

THREE RIVERS IMPROVEMENT DISTRICT #1
REPORT ON AUDIT OF COMPONENT UNIT FINANCIAL STATEMENTS
FOR THE TWO YEARS ENDED JUNE 30, 2019 AND 2018

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INDEPENDENT AUDITOR'S REPORT

January 29, 2020

Board of Directors
Three Rivers Improvement District #1
Three Rivers, California

Report on the Financial Statements

I have audited the accompanying financial statements of the business-type activities of Three Rivers Improvement District #1, 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

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 Three Rivers Improvement District #1, 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 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated January 29, 2020 on my consideration of Three Rivers Improvement District #1'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

**THREE RIVERS IMPROVEMENT DISTRICT #1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019**

As management of Three Rivers Improvement District #1, 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 of the District exceeded its liabilities as of June 30, 2019 by \$897,941. Of this amount, unrestricted net position of \$147,400 may be used to meet the District's ongoing obligations to customers and creditors. As of June 30, 2018, assets exceeded liabilities by \$915,091 with unrestricted net position equaling \$129,027.
- Total net position decreased by \$17,150 for the year ended June 30, 2019. For the year ended June 30, 2018, total net position decreased by \$42,700.
- During the current year, the District's fixed assets decreased by a net of \$66,635. This decrease was entirely attributable to depreciation. Depreciation expense, the ratable amortization of the cost of fixed assets, amounted to \$66,635 for the current year. Prior year depreciation was \$66,159.
- Total debt decreased by a net of \$29,942 during the current year. The decrease was mostly attributable to payment of long-term debt. During the prior year, total debt decreased by a net of \$25,829. This was mostly due to payment of long-term debt.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Three Rivers Improvement District #1'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, 2019, the District's assets exceeded liabilities by \$897,941. A significant portion of the District's net position (70 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.

In addition, another significant portion of the District's net position (14 percent) is restricted for debt service and capital asset acquisition purposes.

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

Three Rivers Improvement District #1's Net Position

	<u>Business-Type Activities</u>	<u>Current Year Total</u>	<u>Prior Year Total</u>
Current assets	\$ 148,065	\$ 148,065	\$ 133,522
Other assets	<u>2,229,572</u>	<u>2,229,572</u>	<u>2,291,207</u>
Total assets	<u>2,377,637</u>	<u>2,377,637</u>	<u>2,424,729</u>
Current liabilities	20,126	20,126	24,300
Noncurrent liabilities	<u>1,459,570</u>	<u>1,459,570</u>	<u>1,485,338</u>
Total liabilities	<u>1,479,696</u>	<u>1,479,696</u>	<u>1,509,638</u>
Net position:			
Invested in capital assets, net of related debt	626,321	626,321	666,844
Restricted	124,220	124,220	119,220
Unrestricted	<u>147,400</u>	<u>147,400</u>	<u>129,027</u>
Total net position	<u>\$ 897,941</u>	<u>\$ 897,941</u>	<u>\$ 915,091</u>

Three Rivers Improvement District #1'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>\$ 53,278</u>	<u>\$ 53,278</u>	<u>\$ 41,165</u>
Total revenue	<u>53,278</u>	<u>53,278</u>	<u>41,165</u>
Expense			
Water utility activities	<u>120,910</u>	<u>120,910</u>	<u>125,919</u>
Total expense	<u>120,910</u>	<u>120,910</u>	<u>125,919</u>
Net operating income/(loss)	(67,632)	(67,632)	(84,754)
Net nonoperating revenue/(expense)	<u>50,482</u>	<u>50,482</u>	<u>42,054</u>
Increase/(decrease) in net position	(17,150)	(17,150)	(42,700)
Net position, beginning of year	<u>915,091</u>	<u>915,091</u>	<u>957,791</u>
Net position, end of year	<u>\$ 897,941</u>	<u>\$ 897,941</u>	<u>\$ 915,091</u>

Business-type activities. Business-type activities decreased the District's net position by \$17,150, 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 \$897,941, a decrease of \$17,150 in comparison to the prior year. Of the entire ending fund balance, \$147,400 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 \$2,105,352 (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 aggregated \$1,459,570 as of June 30, 2019. This debt is subject to annual repayment amounts approximating \$85,000.

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

Economic Factors and Next Year's Budgets and Rates

The District does not maintain a budget.

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 Improvement District #1'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 Improvement District #1, P. O. Box 482, Three Rivers, California 93271-0482.

THREE RIVERS IMPROVEMENT DISTRICT #1
STATEMENT OF NET POSITION
JUNE 30, 2019

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 IMPROVEMENT DISTRICT #1
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

Business-type activities	
Revenue	
Charges for services	\$ <u>53,278</u>
Total operating 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 IMPROVEMENT DISTRICT #1
 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 on hand	\$	\$ 150
Cash in bank	131,250	116,573
Property assessments receivable		2,639
Accounts receivable	<u>16,815</u>	<u>14,160</u>
Total current assets	<u>148,065</u>	<u>133,522</u>
Other assets		
Restricted cash	124,220	119,220
Capital assets (net of allowance for depreciation)	<u>2,105,352</u>	<u>2,171,987</u>
Total other assets	<u>2,229,572</u>	<u>2,291,207</u>
Total assets	<u>2,377,637</u>	<u>2,424,729</u>
Liabilities		
Current liabilities		
Accounts payable and accrued expense	665	4,495
Interest payable	19,461	19,805
Current portion of noncurrent liabilities	<u>26,799</u>	<u>25,768</u>
Total current liabilities	46,925	50,068
Noncurrent liabilities		
Bonds payable	<u>1,432,771</u>	<u>1,459,570</u>
Total liabilities	<u>1,479,696</u>	<u>1,509,638</u>
Net Position		
Invested in capital assets, net of related debt	626,321	666,844
Restricted for debt service	124,220	119,220
Unrestricted	<u>147,400</u>	<u>129,027</u>
Total net position	<u>\$ 897,941</u>	<u>\$ 915,091</u>

See accompanying notes to financial statements.

THREE RIVERS IMPROVEMENT DISTRICT #1
 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	\$ 53,278	\$ 41,165
Total operating revenue	<u>53,278</u>	<u>41,165</u>
Operating expense		
Depreciation	66,635	66,159
Legal and professional	16,370	21,431
Fees, testing and studies	13,238	12,048
Repairs and maintenance	11,543	10,950
Utilities	10,698	11,388
Insurance	1,350	
Supplies	811	1,448
Miscellaneous	<u>265</u>	<u>2,495</u>
Total operating expense	<u>120,910</u>	<u>125,919</u>
Net operating income/(loss)	<u>(67,632)</u>	<u>(84,754)</u>
Nonoperating revenue/(expense)		
Property assessments	109,036	101,632
Interest revenue	1	1
Miscellaneous		
Interest expense	<u>(58,555)</u>	<u>(59,579)</u>
Net nonoperating revenue/(expense)	<u>50,482</u>	<u>42,054</u>
Change in net position	(17,150)	(42,700)
Net position, beginning of year	<u>915,091</u>	<u>957,791</u>
Net position, end of year	<u>\$ 897,941</u>	<u>\$ 915,091</u>

See accompanying notes to financial statements.

THREE RIVERS IMPROVEMENT DISTRICT #1
 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	\$ 50,623	\$ 42,230
Payments to suppliers	<u>(58,105)</u>	<u>(60,482)</u>
Net cash provided by/(used for) operating activities	<u>(7,482)</u>	<u>(18,252)</u>
Cash flow from noncapital financing activities-0	<u>-0-</u>	<u>-0-</u>
Cash flow from capital and related financing activities		
Property assessments received	111,675	100,306
Acquisition of capital assets		(11,890)
Long-term debt principal payments	(25,768)	(24,777)
Long-term debt interest payments	<u>(58,899)</u>	<u>(59,909)</u>
Net cash provided by/(used for) capital and related financing activities	<u>27,008</u>	<u>3,730</u>
Cash flow from investing activities		
Interest on investments	<u>1</u>	<u>1</u>
Net increase/(decrease) in cash	19,527	(14,521)
Cash, beginning of year	<u>235,943</u>	<u>250,464</u>
Cash, end of year	<u>\$ 255,470</u>	<u>\$ 235,943</u>
Reconciliation of operating income to net cash provided by/(used for) operating activities:		
Operating income/(loss)	\$ (67,632)	\$ (84,754)
Adjustments to reconcile operating income/(loss) to net cash provided by/(used for) operating activities		
Depreciation and amortization expense	66,635	66,159
(Increase)/decrease in accounts receivable	(2,655)	1,065
Increase/(decrease) in accounts payable and accrued expense	<u>(3,830)</u>	<u>(722)</u>
Net cash provided by/(used for) operating activities	<u>\$ (7,482)</u>	<u>\$ (18,252)</u>
Summary of cash		
Cash in bank and on hand	\$ 131,250	\$ 116,723
Restricted cash	<u>124,220</u>	<u>119,220</u>
Total cash	<u>\$ 255,470</u>	<u>\$ 235,943</u>

See accompanying notes to financial statements.

THREE RIVERS IMPROVEMENT DISTRICT #1
NOTES TO COMPONENT UNIT FINANCIAL STATEMENTS
FOR THE TWO YEARS ENDED JUNE 30, 2019 AND 2018

Note 1: Summary of Significant Accounting Policies

Three Rivers Improvement District #1 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 and water 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 Component Unit 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 is considered a component unit of the Three Rivers Community Services District and, as such, the financial activities of the District are also reported as part of the financial activities of Three Rivers Community Services 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. Revenue is recorded when earned and expense is 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

THREE RIVERS IMPROVEMENT DISTRICT #1
NOTES TO COMPONENT UNIT 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)

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 Water Fund is the District's only operating fund. The Water Fund accounts for the water systems operations 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 IMPROVEMENT DISTRICT #1
NOTES TO COMPONENT UNIT 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. Operating and Nonoperating Revenue

Operating revenue is defined as receipts from customers and users. Nonoperating revenue are other types of revenue; property taxes, grants and interest.

F. Budgets and Budgetary Accounting

The District did not establish a budget for its governmental fund for the year ended June 30, 2019.

G. 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 IMPROVEMENT DISTRICT #1
NOTES TO COMPONENT UNIT 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 on hand	\$	\$	\$	\$
Cash in bank	<u>255,470</u>			<u>255,470</u>
	<u>\$ 255,470</u>	<u>\$</u>	<u>\$</u>	<u>\$ 255,470</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>
Land*	\$ 5,720			\$ 5,720
Water system	<u>2,624,092</u>			<u>2,624,092</u>
Total	2,629,812			2,629,812
Allowance for depreciation	<u>(457,825)</u>	<u>(66,635)</u>		<u>(524,460)</u>
	<u>\$2,171,987</u>	<u>\$ (66,635)</u>	<u>\$</u>	<u>\$2,105,352</u>

* Not current being depreciated.

THREE RIVERS IMPROVEMENT DISTRICT #1
NOTES TO COMPONENT UNIT FINANCIAL STATEMENTS
FOR THE TWO YEARS ENDED JUNE 30, 2019 AND 2018

Note 4: Noncurrent Liabilities

The following is a summary of deferred liabilities (long-term debt) for the year ended June 30, 2019:

	July 1, 2018			June 30, 2019		
	<u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u>	<u>Classification</u> <u>Due in</u> <u>One Year</u>	<u>Due After</u> <u>One Year</u>
Water bonds payable	\$1,485,338	\$ _____	\$ 25,768	\$1,459,570	\$ 26,799	\$1,432,771
	<u>\$1,485,338</u>	<u>\$ _____</u>	<u>\$ 25,768</u>	<u>\$1,459,570</u>	<u>\$ 26,799</u>	<u>\$1,432,771</u>

Note 5: Water Bonds Payable

-

Water bonds payable as of June 30, 2019 are composed of the following:

United States Department of Agriculture, Rural Development Department includes bonds dated and issued in 1977. The total amount of the bonds issued was \$1,640,000 and provides for interest at the rate of four percent per annum. Semi-annual payments of principal and interest and interest only, respectively, began September 2011, and continue until fully paid. Full repayment of the bonds is scheduled to occur in September 2048. Total interest paid in the year ended June 30, 2019 and charged to expense was \$58,555.

Issue amount of \$1,640,000, due in semi-annual payments aggregating \$85,000 per year	\$1,459,570
Current portion	<u>(26,799)</u>
Noncurrent portion	<u>\$1,432,771</u>

Future payments of the bonds are as follows:

<u>Due during the year(s) ending:</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
June 30, 2020	\$ 57,847	\$ 26,799	\$ 84,646
June 30, 2021	56,753	27,871	84,624
June 30, 2022	55,616	28,986	84,602
June 30, 2023	54,434	30,145	84,579
June 30, 2024	53,305	31,351	84,656
Five years ending June 30, 2029	245,778	176,598	422,376
Five years ending June 30, 2034	206,752	214,860	421,612
Five years ending June 30, 2039	159,271	261,409	420,680
Five years ending June 30, 2044	101,503	318,045	419,548
Five years ending June 30, 2049	<u>29,679</u>	<u>343,506</u>	<u>373,185</u>
	<u>\$1,020,938</u>	<u>\$1,459,570</u>	<u>\$2,480,508</u>

Terms of the loan require funded reserves for debt service and capital improvements in the amounts of \$84,220 plus \$5,000 per year for as long as the bonds remain outstanding. Total reserves as of June 30, 2019 were \$124,220.

THREE RIVERS IMPROVEMENT DISTRICT #1
NOTES TO COMPONENT UNIT FINANCIAL STATEMENTS
FOR THE TWO YEARS ENDED JUNE 30, 2019 AND 2018

Note 6: Subsequent Events

Events affecting the District subsequent to June 30, 2019 through January 29, 2020 have been evaluated and included within these financial statements when applicable.

Note 7: Board of Directors

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

Dennis Villavicencio	President
Jana Botkin	Director
Katie Kelly	Director
Rick Lafferty	Director
Linda Mutch	Director

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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 29, 2020

Board of Directors
Three Rivers Improvement District #1
Three Rivers, 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 Three Rivers Improvement District #1 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 my report thereon dated January 29, 2020.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Three Rivers Improvement District #1'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 Three Rivers Improvement District #1'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*

CERTIFIED PUBLIC ACCOUNTANTS