

EAST OROSI COMMUNITY SERVICES DISTRICT
REPORT ON AUDIT OF FINANCIAL STATEMENTS
FOR THE TWO YEARS ENDED JUNE 30, 2018 AND 2017

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1 - 3
Management's Discussion and Analysis	4 - 7
Government-wide Financial Statements	
Statement of Net Position	8
Statement of Activities	9
Fund Financial Statements	
Comparative Statement of Net Position – Proprietary Fund	10
Comparative Statement of Revenue, Expense and Changes in Fund Net Position – Proprietary Fund	11
Comparative Statement of Cash Flow – Proprietary Fund	12
Notes to General Purpose Financial Statements	13 - 17
Supplementary Information	
Comparative Statement of Revenue and Expense – Water Enterprise Activity	19
Comparative Statement of Revenue and Expense – Sewer Enterprise Activity	20
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	21 - 22

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INDEPENDENT AUDITOR'S REPORT

January 31, 2019

Board of Directors
East Orosi Community Services District
Orosi, California

Report on the Financial Statements

I have audited the accompanying financial statements of the business-type activities of East Orosi Community Services District, State of California, as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable in financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of East Oroshi Community Services District, State of California, as of June 30, 2018 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages four through seven 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. I 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise East Oroshi Community Services District's basic financial statements. The comparative statements of revenue and expense, as presented on pages 19 and 20, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The comparative statements of revenue and expense 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 my opinion, the comparative statements of revenue and expense 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*, I have also issued my report dated January 31, 2019 on my consideration of East Orosi Community Services District's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on 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 the District's internal control over financial reporting and compliance.

*Sanborn and Sanborn
Accountancy Corporation*

CERTIFIED PUBLIC ACCOUNTANTS

**EAST OROSI COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

As management of East Orosi Community Services District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with information that is included within the financial statements.

Financial Highlights

- Assets of the District exceeded its liabilities as of June 30, 2018 by \$402,533. Of this amount, unrestricted deficit net position of \$5,501 may be used to meet the District's ongoing obligations to customers and creditors. As of June 30, 2017, assets exceeded liabilities by \$350,309 with unreserved and unrestricted net position equaling \$11,874.
- Total net position increased by \$52,224 for the year ended June 30, 2018. For the year ended June 30, 2017, total net position increased by \$86,872.
- During the current year, the District's fixed assets increased by a net of \$69,599. This increase was entirely attributable an increase in construction in progress of \$80,040 less depreciation. Depreciation expense, the ratable amortization of the cost of fixed assets, amounted to \$10,441 for the current year. Prior year depreciation was \$26,729.
- Total debt decreased by a net of \$27,720 during the current year. The decrease was mostly attributable to a decrease in the note payable of \$25,332 plus a decrease in bonds payable of \$3,000. During the prior year, total debt increased by a net of \$60,443. This was mostly due to the decrease in the note payable of \$58,827 plus a decrease in bonds payable of \$3,000.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to East Orosi Community Services District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the District's assets and liabilities, with the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expense are reported in this statement for some items that will only result in cash flow in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the District that are principally proprietary in nature (business-type activities) which are functions that are intended to recover all or a significant portion of their costs through user fees and charges. The District has no governmental activities.

The government-wide financial statements include only the District itself. The District has no component units.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and proprietary funds. The District has no governmental funds and only one proprietary fund, the Enterprise Fund.

Proprietary funds. Proprietary funds are used to account for essentially the same functions reported as business-type activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain other supplementary information.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. As of June 30, 2018, the District's assets exceeded liabilities by \$402,533. A significant portion of the District's net position (98 percent) reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. Capital assets are used to provide services to customers and they are not available for future spending.

The following represent summaries of the District's net position and changes in net position for the current and prior years:

East Orosi Community Services District's Net Position

	Business-Type Activities	Current Year Total	Prior Year Total
Current assets	\$ 30,049	\$ 30,049	\$ 75,144
Other assets	408,034	408,034	338,435
Total assets	438,083	438,083	413,579
Current liabilities	16,550	16,550	41,270
Noncurrent liabilities	19,000	19,000	22,000
Total liabilities	35,550	35,550	63,270
Net position:			
Invested in capital assets, net of related debt	395,509	395,509	325,910
Restricted for debt service	12,525	12,525	12,525
Unrestricted/(deficit)	(5,501)	(5,501)	11,874
Total net position	\$ 402,533	\$ 402,533	\$ 350,309

East Orosi Community Services District's Changes in Net Position

	Business-Type Activities	Current Year Total	Prior Year Total
Program revenue			
Charges for services	\$ 69,860	\$ 69,860	\$ 74,526
Operating grants	37,041	37,041	45,801
Other	4,159	4,159	5,334
Total revenue	111,060	111,060	125,661
Expense			
Water activities	76,468	76,468	90,123
Sewer activities	69,192	69,192	83,438
Total expense	145,660	145,660	173,561
Net operating income/(loss)	(34,600)	(34,600)	(47,900)
Net nonoperating revenue/(expense)	86,824	86,824	134,772
Increase/(decrease) in net position	52,224	52,224	86,872
Net position, beginning of year	350,309	350,309	263,437
Net position, end of year	\$ 402,533	\$ 402,533	\$ 350,309

Business-type activities. Business-type activities increased the District's net position by \$52,224, accounting for 100 percent of the total decline in net position.

Financial Analysis of the District's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Proprietary Funds. The purpose of the District's proprietary fund financial statements is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of June 30, 2018, the District's proprietary fund reported an ending fund balance of \$402,533, an increase of \$52,224 in comparison to the prior year. Of the entire ending fund balance, only a deficit of \$5,501 is unrestricted and available for spending at the District's discretion.

Capital Asset and Debt Administration

Capital assets. The District's investment in capital assets for its governmental activities as of June 30, 2018 amounted to \$395,509 (net of allowance for depreciation). This investment in capital assets includes land, buildings, improvements and equipment.

Additional information on the District's capital assets can be found in note three to the financial statements.

Debt administration. The District's long-term debt totaled \$22,000 as of June 30, 2018. Of this total amount, \$3,000 is due and payable during the year ending June 30, 2019. The remainder, referred to as noncurrent liabilities, is due and payable over the next five years.

Additional information on the District's long-term debt can be found in note four to the financial statements.

Economic Factors and Next Year's Budgets and Rates

The District did not adopt a budget for the year ending June 30, 2019.

Requests for Information

This financial report is designed to provide a general overview of East Orosi Community Services District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Secretary, East Orosi Community Services District, P. O. Box 213, Orosi, California 93647-0213.

EAST OROSI COMMUNITY SERVICES DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2018

Assets	
Current assets	
Cash and cash equivalents	\$ 17,391
Accounts receivable	<u>12,658</u>
Total current assets	30,049
Other assets	
Cash restricted for debt service	12,525
Capital assets (net of allowance for depreciation)	<u>395,509</u>
Total assets	<u>438,083</u>
Liabilities	
Current liabilities	
Accounts payable and accrued expense	13,550
Current portion of bonds payable	<u>3,000</u>
Total current liabilities	16,550
Noncurrent liabilities	
Bonds payable	<u>19,000</u>
Total liabilities	<u>35,550</u>
Net Position	
Invested in capital assets, net of related debt	395,509
Restricted	12,525
Unrestricted/(deficit)	<u>(5,501)</u>
Total net position	<u>\$ 402,533</u>

See accompanying notes to financial statements.

EAST OROSI COMMUNITY SERVICES DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Business-type activities		
Operating revenue		
Charges for services	\$	69,860
Operating grant		37,041
Other		<u>4,159</u>
Total operating revenue		111,060
Expense		
Water utility activities	\$	76,468
Sewer utility activities		<u>69,192</u>
Total expense		<u>145,660</u>
Net operating income/(loss)		(34,600)
Net nonoperating revenue/(expense)		<u>86,824</u>
Change in net position		52,224
Net position, beginning of year		<u>350,309</u>
Net position, end of year		<u><u>\$ 402,533</u></u>

See accompanying notes to financial statements.

EAST OROSI COMMUNITY SERVICES DISTRICT
 PROPRIETARY FUND
 COMPARATIVE STATEMENT OF NET POSITION
 JUNE 30, 2018 AND 2017

	Business-Type Activities – Enterprise Fund	
	2018	2017
Assets		
Current assets		
Cash in bank	\$ 1,296	\$ 6,687
Cash in county treasury	16,095	57,986
Accounts receivable	12,658	10,471
Total current assets	30,049	75,144
Other assets		
Cash restricted for debt service	12,525	12,525
Capital assets (net of allowance for depreciation)	395,509	325,910
Total assets	438,083	413,579
Liabilities		
Current liabilities		
Accounts payable and accrued expense	13,550	12,938
Note payable		25,332
Current portion of bonds payable	3,000	3,000
Total current liabilities	16,550	41,270
Noncurrent liabilities		
Bonds payable	22,000	25,000
Less current portion	(3,000)	(3,000)
Total noncurrent liabilities	19,000	22,000
Total liabilities	35,550	63,270
Net Position		
Invested in capital assets, net of related debt	395,509	325,910
Restricted	12,525	12,525
Unrestricted/(deficit)	(5,501)	11,874
Total net position	\$ 402,533	\$ 350,309

See accompanying notes to financial statements.

EAST OROSI COMMUNITY SERVICES DISTRICT
 PROPRIETARY FUND
 COMPARATIVE STATEMENT OF REVENUE,
 EXPENSE AND CHANGES IN FUND NET POSITION
 FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	Business-Type Activities – Enterprise Fund			
	2018			2017
	Water	Sewer	Total	Total
Operating revenue				
Charges for services	\$ 21,140	\$ 48,720	\$ 69,860	\$ 74,526
Operating grant	37,041		37,041	45,801
Other	1,353	2,806	4,159	5,334
Total operating revenue	<u>59,534</u>	<u>51,526</u>	<u>111,060</u>	<u>125,661</u>
Operating expense				
Purchased water	45,836		45,836	48,565
Sewage treatment and disposal		20,088	20,088	20,708
Salaries and wages	5,868	13,632	19,500	20,700
Legal and professional	4,766	12,590	17,356	8,354
Utilities	11,358	4,908	16,266	24,244
Depreciation and amortization	3	10,438	10,441	26,729
Repairs and maintenance	2,073	2,249	4,322	11,275
Testing	4,048		4,048	2,619
Insurance	661	1,535	2,196	1,901
Employee benefits	528	1,226	1,754	3,739
Communications	357	830	1,187	1,399
Miscellaneous	389	797	1,186	1,874
Office supplies and postage	429	717	1,146	961
Director fees	102	182	284	440
Dues and subscriptions	50		50	53
Total operating expense	<u>76,468</u>	<u>69,192</u>	<u>145,660</u>	<u>173,561</u>
Net operating income/(loss)	<u>(16,934)</u>	<u>(17,666)</u>	<u>(34,600)</u>	<u>(47,900)</u>
Nonoperating revenue/(expense)				
Capital grants revenue	87,471		87,471	137,637
Interest revenue	170	395	565	883
Property taxes	201		201	205
Interest expense	(288)	(1,125)	(1,413)	(3,953)
Net nonoperating revenue/(expense)	<u>87,554</u>	<u>(730)</u>	<u>86,824</u>	<u>134,772</u>
Change in net position	70,620	(18,396)	52,224	86,872
Net position, beginning of year	<u>248,855</u>	<u>101,454</u>	<u>350,309</u>	<u>263,437</u>
Net position, end of year	<u>\$ 319,475</u>	<u>\$ 83,058</u>	<u>\$ 402,533</u>	<u>\$ 350,309</u>

See accompanying notes to financial statements.

EAST OROSI COMMUNITY SERVICES DISTRICT
 PROPRIETARY FUND
 COMPARATIVE STATEMENT OF CASH FLOW
 FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	Business-Type Activities – Enterprise Fund	
	<u>2018</u>	<u>2017</u>
Cash flow from operating activities		
Receipts from customers and users	\$ 71,832	\$ 75,482
Operating grants	37,041	45,801
Payments to suppliers	(112,616)	(116,909)
Payments to employees	<u>(21,907)</u>	<u>(21,328)</u>
Net cash provided by/(used for) operating activities	<u>(25,650)</u>	<u>(16,954)</u>
Cash flow from noncapital financing activities		
Property taxes and miscellaneous non-operating revenue	<u>201</u>	<u>205</u>
Cash flow from capital and related financing activities		
Proceeds from capital grants	87,471	137,637
Proceeds from loans		
Repayment of capital loans	(25,332)	(58,827)
Acquisition of capital assets	(80,040)	(115,144)
Principal paid on debt	(3,000)	(3,000)
Interest paid on financing	<u>(1,497)</u>	<u>(11,164)</u>
Net cash provided by/(used for) capital and related financing activities	<u>(22,398)</u>	<u>(50,498)</u>
Cash flow from investing activities		
Interest on investments	<u>565</u>	<u>883</u>
Net increase/(decrease) in cash	(47,282)	(66,364)
Cash, beginning of year	<u>77,198</u>	<u>143,562</u>
Cash, end of year	<u>\$ 29,916</u>	<u>\$ 77,198</u>
Reconciliation of operating income to net cash provided by/(used for) operating activities:		
Operating income/(loss)	\$ (34,600)	\$ (47,900)
Adjustments to reconcile operating income/(loss) to net cash provided by/(used for) operating activities		
Depreciation and amortization expense	10,441	26,729
(Increase)/decrease in accounts receivable	(2,187)	(4,378)
Increase/(decrease) in accounts payable and accrued expense	<u>696</u>	<u>8,595</u>
Net cash provided by/(used for) operating activities	<u>\$ (25,650)</u>	<u>\$ (16,954)</u>

See accompanying notes to financial statements.

EAST OROSI COMMUNITY SERVICES DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE TWO YEARS ENDED JUNE 30, 2018 AND 2017

Note 1: Summary of Significant Accounting Policies

East Orosi Community Services District is a California special district that was created upon the approval of the Board of Supervisors of Tulare County in 1970. The District was organized to provide and maintain sewer and water operations in the community of Orosi, County of Tulare, State of California. The District is governed by a board of directors. As the District is a governmental unit, it is exempt from federal and California taxes on income.

The accounting and reporting policies of the District conform to generally accepted accounting principles applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Government Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units*, and by the Financial Accounting Standards Board (when applicable).

A. Financial Reporting Entity

As required by generally accepted accounting principles, these general purpose financial statements present the District in conformance with GASB Statement No. 14, "The Financial Reporting Entity." Under Statement No. 14, component units are organizations that are included in the District's reporting entity because of the significance of their operational or financial relationships with the District. The District has no component units.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements, which are the statement of net position and the statement of activities, report information on all of the nonfiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District has no governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or activity are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenue include charges to customers and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported in separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds financial statements. Revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cash flow. Property taxes are recognized as revenue in the year in which they are levied. Grants and similar items are recognized as revenue when all eligibility requirements imposed by the provider have been met.

EAST OROSI COMMUNITY SERVICES DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE TWO YEARS ENDED JUNE 30, 2018 AND 2017

Note 1: Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

The financial statements of the District are prepared in accordance with generally accepted accounting principles. The District's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with the GASB pronouncements. The District's reporting entity does not apply FASB pronouncements of APB opinions issued after November 30, 1989.

Proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cash flow.

The District reports the following major proprietary fund:

The Sewer and Water Fund is the District's only operating fund. The Sewer and Water Fund accounts for the sewer and water systems operation in the community of East Orosi.

Amounts reported as program revenue include charges to customers for goods and services, operating grants and contributions and capital grants and contributions.

D. Assets, Liabilities and Net Position or Equity

1. Cash and Investments

Investments are reported at fair value. Cash represents cash on hand, in banks and on deposit in the treasury of the County of Tulare. Investments made from pooled cash consist primarily of short-term investments.

2. Property, Plant and Equipment

Capital assets, which include property, plant and equipment are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of three years. All material fixed assets are valued at historical cost. Donated fixed assets are valued at their estimated fair value on the date donated. When an asset is disposed of, cost and related accumulated depreciation is removed and any gain or loss arising from its disposal is credited or charged to operations.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is recorded by using the straight-line method. The book value of each asset is reduced by equal amounts over its estimated useful life as follows:

	<u>Estimated Useful Life in Years</u>
Buildings and improvements	20 – 40
Equipment	10 – 20

EAST OROSI COMMUNITY SERVICES DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE TWO YEARS ENDED JUNE 30, 2018 AND 2017

Note 1: Summary of Significant Accounting Policies (continued)

Assets, Liabilities and Net Position or Equity (continued)

3. Net Position

Net position comprise the various net earnings from operating income, nonoperating revenue and expense and capital contributions. Net position are classified in the following three components:

Invested in capital assets, net of related debt – 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 invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net asset components 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 invested in capital assets, net of related debt.

E. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from these estimates.

Note 2: Cash

The District’s deposits as of June 30, 2018, were entirely covered by federal depository insurance or otherwise collateralized. The Government Code of the State of California requires California financial institutions to secure District deposits by pledging government securities as collateral. The following is an analysis of cash as of June 30, 2018:

	Bank Balance Category*			Total
	1	2	3	
Cash in bank	\$ 13,821	\$	\$	\$ 13,821
County of Tulare	_____	16,095	_____	16,095
	\$ 13,821	\$ 16,095	\$ _____	\$ 29,916

* These categories are as follows:

EAST OROSI COMMUNITY SERVICES DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE TWO YEARS ENDED JUNE 30, 2018 AND 2017

Note 2: Cash (continued)

- Category 1: Cash on hand or insured by the Federal Deposit Insurance Corporation or collateralized with securities held by the District or by its agents in the District's name.
- Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.
- Category 3: Uncollateralized.

Note 3: Property, Plant and Equipment

The following is an analysis of the District's capital assets as of June 30, 2018:

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2018</u>
Land*	\$ 6,325	\$	\$	\$ 6,325
Buildings and improvements	1,262,268			1,262,268
Construction in progress*	<u>273,123</u>	<u>80,040</u>	<u> </u>	<u>353,163</u>
Total	1,541,716	80,040		1,621,756
Allowance for depreciation	<u>(1,215,806)</u>	<u>(10,441)</u>	<u> </u>	<u>(1,226,247)</u>
	<u>\$ 325,910</u>	<u>\$ 69,599</u>	<u>\$</u>	<u>\$ 395,509</u>

* Not currently depreciated

Note 4: Bonds Payable

Following is a summary of the changes in bonds payable for the year ended June 30, 2018:

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2018</u>
Sewer Revenue Bonds	<u>\$ 25,000</u>	<u>\$</u>	<u>\$ 3,000</u>	<u>\$ 22,000</u>
	<u>\$ 25,000</u>	<u>\$</u>	<u>\$ 3,000</u>	<u>\$ 22,000</u>

Debt service requirements for the bonds payable are summarized as follows:

<u>Due during the</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
Year ending June 30, 2019	\$ 1,025	\$ 3,000	\$ 4,025
Year ending June 30, 2020	875	3,000	3,875
Year ending June 30, 2021	700	4,000	4,700
Year ending June 30, 2022	500	4,000	4,500
Year ending June 30, 2023	300	4,000	4,300
Year ending June 30, 2024	<u>100</u>	<u>4,000</u>	<u>4,100</u>
	<u>\$ 3,500</u>	<u>\$ 22,000</u>	<u>\$ 25,500</u>

EAST OROSI COMMUNITY SERVICES DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE TWO YEARS ENDED JUNE 30, 2018 AND 2017

Note 4: Bonds Payable (continued)

The specific terms of the bonds payable are as follows:

Sewer Revenue Bonds – Annual principal payments are due on March 1st of each year with semi-annual interest payments due March 1st and September 1st of each year. The interest rate is five percent per annum. The final principal payment is expected to be due on September 1, 2023. Significant bond covenants are being followed.

Note 5: Restricted Net Position

Net position is restricted in the amount of \$12,525 for debt service.

Note 6: Grant Activities

During the year ended June 30, 2013, the District entered into two capital grants and one operating grant to provide emergency drinking water for District residents. The grants are being administered for the District by Self-Help Enterprises. In conjunction with the grants, the District was offered and accepted a line of credit from Self-Help Enterprises in the amount of \$100,000. This loan carries an interest rate of 4.50 percent per annum. As of June 30, 2018, the District had not borrowed against this line of credit.

Note 7: Subsequent Events

Events affecting the District subsequent to June 30, 2018 through January 31, 2019 have been evaluated and included within these financial statements when applicable.

Note 8: Board of Directors

Members of the Board of Directors as of June 30, 2018, were as follows:

Carmen Moreno	President
Katie Icho	Vice President
Shanna Chavez	Director
Priscilla Raymondo	Director

Lucy Rodriguez is the Secretary of the District.

SUPPLEMENTARY INFORMATION

EAST OROSI COMMUNITY SERVICES DISTRICT
WATER ENTERPRISE ACTIVITY
COMPARATIVE STATEMENT OF REVENUE AND EXPENSE
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Operating revenue		
Operating grant	\$ 37,041	\$ 45,801
Charges for service	21,140	22,423
Other	<u>1,353</u>	<u>1,605</u>
Total operating revenue	<u>59,534</u>	<u>69,829</u>
Operating expense		
Purchased water	45,836	48,565
Utilities	11,358	15,234
Salaries and wages	5,868	6,229
Legal and professional	4,766	6,354
Testing	4,048	2,619
Repairs and maintenance	2,073	5,955
Insurance	661	572
Employee benefits	528	1,125
Office supplies and postage	429	670
Miscellaneous	389	842
Communications	357	497
Director fees	102	132
Dues and subscriptions	50	16
Depreciation and amortization	<u>3</u>	<u>1,313</u>
Total operating expense	<u>76,468</u>	<u>90,123</u>
Net operating income/(loss)	<u>(16,934)</u>	<u>(20,294)</u>
Nonoperating revenue/(expense)		
Capital grant revenue	87,471	137,637
Interest revenue	170	442
Property taxes	201	205
Interest expense	<u>(288)</u>	<u>(2,678)</u>
Net nonoperating revenue/(expense)	<u>87,554</u>	<u>135,606</u>
Change in net position	<u>\$ 70,620</u>	<u>\$ 115,312</u>

See accompanying notes to financial statements.

EAST OROSI COMMUNITY SERVICES DISTRICT
SEWER ENTERPRISE ACTIVITY
COMPARATIVE STATEMENT OF REVENUE AND EXPENSE
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Operating revenue		
Charges for service	\$ 48,720	\$ 52,103
Other	<u>2,806</u>	<u>3,729</u>
Total operating revenue	<u>51,526</u>	<u>55,832</u>
Operating expense		
Sewage treatment and disposal	20,088	20,708
Salaries and wages	13,632	14,471
Legal and professional	12,590	2,000
Depreciation and amortization	10,438	25,416
Utilities	4,908	9,010
Repairs and maintenance	2,249	5,320
Insurance	1,535	1,329
Employee benefits	1,226	2,614
Communications	830	902
Miscellaneous	797	1,032
Office supplies and postage	717	291
Director fees	182	308
Dues and subscriptions	<u> </u>	<u>37</u>
Total operating expense	<u>69,192</u>	<u>83,438</u>
Net operating income/(loss)	<u>(17,666)</u>	<u>(27,606)</u>
Nonoperating revenue/(expense)		
Interest revenue	395	441
Interest expense	<u>(1,125)</u>	<u>(1,275)</u>
Net nonoperating revenue/(expense)	<u>(730)</u>	<u>(834)</u>
Change in net position	<u>\$ (18,396)</u>	<u>\$ (28,440)</u>

See accompanying notes to financial statements.

SANBORN & SANBORN ACCOUNTANCY CORPORATION

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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 AUDITOR'S REPORT

January 31, 2019

Board of Directors
East Orosi Community Services District
East Orosi, California

I 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 the business-type activities of East Orosi Community Services District as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued my report thereon dated January 31, 2019.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered East Orosi Community Services 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I do not express an opinion on the effectiveness of the 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 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*, 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.

My 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 my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether East Orosi Community Services District's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of the Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Sanborn and Sanborn
Accountancy Corporation*

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