

THREE RIVERS COMMUNITY SERVICES DISTRICT
REPORT ON AUDIT OF FINANCIAL STATEMENTS
FOR THE TWO YEARS ENDED JUNE 30, 2019 AND 2018

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INDEPENDENT AUDITOR'S REPORT

January 30, 2020

Board of Directors
Three Rivers Community Services District
Three Rivers, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Three Rivers Community Services District, State of California, as of and for the year ended June 30, 2019 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Three Rivers Community Services District, State of California, as of June 30, 2019 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 three through six and the schedules of proportionate share of net pension liability and contributions to Public Employee's Retirement System on pages 22 and 23 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 inquires 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2020 on our consideration of Three Rivers Community Services 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 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

**THREE RIVERS COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019**

As management of Three Rivers 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, 2019. We encourage readers to consider the information presented here in conjunction with information that is included within the financial statements.

Financial Highlights

- Assets and deferred outflows of the District exceeded its liabilities and deferred inflows as of June 30, 2019 by \$71,298. Of this amount, unrestricted net position of \$34,972 may be used to meet the District's ongoing obligations to customers and creditors. As of June 30, 2018, assets exceeded liabilities by \$90,716 with unrestricted net position equaling \$48,893.
- Total net position decreased by \$19,418 for the year ended June 30, 2019. For the year ended June 30, 2018, total net position decreased by \$40,692.
- During the current year, the District's fixed assets decreased by a net of \$5,497. This decrease was entirely attributable to depreciation. Depreciation expense, the ratable amortization of the cost of fixed assets, amounted to \$5,497 for the current year. Prior year depreciation was \$6,628.
- Total debt increased by a net of \$4,531 during the current year. The increase was attributable to an increase in noncurrent liabilities and an increase in accounts payable and accrued expense. During the prior year, total debt increased by a net of \$1,272. This was entirely due to an increase in accounts payable and accrued expense.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Three Rivers 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 a component unit, the Three Rivers Improvement District #1.

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, 2019, the District's assets and deferred outflows exceeded liabilities and deferred inflows by \$71,298. A significant portion of the District's net position (51 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:

Three Rivers Community Services District's Net Position

	<u>Business-Type Activities</u>	<u>Current Year Total</u>	<u>Prior Year Total</u>
Current assets	\$ 61,104	\$ 61,104	\$ 68,854
Other assets	36,326	36,326	41,823
Deferred outflows	<u>14,150</u>	<u>14,150</u>	<u>15,790</u>
Total assets and deferred outflows	<u>111,580</u>	<u>111,580</u>	<u>126,467</u>
Current liabilities	7,261	7,261	2,674
Noncurrent liabilities	31,321	31,321	31,732
Deferred inflows	<u>1,700</u>	<u>1,700</u>	<u>1,345</u>
Total liabilities and deferred inflows	<u>40,282</u>	<u>40,282</u>	<u>35,751</u>
Net position:			
Invested in capital assets, net of related debt	36,326	36,326	41,823
Unrestricted	<u>34,972</u>	<u>34,972</u>	<u>48,893</u>
Total net position	<u>\$ 71,298</u>	<u>\$ 71,298</u>	<u>\$ 90,716</u>

Three Rivers Community Services District's Changes in Net Position

	<u>Business-Type Activities</u>	<u>Current Year Total</u>	<u>Prior Year Total</u>
Program revenue			
Charges for services	<u>\$ 55,526</u>	<u>\$ 55,526</u>	<u>\$ 55,144</u>
Total operating revenue	<u>55,526</u>	<u>55,526</u>	<u>55,144</u>
Expense			
Sewer utility activities	<u>111,274</u>	<u>111,274</u>	<u>133,850</u>
Total expense	<u>111,274</u>	<u>111,274</u>	<u>133,850</u>
Net operating income/(loss)	(55,748)	(55,748)	(78,706)
Net nonoperating revenue/(expense)	<u>36,330</u>	<u>36,330</u>	<u>38,014</u>
Increase/(decrease) in net position	(19,418)	(19,418)	(40,692)
Net position, beginning of year	<u>90,716</u>	<u>90,716</u>	<u>131,408</u>
Net position, end of year	<u>\$ 71,298</u>	<u>\$ 71,298</u>	<u>\$ 90,716</u>

Business-type activities. Business-type activities decreased the District's net position by \$19,418, accounting for 100 percent of the total increase 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, 2019, the District's proprietary fund reported an ending fund balance of \$90,169, a decrease of \$17,834 in comparison to the prior year. Of the entire ending fund balance, \$53,843 is unrestricted and is 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, 2019 amounted to \$36,326 (net of allowance for depreciation). This investment in capital assets includes land, building, improvements, construction in progress and equipment.

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

Debt administration. The District's long-term debt consisted of its unfunded pension obligation of \$31,321.

Additional information on the District's long-term debt can be found in note five.

Economic Factors and Next Year's Budgets and Rates

The budget for the year ending June 30, 2020 projects a surplus of \$2,532. Revenue is anticipated to decrease by \$58 compared to 2018/2019, while expenditures are expected to decrease by \$20,424.

User rates are not expected to increase during the year ending June 30, 2020.

Requests for Information

This financial report is designed to provide a general overview of Three Rivers 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 Manager, Three Rivers Community Services District, P. O. Box 423, Three Rivers, California 93271.

THREE RIVERS COMMUNITY SERVICES DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2019

	<u>Total Primary Government</u>	<u>Component Unit</u>	<u>Total Reporting Unit</u>
Assets			
Current assets			
Cash and cash equivalents	\$ 53,350	\$ 131,250	\$ 184,600
Receivables	4,430	16,815	21,245
Prepaid expense	<u>3,324</u>	<u> </u>	<u>3,324</u>
Total current assets	<u>61,104</u>	<u>148,065</u>	<u>209,169</u>
Other assets			
Restricted cash		124,220	124,220
Capital assets (net of allowance for depreciation)	<u>36,326</u>	<u>2,105,352</u>	<u>2,141,678</u>
Total other assets	<u>36,326</u>	<u>2,229,572</u>	<u>2,265,898</u>
Deferred outflows			
Pension plan contributions and adjustments	<u>14,150</u>	<u> </u>	<u>14,150</u>
Total assets and deferred outflows	<u>111,580</u>	<u>2,377,637</u>	<u>2,489,217</u>
Liabilities			
Current liabilities			
Accounts payable and accrued expense	<u>7,261</u>	<u>20,126</u>	<u>27,387</u>
Noncurrent liabilities			
Due in one year		26,799	26,799
Due after one year		1,432,771	1,432,771
Unfunded pension obligation	<u>31,321</u>	<u> </u>	<u>31,321</u>
Total noncurrent liabilities	<u>31,321</u>	<u>1,459,570</u>	<u>1,490,891</u>
Deferred inflows - pension plan resources	<u>1,700</u>	<u> </u>	<u>1,700</u>
Total liabilities and deferred inflows	<u>40,282</u>	<u>1,479,696</u>	<u>1,519,978</u>
Net position			
Invested in capital assets, net of related debt	36,326	626,321	662,647
Restricted for debt service		124,220	124,220
Unrestricted	<u>34,972</u>	<u>147,400</u>	<u>182,372</u>
Total net position	<u>\$ 71,298</u>	<u>\$ 897,941</u>	<u>\$ 969,239</u>

See accompanying notes to financial statements.

THREE RIVERS COMMUNITY SERVICES DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

	<u>Total Primary Government</u>	<u>Component Unit</u>	<u>Total Reporting Unit</u>
Business-type activities			
Revenue			
Charges for services	\$ 55,526	\$ 53,278	\$ 108,804
Total revenue	<u>55,526</u>	<u>53,278</u>	<u>108,804</u>
Expense			
Water utility activities		120,910	120,910
Sewer utility activities	<u>111,274</u>	<u> </u>	<u>111,274</u>
Total expense	<u>111,274</u>	<u>120,910</u>	<u>232,184</u>
Net operating income/(loss)	(55,748)	(67,632)	(123,380)
Net nonoperating revenue/(expense)	<u>36,330</u>	<u>50,482</u>	<u>86,812</u>
Change in net position	(19,418)	(17,150)	(36,568)
Net position, beginning of year (Note 6)	<u>90,716</u>	<u>915,091</u>	<u>1,005,807</u>
Net position, end of year	<u>\$ 71,298</u>	<u>\$ 897,941</u>	<u>\$ 969,239</u>

See accompanying notes to financial statements.

THREE RIVERS COMMUNITY SERVICES DISTRICT
 PROPRIETARY FUND
 COMPARATIVE STATEMENT OF NET POSITION
 JUNE 30, 2019 AND 2018

	Business-Type Activities – Enterprise Fund	
	<u>2019</u>	<u>2018</u>
Assets		
Current assets		
Cash in bank	\$ 53,350	\$ 61,206
Property assessments receivable	4,340	4,329
Interest receivable	90	
Prepaid expense	<u>3,324</u>	<u>3,319</u>
Total current assets	61,104	68,854
Other assets		
Capital assets (net of allowance for depreciation)	<u>36,326</u>	<u>41,823</u>
Total assets	<u>97,430</u>	<u>110,677</u>
Liabilities		
Current liabilities		
Accounts payable and accrued expense	<u>7,261</u>	<u>2,674</u>
Total liabilities	<u>7,261</u>	<u>2,674</u>
Net Position		
Invested in capital assets, net of related debt	36,326	41,823
Unrestricted	<u>53,843</u>	<u>66,180</u>
Total net position	<u>\$ 90,169</u>	<u>\$ 108,003</u>

See accompanying notes to financial statements.

THREE RIVERS COMMUNITY SERVICES DISTRICT
RECONCILIATION OF PROPRIETARY FUND STATEMENT OF
NET POSITION TO NET POSITION OF BUSINESS-TYPE ACTIVITIES
JUNE 30, 2019

Amounts reported for business-type activities in the
Statement of net position are different because:

Total net position for proprietary funds statement of net position	\$ 90,169
Unfunded pension plan obligation and deferred outflows and Inflows are not current financial resources and, therefore, are not reported in the funds statements	<u>(18,871)</u>
Net position of business-type activities	<u>\$ 71,298</u>

See accompanying notes to financial statements.

THREE RIVERS COMMUNITY SERVICES DISTRICT
 PROPRIETARY FUND
 COMPARATIVE STATEMENT OF REVENUE,
 EXPENSE AND CHANGES IN FUND NET POSITION
 FOR THE TWO YEARS ENDED JUNE 30, 2019 AND 2018

	Business-Type Activities – Enterprise Fund	
	<u>2019</u>	<u>2018</u>
Operating revenue		
Charges for services	\$ 55,526	\$ 55,144
Operating expense		
Wages and salaries	60,708	57,076
Employee benefits	12,654	11,982
Rent	8,580	7,080
Depreciation	5,497	6,628
Repairs and maintenance	5,437	1,887
Miscellaneous	3,210	2,224
Legal and professional	2,750	2,760
Office supplies and postage	2,312	2,268
Insurance	2,118	2,637
Dues and subscriptions	1,220	1,518
Data processing	1,188	1,527
Communications	1,060	1,210
Automobile and truck	1,040	806
Utilities	837	960
Bank service charges	538	342
Continuing education	284	3,232
Fees, testing and studies	207	565
Contributions	<u>50</u>	<u>23,050</u>
Total operating expense	<u>109,690</u>	<u>127,752</u>
Net operating income/(loss)	<u>(54,164)</u>	<u>(72,608)</u>
Nonoperating revenue/(expense)		
Property taxes	35,882	33,776
Contributions	1,100	1,200
Interest revenue	231	134
Miscellaneous		2,904
Property tax collection costs	<u>(883)</u>	<u></u>
Net nonoperating revenue/(expense)	<u>36,330</u>	<u>38,014</u>
Change in net position	(17,834)	(34,594)
Net position, beginning of year	<u>108,003</u>	<u>142,597</u>
Net position, end of year	<u><u>\$ 90,169</u></u>	<u><u>\$ 108,003</u></u>

See accompanying notes to financial statements.

THREE RIVERS COMMUNITY SERVICES DISTRICT
RECONCILIATION OF PROPRIETARY FUND STATEMENT OF
REVENUE, EXPENSE AND CHANGES IN FUND NET POSITION TO
CHANGES IN NET POSITION OF BUSINESS-TYPE ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

Change in net position - business-type activities	\$ (17,834)
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Amounts reported for business-type activities in
The statement of activities are different because:

Changes in unfunded pension obligation are not current financial resources and, therefore, are not reported in the funds statements. This is the amount of net change in unfunded pension obligation in the current period.	<u>(1,584)</u>
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Change in net position of business-type activities	<u>\$ (19,418)</u>
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See accompanying notes to financial statements.

THREE RIVERS COMMUNITY SERVICES DISTRICT
 PROPRIETARY FUND
 COMPARATIVE STATEMENT OF CASH FLOW
 FOR THE TWO YEARS ENDED JUNE 30, 2019 AND 2018

	Business-Type Activities – Enterprise Fund	
	2019	2018
Cash flow from operating activities		
Receipts from customers and users	\$ 55,526	\$ 54,770
Payments to suppliers	(26,705)	(53,806)
Payments to employees	<u>(72,906)</u>	<u>(68,141)</u>
Net cash provided by/(used for) operating activities	<u>(44,085)</u>	<u>(67,177)</u>
Cash flow from noncapital financing activities		
Property taxes and miscellaneous nonoperating revenue	<u>36,088</u>	<u>39,398</u>
Cash flow from capital and related financing activities-		
Purchase of playground equipment	<u> </u>	<u> </u>
Net cash provided by/(used for) capital and related financing activities	<u> </u>	<u> </u>
Cash flow from investing activities		
Interest on investments	<u>141</u>	<u>169</u>
Net increase/(decrease) in cash	(7,856)	(27,610)
Cash, beginning of year	<u>61,206</u>	<u>88,816</u>
Cash, end of year	<u>\$ 53,350</u>	<u>\$ 61,206</u>
Reconciliation of operating income to net cash provided by/(used for) operating activities:		
Operating income/(loss)	\$ (54,164)	\$ (72,982)
Adjustments to reconcile operating income/(loss) to net cash provided by/(used for) operating activities		
Depreciation and amortization expense	5,497	6,628
(Increase)/decrease in prepaid expense	(5)	(682)
Increase/(decrease) in accounts payable and accrued expense	<u>4,587</u>	<u>(141)</u>
Net cash provided by/(used for) operating activities	<u>\$ (44,085)</u>	<u>\$ (67,177)</u>

See accompanying notes to financial statements.

THREE RIVERS COMMUNITY SERVICES DISTRICT
 COMPONENT UNIT
 STATEMENT OF NET POSITION
 JUNE 30, 2019

	<u>Three Rivers Improvement District #1</u>
Assets	
Current assets	
Cash and cash equivalents	\$ 131,250
Accounts receivable	<u>16,815</u>
Total current assets	<u>148,065</u>
Other assets	
Restricted cash	124,220
Capital assets (net of allowance for depreciation)	<u>2,105,352</u>
Total other assets	<u>2,229,572</u>
Total assets	<u>2,377,637</u>
Liabilities	
Current liabilities	
Accounts payable and accrued expense	665
Interest payable	<u>19,461</u>
Total current liabilities	<u>20,126</u>
Noncurrent liabilities	
Due in one year	26,799
Due after one year	<u>1,432,771</u>
Total noncurrent liabilities	<u>1,459,570</u>
Total liabilities	<u>1,479,696</u>
Net Position	
Invested in capital assets, net of related debt	626,321
Restricted for debt service	124,220
Unrestricted	<u>147,400</u>
Total net position	<u>\$ 897,941</u>

See accompanying notes to financial statements.

THREE RIVERS COMMUNITY SERVICES DISTRICT
 COMPONENT UNIT
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2019

	<u>Three Rivers Improvement District #1</u>
Business-type activities	
Revenue	
Charges for services	\$ 53,278
Total revenue	<u>53,278</u>
Expense	
Water utility activities	<u>120,910</u>
Total expense	<u>120,910</u>
Net operating income/(loss)	(67,632)
Net nonoperating revenue/(expense)	<u>50,482</u>
Change in net position	(17,150)
Net position, beginning of year	<u>915,091</u>
Net position, end of year	<u><u>\$ 897,941</u></u>

See accompanying notes to financial statements.

THREE RIVERS COMMUNITY SERVICES DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE TWO YEARS ENDED JUNE 30, 2019 AND 2018

Note 1: Summary of Significant Accounting Policies

Three Rivers Community Services District is a California special district that was created upon the approval of the Board of Supervisors of Tulare County. The District was organized to provide and maintain sewer operations in the community of Three Rivers, 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 one component unit, the Three Rivers Improvement District #1. Reference is made to the financial statements for Three Rivers Improvement District #1 for the year ended June 30, 2019 for more information regarding that governmental entity.

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

THREE RIVERS COMMUNITY SERVICES DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE TWO YEARS ENDED JUNE 30, 2019 AND 2018

Note 1: Summary of Significant Accounting Policies (continued)

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

which they are levied. Grants and similar items are recognized as revenue when all eligibility requirements imposed by the provider have been met.

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 Fund is the District's only operating fund. The Sewer Fund accounts for the sewer system operation in the community of Three Rivers, California.

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.

THREE RIVERS COMMUNITY SERVICES DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE TWO YEARS ENDED JUNE 30, 2019 AND 2018

Note 1: Summary of Significant Accounting Policies (continued)

Assets, Liabilities and Net Position or Equity (continued)

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

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. Budgets and Budgetary Accounting

The District established a budget for its governmental fund for the year ended June 30, 2019. The budget is adopted on a basis consistent with generally accepted accounting principles (GAAP).

F. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

THREE RIVERS COMMUNITY SERVICES DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE TWO YEARS ENDED JUNE 30, 2019 AND 2018

Note 2: Cash

The District's deposits as of June 30, 2019, 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, 2019:

	<u>Bank Balance Category*</u>			<u>Carrying Amount</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Cash in bank	<u>\$ 53,350</u>	<u>\$</u>	<u>\$</u>	<u>\$ 53,350</u>
	<u>\$ 53,350</u>	<u>\$</u>	<u>\$</u>	<u>\$ 53,350</u>

* These categories are as follows:

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, 2019:

	<u>Balance July 1, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2019</u>
Equipment	<u>\$ 100,932</u>	<u></u>	<u></u>	<u>\$ 100,932</u>
Total	100,932			100,932
Allowance for depreciation	<u>(59,109)</u>	<u>(5,497)</u>	<u></u>	<u>(64,606)</u>
	<u>\$ 41,823</u>	<u>\$ (5,497)</u>	<u>\$</u>	<u>\$ 36,326</u>

Note 4: Subsequent Events

Events affecting the District subsequent to June 30, 2019 through January 30, 2020 have been evaluated and included within these financial statements when applicable.

Note 5: Employee Retirement System

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Classified employees are members of the California Public Employees' Retirement System (CalPERS).

THREE RIVERS COMMUNITY SERVICES DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE TWO YEARS ENDED JUNE 30, 2019 AND 2018

Note 5: Employee Retirement System (continued)

Plan Description and Provisions

Plan Description: Three Rivers Community Services District contributes to the Miscellaneous Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office; 400 P Street; Sacramento, California 95814.

Funding Policy: Active plan members are required to contribute 7.0 percent of their salary (seven percent of monthly salary over \$133.33) and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2018-2019 was 12.91 percent of annual payroll. The District's contributions to CalPERS for the fiscal years ended June 30, 2019, 2018 and 2017 were \$10,022, \$8,152 and \$8,161 respectively, and equal 100 percent of the required contributions for each year. CalPERS covered wages paid by the District amounted to \$59,108 for the year ended June 30, 2019.

The District's CalPERS pension plan fiduciary net position was \$144,347 and the total pension plan liability was \$175,660 as of June 30, 2018. Detailed information about the pension plans' fiduciary net position is available in separately issued CalPERS financial reports.

The net pension obligation for CalPERS was computed using a 7.15 percent future annual earnings rate (discount rate) on current investments. The following reflects the combined net pension obligation at various annual earnings rates:

Net pension obligation using a 6.15 percent annual rate of earnings (discount rate)	\$ 50,310
Net pension obligation using a 7.15 percent annual rate of earnings (discount rate)	31,321
Net pension obligation using a 8.15 percent annual rate of earnings (discount rate)	15,646

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. As of June 30, 2018, the District reported an unfunded pension obligation of \$31,321 for its proportionate share of the net pension obligation. The net pension obligation was measured as of June 30, 2018 and the total pension obligation used to calculate the net overfunded pension obligation was determined by an actuarial valuation as of that date. The District's portion of the net pension obligation 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 entities, actuarially determined.

Pension plan activity and balances reflected in the Statement of Net Position and Statement of Activities reflect activity and balances through June 30, 2018. Pension plan payments to the plan during the year ended June 30, 2019 (\$7,628) are included in deferred outflows pension plan contributions and adjustments.

THREE RIVERS COMMUNITY SERVICES DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE TWO YEARS ENDED JUNE 30, 2019 AND 2018

Note 5: Employee Retirement System (continued)

Additional amounts included in deferred outflows pension plan contributions and adjustments are adjustments due to differences in proportions (\$6,522).

Deferred inflows pension plan resources (\$1,700) reflect the net difference between projected and actual earnings on pension plan investments. Amounts reported as deferred outflows and deferred inflows of resources related to pensions, other than the employer-specific item, will be recognized in future pension expense over the four years ending June 30, 2022.

Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial report. The components of the net pension liability as of June 30, 2018 are as follows:

Total pension liability	\$ 175,668
Less plan fiduciary net position	<u>144,347</u>
Net pension liability	<u>\$ 31,321</u>

Note 6: Board of Directors

Members of the Board of Directors as of June 30, 2019, were as follows:

Mignon Gregg	President
David Mills	Vice President
Ken Elias	Director
Jacqueline Fletcher	Director
Robert Groeber	Director

Cindy Howell is the District Manager.

THREE RIVERS COMMUNITY SERVICES DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF
NET PENSION LIABILITY
FOR THE FOUR YEARS ENDED JUNE 30, 2018

	<u>2017/2018</u>	<u>2016/2017</u>	<u>2015/2016</u>	<u>2014/2015</u>
District's proportion of the net pension liability	0.00083108%	0.00080496%	0.00103000%	0.00090867%
District's proportionate share of the net pension liability	\$ 31,321	\$ 31,732	\$ 30,319	\$ 24,929
District's covered employee payroll	57,076	44,446	47,277	52,119
District's proportionate share of the net pension liability as a percentage of its covered employee payroll	54.88%	71.39%	64.13%	47.83%
Plan fiduciary net position as a percentage of the total pension liability	82.17%	81.13%	79.55%	81.72%

The amounts presented for each year were determined as of June 30.

See accompanying notes to financial statements.

THREE RIVERS COMMUNITY SERVICES DISTRICT
SCHEDULE OF CONTRIBUTIONS TO
PUBLIC EMPLOYEE'S RETIREMENT SYSTEM
FOR THE FOUR YEARS ENDED JUNE 30, 2019

	<u>2018/2019</u>	<u>2017/2018</u>	<u>2016/2017</u>	<u>2015/2016</u>
Contractually required contribution	\$ 7,628	\$ 7,129	\$ 7,433	\$ 8,445
Contributions in relation to the contractually required contribution	<u>10,022</u>	<u>8,152</u>	<u>8,161</u>	<u>12,781</u>
Contribution deficiency/(excess)	<u>\$ (2,394)</u>	<u>\$ (1,023)</u>	<u>\$ (728)</u>	<u>\$ (4,336)</u>
District's covered employee payroll	\$ 59,108	\$ 57,076	\$ 44,446	\$ 47,277
Contributions as a percentage of covered employee payroll	16.96%	14.28%	18.36%	27.03%

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 30, 2020

Board of Directors
Three Rivers Community Services District
Three Rivers, California

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 the business-type activities of Three Rivers Community Services District as of and for the year ended June 30, 2019 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 30, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Three Rivers 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 our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we 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.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Three Rivers Community Services District's financial statements are free of 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 the 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 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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