
| 2032 to 2036 | 220,000 | 100,900 | 320,900 |
| 2037 to 2041 | 245,000 | 77,900 | 322,900 |
| 2042 to 2046 | 270,000 | 52,400 | 322,400 |
| 2047 to 2051 | 297,000 | 24,380 | 321,380 |
| 2052 | 63,000 | 1,260 | 64,260 |
| | <u>\$ 1,638,000</u> | <u>\$ 676,280</u> | <u>\$ 2,314,280</u> |

NOTE 11 – SUBSEQUENT EVENTS

Water and Wastewater System Improvements

The District has several water and wastewater system improvements that are at various stages from planning through completion as follows:

- Construction and development of wells
- Water blending tank system for wells
- Water distribution system improvements
- Water meter installation program
- Surface water treatment plant
- Wastewater treatment plant improvements

Funding is Anticipated From the Following Agencies:

- Safe Drinking Water State Revolving Fund Grants and Loans
- Cutler Public Utility District – Local Funds
- United States Department of Agriculture Grant and Loan
- Water Quality Supply, and Infrastructure Improvement Act of 2014 (Prop 1)
- California Department of Water Resources
- Clean Water State Revolving Fund

NOTE 12 – DATE OF MANAGEMENT EVALUATION

Management has evaluated subsequent events through December 30, 2016, the date on which the financial statements were available to be issued.

CUTLER PUBLIC UTILITY DISTRICT

**SCHEDULE OF PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY OF CALIFORNIA PUBLIC
EMPLOYEES' RETIREMENT SYSTEM – LAST TEN YEARS**

| Measurement Date | Proportion of the Net Pension Liability | Proportionate Share of the Net Pension Liability | Covered Employee Payroll | Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|---------------------|--|---|--------------------------------|---|---|
| June 30, 2014 | 0.008272% | \$ 204,441 | \$ 171,371 | 119.30% | 77.250% |
| June 20, 2015 | 0.006031% | \$ 165,460 | \$ 190,657 | 86.78% | 82.730% |

Notes to Schedule:

This schedule is presented to illustrate the requirement to show information for ten years. Only two years are presented because ten year data is not yet available.

Change in Assumptions

The discount rate of 7.5 percent used for the June 30, 2014, measurement date was net of administrative expenses. The discount rate of 7.65 percent used for the June 30, 2015, measurement date is without reduction of pension plan administrative expense.

CUTLER PUBLIC UTILITY DISTRICT

**SCHEDULE OF CONTRIBUTIONS TO CALIFORNIA PUBLIC
EMPLOYEES' RETIREMENT SYSTEM - LAST TEN YEARS**

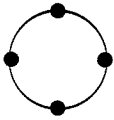
| Fiscal Year End | Contributions in Relation to the | | | Covered Employee Payroll | Contributions as a Percentage of Covered Employee Payroll |
|--------------------|---|---|--|--------------------------------|---|
| | Statutorily Required Contribution | Statutorily Required Contribution | Contribution Deficiency (Excess) | | |
| June 30, 2015 | \$ 36,751 | \$ 36,751 | \$ - | \$ 190,657 | 19.276% |
| June 30, 2016 | \$ 39,061 | \$ 39,061 | \$ - | \$ 194,261 | 20.107% |

Notes to the Schedule:

This schedule is presented to illustrate the requirement to show information for ten years. Only two years are presented because ten year data is not yet available.

Change in Assumptions

The discount rate of 7.5 percent used for the June 30, 2014, measurement date was net of administrative expenses. The discount rate of 7.65 percent used for the June 30, 2015, measurement date is without reduction of pension plan administrative expense.



MORRIS, SPRAGUE, GROEN & NEESE
Certified Public Accountants

**Report on Internal Control Over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with Government Auditing Standards**

Independent Auditors' Report

Board of Directors
Cutler Public Utility District
Cutler, California

GARY J. MORRIS
Certified Public Accountant
Partner

KEITH M. SPRAGUE
Certified Public Accountant
Partner

GREG D. GROEN
Certified Public Accountant
Partner

D. CHRIS NEESE
Enrolled Agent
Partner

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of each major fund of Cutler Public Utility District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Cutler Public Utility District's basic financial statements, and have issued our report thereon dated December 30, 2016 (except as to Note 4 of the schedule of expenditures of federal awards, which is as of June 30, 2020).

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Cutler Public Utility District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cutler Public Utility District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Cutler Public Utility District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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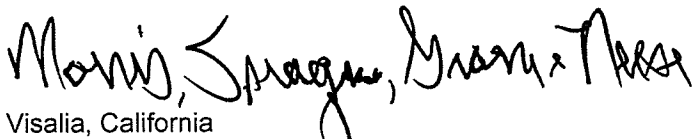
Lindsay Office
P.O. Box 518
287 East Hermosa
Lindsay, California 93247
Tel: (559) 562-2551
Fax: (559) 562-6090

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cutler Public Utility District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

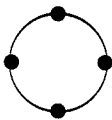
Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Visalia, California

December 30, 2016 (except as to Note 4 of the schedule of expenditures of federal awards, which is as of June 30, 2020)



MORRIS, SPRAGUE, GROEN & NEESE
Certified Public Accountants

**Report on Compliance for Each Major Federal Program and Report
on Internal Control Over Compliance Required by the Uniform Guidance**

Independent Auditors' Report

To the Board of Directors
Cutler Public Utility District
Cutler, California

Report on Compliance for Each Major Federal Program

We have audited Cutler Public Utility District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Cutler Public Utility District's major federal program for the year ended June 30, 2016. Cutler Public Utility District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for Cutler Public Utility District's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Cutler Public Utility District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Cutler Public Utility District's compliance.

Opinion on Each Major Federal Program

In our opinion, Cutler Public Utility District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

GARY J. MORRIS
Certified Public Accountant
Partner

KEITH M. SPRAGUE
Certified Public Accountant
Partner

GREG D. GROEN
Certified Public Accountant
Partner

D. CHRIS NEESE
Enrolled Agent
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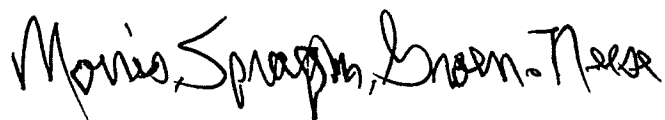
Report on Internal Control Over Compliance

Management of Cutler Public Utility District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Cutler Public Utility District's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Cutler Public Utility District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Visalia, California

December 30, 2016 (except as to Note 4 of the schedule of expenditures of federal awards, which is as of June 30, 2020)

CUTLER PUBLIC UTILITY DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2016

| <u>Federal Grantor/ Pass-Through Grantor/ Program Title</u> | <u>Federal CFDA Number</u> | <u>Pass-Through Entity Identifying Number</u> | <u>Federal Expenditures</u> |
|---|------------------------------------|---|---------------------------------|
| <u>U.S. Environmental Protection Agency</u> | | | |
| Passed Through California State Water Resources Control Board: | | | |
| Capitalization Grants for Drinking Water State Revolving Funds | 66.468 | N/A | <u>\$1,463,231</u> |
| Total Passed Through California State Water Resources Control Board | | | <u>\$1,463,231</u> |
| Total U.S. Environmental Protection Agency | | | <u>\$1,463,231</u> |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | <u>\$1,463,231</u> |

The accompanying notes are an integral part of this schedule.

CUTLER PUBLIC UTILITY DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS June 30, 2016

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Cutler Public Utility District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*.

Note 2 - De Minimis Cost Rate

The District did not elect to use the 10% de-minimis cost rate.

Note 3 - Subrecipients

Of the federal expenditures presented in the Schedule, the District had no sub-recipients that were provided federal awards.

Note 4 – Subsequently Discovered Fact

The accompanying schedule of expenditures of federal awards has been re-stated to correct a misstatement made in the original report issuance. The misstatement relates to an understatement of expenditures by \$623,455.

CUTLER PUBLIC UTILITY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SECTION I – SUMMARY OF AUDITOR'S RESULTS
For the Year ended June 30, 2016

Financial Statements

Type of auditor's report issued:

unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes X no
- Significant deficiency(s) identified that are
not considered to be material weaknesses? yes X none reported

Noncompliance material to financial statements noted?

 yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes X no
- Significant deficiency(s) identified that are
not considered to be material weaknesses? yes X none reported

Type of auditor's report issued on compliance
for major programs:

unqualified

Any audit findings disclosed that are required
to be reported in accordance with section
510(a) of Circular A-133?

 yes X no

Identification of major programs:

Environmental Protection Agency

CFDA 66.468

Dollar threshold used to distinguish
between type A and type B programs:

\$750,000

- Auditee qualified as low-risk auditee? yes X no

CUTLER PUBLIC UTILITY DISTRICT
SCHEDULE OF REVENUES AND EXPENSES
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
For the year ended June 30, 2016

WATER & LIGHT ENTERPRISE

| | <u>Budget</u> | <u>Actual</u> | Variance Favorable (Unfavorable) |
|--|------------------|------------------|--|
| Revenues | | | |
| Water service charges | \$ 409,000 | \$ 413,648 | \$ 4,648 |
| Light service charges | 22,000 | 22,074 | 74 |
| Interest income | - | 1,983 | 1,983 |
| Capacity right fees | - | 4,661 | 4,661 |
| SRF#1 blending tank | 2,779,494 | 20,233 | (2,759,261) |
| SRF#3 pipeline project | 974,643 | 850,202 | (124,441) |
| SRF#4 meter project | 440,000 | - | (440,000) |
| DWR Meter grant | 241,150 | 55,919 | (185,231) |
| Miscellaneous income | - | 842 | 842 |
| Total Revenues | <u>4,866,287</u> | <u>1,369,562</u> | <u>(3,496,725)</u> |
| Operating Expenses | | | |
| Salary and Employee Benefits - | | | |
| Salaries | 129,400 | 125,134 | 4,266 |
| Overtime | 6,800 | 6,559 | 241 |
| Extra help | 1,000 | - | 1,000 |
| Directors' fees | 9,738 | 9,738 | - |
| Retirement | 33,852 | 26,363 | 7,489 |
| Employee benefits | <u>71,958</u> | <u>70,652</u> | <u>1,306</u> |
| Total Salary and Employee Benefits | <u>252,748</u> | <u>238,446</u> | <u>14,302</u> |
| Services and Supplies - | | | |
| Communications | 2,461 | 2,477 | (16) |
| Household expense | 1,000 | 920 | 80 |
| Groundwater | 2,000 | 330 | 1,670 |
| Insurance | 6,000 | 5,718 | 282 |
| Maintenance - equipment | 64,668 | 65,765 | (1,097) |
| Maintenance - structure and improvements | 25,000 | 10,454 | 14,546 |
| Miscellaneous expense | 1,000 | 337 | 663 |
| Office expense | 10,500 | 10,758 | (258) |
| Permit fees | 30,000 | 4,982 | 25,018 |
| Professional and specialized | 56,520 | 56,179 | 341 |
| Publications and legal notices | 1,000 | - | 1,000 |
| Surface water - regional project | - | 4,429 | (4,429) |
| School | 1,500 | 281 | 1,219 |
| Rental and lease - equipment | 3,000 | - | 3,000 |
| Small tools | 500 | 36 | 464 |
| District special expense | 2,500 | - | 2,500 |
| Transportation and travel | 3,000 | 1,800 | 1,200 |
| Utilities - business office | 2,800 | 2,325 | 475 |
| Utilities - pumping | 75,000 | 62,294 | 12,706 |
| Utilities - lights | 16,000 | 12,538 | 3,462 |
| Uniforms | 2,000 | 1,919 | 81 |
| Uncollectible accounts | 300 | - | 300 |
| Taxes and assessments | <u>100</u> | <u>45</u> | <u>55</u> |
| Total Services and Supplies | <u>306,849</u> | <u>243,587</u> | <u>63,262</u> |

See independent auditor's report and accompanying notes.

CUTLER PUBLIC UTILITY DISTRICT
SCHEDULE OF REVENUES AND EXPENSES
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
For the year ended June 30, 2016

(continued)

WATER & LIGHT ENTERPRISE

| | <u>Budget</u> | <u>Actual</u> | Variance Favorable (Unfavorable) |
|---|---------------------|-------------------|--|
| Fixed Assets - | | | |
| Trencher and trailer | \$ 15,000 | \$ - | \$ 15,000 |
| Pickup and service truck | 2,000 | - | 2,000 |
| Well chlorination equipment | 1,500 | - | 1,500 |
| Customer services (grant) | 241,150 | - | 241,150 |
| Pipeline project SRF #3 | 1,148,475 | 1,463,231 | (314,756) |
| Blending tank project SRF #1 | 2,779,494 | 23,755 | 2,755,739 |
| Meter project SRF #4 | 440,000 | 3,336 | 436,664 |
| Meter project DWR | - | 38,324 | (38,324) |
| Well #5 | - | 1,304 | (1,304) |
| Well #10 | - | 222 | (222) |
| Well #11 | - | 1,084 | (1,084) |
| Total Fixed Assets | <u>4,627,619</u> | <u>1,531,256</u> | <u>3,096,363</u> |
| Contingencies - | | | |
| Appropriations for contingencies | <u>256,154</u> | - | <u>256,154</u> |
| Total Expenses | <u>5,443,370</u> | <u>2,013,289</u> | <u>3,430,081</u> |
| Excess (Deficiency) of revenues over expenses (Budgetary Basis) | <u>\$ (577,083)</u> | (643,727) | <u>\$ (66,644)</u> |
| Depreciation | | (69,967) | |
| Total fixed assets capitalized | | <u>1,531,256</u> | |
| Increase in Net Position as reported on the Statement of Revenues, Expenses and Changes in Fund Net Position | | <u>\$ 817,562</u> | |

CUTLER PUBLIC UTILITY DISTRICT
SCHEDULE OF REVENUES AND EXPENSES
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
For the year ended June 30, 2016

WASTEWATER ENTERPRISE

| | <u>Budget</u> | <u>Actual</u> | Variance Favorable (Unfavorable) |
|---|----------------|----------------|--|
| Revenues | | | |
| Wastewater service charges | \$ 492,000 | \$ 496,225 | \$ 4,225 |
| Interest income | - | 4,624 | 4,624 |
| Capacity right fees | - | 10,956 | 10,956 |
| Miscellaneous income | 2,000 | - | (2,000) |
| Net income on Investment in Cutler-Orosi Joint Powers Wastewater Authority | - | 44,100 | 44,100 |
| Total Revenues | <u>494,000</u> | <u>555,905</u> | <u>61,905</u> |
| Operating Expenses | | | |
| Salary and Employee Benefits - | | | |
| Salaries | 69,800 | 67,791 | 2,009 |
| Overtime | 3,000 | 2,631 | 369 |
| Extra help | 1,000 | - | 1,000 |
| Directors' fees | 3,500 | 3,063 | 437 |
| Retirement | 18,261 | 14,190 | 4,071 |
| Employee benefits | <u>34,803</u> | <u>33,169</u> | <u>1,634</u> |
| Total Salary and Employee Benefits | <u>130,364</u> | <u>120,844</u> | <u>9,520</u> |
| Services and Supplies - | | | |
| Communications | 2,461 | 2,477 | (16) |
| Household expense | 1,000 | 920 | 80 |
| Insurance | 6,000 | 5,718 | 282 |
| Maintenance - equipment | 10,000 | 873 | 9,127 |
| Maintenance - structure and improvements | 7,000 | 2,608 | 4,392 |
| Maintenance - plant | 249,000 | 248,820 | 180 |
| Miscellaneous expense | 1,000 | 338 | 662 |
| Office expense | 10,500 | 10,505 | (5) |
| Professional and specialized | 33,264 | 31,788 | 1,476 |
| Publications and legal notices | 1,000 | - | - |
| School | 1,000 | 183 | 817 |
| Rental and lease-equipment | 1,000 | - | 1,000 |
| Small tools | 500 | 9 | 491 |
| District special expense | 3,000 | - | 3,000 |
| Transportation | 2,800 | 1,800 | 1,000 |
| Interest expense | 35,000 | 33,380 | 1,620 |
| Utilities - business office | 2,800 | 2,325 | 475 |
| Utility flow lift station | 1,000 | 823 | 177 |
| Uniforms | 2,000 | 1,919 | 81 |
| Uncollectible accounts | 300 | - | 300 |
| Taxes and assessments | 100 | 58 | 42 |
| Yettem-Seville | - | 556 | (556) |
| Total Services and Supplies | <u>370,725</u> | <u>345,100</u> | <u>25,625</u> |

See independent auditor's report and accompanying notes.

CUTLER PUBLIC UTILITY DISTRICT
SCHEDULE OF REVENUES AND EXPENSES
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
For the year ended June 30, 2016

(continued)

WASTEWATER ENTERPRISE

| | <u>Budget</u> | <u>Actual</u> | Variance Favorable (Unfavorable) |
|-----------------------------------|---------------------|---------------------|--|
| Other Charges - | | | |
| Repayment - Long term debt | \$ 32,000 | \$ 31,000 | \$ 1,000 |
| Depreciation | <u>38,000</u> | <u>-</u> | <u>38,000</u> |
| Total Other Charges | <u>70,000</u> | <u>31,000</u> | <u>39,000</u> |
| Fixed Assets - | | | |
| Cutler-Orosi Joint Powers | | | |
| Wastewater Authority | - | 24,873 | (24,873) |
| Yettem-Seville force main testing | 3,000 | - | 3,000 |
| Manhole cover replacement | 2,000 | - | 2,000 |
| Pickup and service truck | 2,000 | - | 2,000 |
| Line/lateral mapping | 2,500 | - | 2,500 |
| Sewer line cleaning machine | <u>2,000</u> | <u>-</u> | <u>2,000</u> |
| Total Fixed Assets | <u>11,500</u> | <u>24,873</u> | <u>(13,373)</u> |
| Contingencies - | | | |
| Appropriation for contingencies | <u>84,964</u> | <u>-</u> | <u>84,964</u> |
| Total Expenses | <u>667,553</u> | <u>521,817</u> | <u>145,736</u> |
| Excess (Deficiency) of revenues | | | |
| over expenses (Budgetary Basis) | <u>\$ (173,553)</u> | 34,088 | <u>\$ 207,641</u> |
| Depreciation in excess of budget | | (300,464) | |
| Total fixed assets capitalized | | 24,873 | |
| Prepayment - Long term debt | | <u>31,000</u> | |
| Decrease in Net Position as | | | |
| reported on the Statement of | | | |
| Revenues, Expenses and | | | |
| Changes in Fund Net Position | | <u>\$ (210,503)</u> | |