

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

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 Funds	10
Comparative Statement of Revenue, Expense and Changes in Fund Net Position – Proprietary Funds	11
Comparative Statement of Cash Flow – Proprietary Funds	12 - 13
Notes to General Purpose Financial Statements	14 - 19
Supplementary Information	
Statement of Revenue and Expenditures – Budget and Actual	
Water Enterprise Fund	20
Sewer Enterprise Fund	21
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>	22 - 23

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INDEPENDENT AUDITOR'S REPORT

May 18, 2020

Board of Directors
Sultana Community Services District
Sultana, California

Report on the Financial Statements

I have audited the accompanying financial statements of the business-type activities of Sultana Community Services District, State of California, as of and for the year ended June 30, 2019 and 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 Sultana Community Services District, State of California, as of June 30, 2019 and 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 Sultana Community Services District's basic financial statements. The statements of activities – budget and actual as presented on pages 20 and 21, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The statements of activities – budget and actual 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 statements of activities – budget and actual 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 May 18, 2020 on my consideration of Sultana 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

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

As management of Sultana 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 of the District exceeded its liabilities as of June 30, 2019 by \$382,629. Of this amount, unrestricted net position of \$135,626 may be used to meet the District's ongoing obligations to customers and creditors. As of June 30, 2018, assets exceeded liabilities by \$397,469 with unrestricted net position equaling \$107,956.
- Total net position decreased by \$14,840 for the year ended June 30, 2019. For the year ended June 30, 2018, total net position increased by \$3,940.
- During the current year, the District's fixed assets decreased by a net of \$39,909. This increase was attributable to improvements to the District's water and sewer systems less depreciation. Depreciation expense, the ratable amortization of the cost of fixed assets, amounted to \$39,909 for the current year. Prior year depreciation was \$43,040.
- Total debt decreased by a net of \$8,393 during the current year. The decrease was mostly attributable to the repayment of construction loan proceeds in the amount of \$1,405, repayment of bonds payable in the amount of \$4,000 and a decrease in accounts payable and accrued expense of \$2,988. During the prior year, total debt decreased by a net of \$21,011. This decrease was mostly due to acquisition of construction loan proceeds in the amount of \$31,155, repayment of bonds payable in the amount of \$13,721 and an decrease in accounts payable and accrued expense of \$26,903.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Sultana 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, 2019, the District's assets exceeded liabilities by \$382,629. A significant portion of the District's net position (65 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:

Sultana Community Services District's Net Position

	Business-Type Activities	Current Year Total	Prior Year Total
Current assets	\$ 157,664	\$ 157,664	\$ 140,988
Other assets	333,412	333,412	373,321
Total assets	491,076	491,076	514,309
Current liabilities	88,447	88,447	91,840
Noncurrent liabilities	20,000	20,000	25,000
Total liabilities	108,447	108,447	116,840
Net position:			
Invested in capital assets, net of related debt	247,003	247,003	281,253
Nonspendable			8,260
Unrestricted	135,626	135,626	107,956
Total net position	\$ 382,629	\$ 382,629	\$ 397,469

Sultana Community Services District's Changes in Net Position

	Business-Type Activities	Current Year Total	Prior Year Total
Program revenue			
Charges for services	\$ 203,297	\$ 203,297	\$ 228,673
Total revenue	203,297	203,297	228,673
Expense			
Sewer utility activity	124,868	124,868	126,798
Water utility activity	103,180	103,180	104,699
Total expense	228,048	228,048	231,497
Net operating income/(loss)	(24,751)	(24,751)	(2,824)
Net nonoperating revenue/(expense)	9,911	9,911	6,764
Increase/(decrease) in net position	(14,840)	(14,840)	3,940
Net position, beginning of year	397,469	397,469	393,529
Net position, end of year	\$ 382,629	\$ 382,629	\$ 397,469

Business-type activities. Business-type activities decreased the District's net position by \$14,840, accounting for 100 percent of the total decrease 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 funds reported a combined ending fund balance of \$382,629, a decrease of \$14,840 in comparison to the prior year. Of the entire ending fund balance, \$135,626 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 business-type activities as of June 30, 2019 amounted to \$333,412 (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 totaled \$86,221 as of June 30, 2019. Of this total amount, \$66,221 is due and payable during the year ending June 30, 2020. The remainder, referred to as noncurrent liabilities, is due and payable over the next four years.

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

Economic Factors and Next Year's Budgets and Rates

The budget for the year ending June 30, 2020 projects a deficit of \$24,635. Revenue is anticipated to increase by \$35,779 compared to 2018/2019, while expenditures are expected to increase by \$45,574. Interest and property tax revenue is anticipated to increase by \$1,861 while charges for services are estimated to increase by \$33,918 and no capital and operating grants and contributions are expected. Salaries, wages and employee benefits are expected to increase by \$5,544 and services and supplies are expected to increase by \$40,030 compared to 2018/2019. Debt service is expected to amount to \$16,000 in 2019/2018.

User rates are expected to increase during the year ending June 30, 2020.

Requests for Information

This financial report is designed to provide a general overview of Sultana 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, Sultana Community Services District, P. O. Box 158, Sultana, California 93618.

SULTANA COMMUNITY SERVICES DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2019

Assets	
Current assets	
Cash and cash equivalents	\$ 149,553
Accounts receivable	<u>8,111</u>
Total current assets	<u>157,664</u>
Other assets	
Capital assets (net of allowance for depreciation)	<u>333,412</u>
Total other assets	<u>333,412</u>
Total assets	<u>491,076</u>
Liabilities	
Current liabilities	
Accounts payable and accrued expense	<u>22,226</u>
Total current liabilities	<u>22,226</u>
Noncurrent liabilities	
Payable within one year	66,221
Payable after one year	<u>20,000</u>
Total noncurrent liabilities	<u>86,221</u>
Total liabilities	<u>108,447</u>
Net Position	
Invested in capital assets, net of related debt	247,003
Unrestricted	<u>135,626</u>
Total net position	<u>\$ 382,629</u>

See accompanying notes to financial statements.

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

Business-type activities		
Operating revenue		
Charges for services		\$ 203,297
Operating expense		
Sewer utility activities	\$ 124,868	
Water utility activities	<u>103,180</u>	
Total operating expense		<u>228,048</u>
Net operating income/(loss)		(24,751)
Nonoperating revenue/(expense)		
Property taxes	9,901	
Interest revenue	1,260	
Intergovernmental	72	
Interest expense	<u>(1,322)</u>	
Net nonoperating revenue/(expense)		<u>9,911</u>
Change in net position		(14,840)
Net position, beginning of year		<u>397,469</u>
Net position, end of year		<u>\$ 382,629</u>

See accompanying notes to financial statements.

SULTANA COMMUNITY SERVICES DISTRICT
 PROPRIETARY FUNDS
 COMPARATIVE STATEMENT OF NET POSITION
 JUNE 30, 2019 AND 2018

	Business-Type Activities – Enterprise Funds			
	2019			2018
	Water	Sewer	Total	Total
Assets				
Current assets				
Cash in bank	\$ 20,833	\$ 20,808	\$ 41,641	\$ 48,753
Cash in county treasury	66,963	40,949	107,912	77,113
Accounts receivable	3,793	4,318	8,111	6,863
Prepaid expense	<u> </u>	<u> </u>	<u> </u>	<u>8,260</u>
Total current assets	91,589	66,075	157,664	140,989
Other assets				
Capital assets (net of allowance for depreciation)	<u>223,162</u>	<u>110,250</u>	<u>333,412</u>	<u>373,320</u>
Total assets	<u>314,751</u>	<u>176,325</u>	<u>491,076</u>	<u>514,309</u>
Liabilities				
Current liabilities				
Accounts payable and accrued expense	11,399	10,827	22,226	25,214
Current portion of noncurrent liabilities - notes/bonds payable	<u>61,221</u>	<u>5,000</u>	<u>66,221</u>	<u>66,626</u>
Total current liabilities	72,620	15,827	88,447	91,840
Noncurrent liabilities - bonds payable	<u> </u>	<u>20,000</u>	<u>20,000</u>	<u>25,000</u>
Total liabilities	<u>72,620</u>	<u>35,827</u>	<u>108,447</u>	<u>116,840</u>
Net Position				
Invested in capital assets, net of related debt	161,941	85,062	247,003	281,253
Nonspendable	<u>80,190</u>	<u>55,436</u>	<u>135,626</u>	<u>8,260</u>
Unrestricted	<u> </u>	<u> </u>	<u> </u>	<u>107,956</u>
Total net position	<u>\$ 242,131</u>	<u>\$ 140,498</u>	<u>\$ 382,629</u>	<u>\$ 397,469</u>

See accompanying notes to financial statements.

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

	<u>Business-Type Activities – Enterprise Funds</u>			<u>2018 Total</u>
	<u>2019</u>		<u>Total</u>	
	<u>Water</u>	<u>Sewer</u>		
Operating revenue				
Charges for services	\$ 84,416	\$ 118,881	\$ 203,297	\$ 228,673
Operating expense				
Repairs and maintenance	22,396	18,582	40,978	35,343
Depreciation	19,072	20,837	39,909	43,040
Legal and professional	19,707	15,345	35,052	49,010
Wastewater treatment		28,272	28,272	28,508
Utilities	14,916	12,637	27,553	21,390
Salaries and wages	11,400	11,400	22,800	21,600
Director fees	6,615	8,685	15,300	15,150
Insurance	4,130	4,130	8,260	7,577
Transportation and travel	2,320	1,798	4,118	3,960
Communications	1,431	929	2,360	1,836
Employee benefits	978	978	1,956	2,256
Miscellaneous	57	899	956	1,127
Office supplies and postage	158	376	534	700
Total operating expense	<u>103,180</u>	<u>124,868</u>	<u>228,048</u>	<u>231,497</u>
Net operating income/(loss)	<u>(18,764)</u>	<u>(5,987)</u>	<u>(24,751)</u>	<u>(2,824)</u>
Nonoperating revenue/(expense)				
Property taxes	5,084	4,817	9,901	9,508
Interest revenue	993	267	1,260	1,151
Intergovernmental	36	36	72	76
Interest expense	<u>(10)</u>	<u>(1,312)</u>	<u>(1,322)</u>	<u>(3,971)</u>
Net nonoperating revenue/(expense)	<u>6,103</u>	<u>3,808</u>	<u>9,911</u>	<u>6,764</u>
Change in net position	(12,661)	(2,179)	(14,840)	3,940
Net position, beginning of year	<u>254,792</u>	<u>142,677</u>	<u>397,469</u>	<u>393,529</u>
Net position, end of year	<u>\$ 242,131</u>	<u>\$ 140,498</u>	<u>\$ 382,629</u>	<u>\$ 397,469</u>

See accompanying notes to financial statements.

SULTANA COMMUNITY SERVICES DISTRICT
 PROPRIETARY FUNDS
 COMPARATIVE STATEMENT OF CASH FLOW
 FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

Page 1 of 2

	Business-Type Activities – Enterprise Funds			
	2019			2018
	Water	Sewer	Total	Total
Cash flow from operating activities				
Receipts from customers and users	\$ 83,832	\$ 118,217	\$ 202,049	\$ 228,852
Payments to suppliers	(65,894)	(92,189)	(158,083)	(182,564)
Payments to employees	(12,378)	(12,378)	(24,756)	(23,856)
Net cash provided by/(used for) operating activities	<u>5,560</u>	<u>13,650</u>	<u>19,210</u>	<u>22,432</u>
Cash flow from noncapital financing activities				
Property taxes and miscellaneous nonoperating revenue	<u>5,120</u>	<u>4,853</u>	<u>9,973</u>	<u>9,584</u>
Net cash provided by/(used for) noncapital financing activities	<u>5,120</u>	<u>4,853</u>	<u>9,973</u>	<u>9,584</u>
Cash flow from capital and related financing activities				
Acquisition of capital assets				(55,422)
Loan proceeds				31,155
Principal paid on debt	(1,405)	(4,000)	(5,405)	(13,721)
Interest paid on financing	(1)	(1,350)	(1,351)	(3,911)
Net cash provided by/(used for) capital and related financing activities	<u>(1,406)</u>	<u>(5,350)</u>	<u>(6,756)</u>	<u>(41,899)</u>
Cash flow from investing activities				
Interest on investments	<u>993</u>	<u>267</u>	<u>1,260</u>	<u>1,151</u>
Net increase/(decrease) in cash	10,267	13,420	23,687	(8,732)
Cash, beginning of year	<u>77,529</u>	<u>48,337</u>	<u>125,866</u>	<u>134,598</u>
Cash, end of year	<u>\$ 87,796</u>	<u>\$ 61,757</u>	<u>\$ 149,553</u>	<u>\$ 125,866</u>

See accompanying notes to financial statements.

SULTANA COMMUNITY SERVICES DISTRICT
 PROPRIETARY FUNDS
 COMPARATIVE STATEMENT OF CASH FLOW
 FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

Page 2 of 2

	Business-Type Activities – Enterprise Funds			
	2019			2018
	Water	Sewer	Total	Total
Reconciliation of operating income to net cash provided by/(used for) operating activities:				
Operating income/(loss)	\$ (18,764)	\$ (5,987)	\$ (24,751)	\$ (2,824)
Adjustments to reconcile operating income/(loss) to net cash provided by/(used for) operating activities				
Depreciation and amortization expense	19,072	20,837	39,909	43,040
(Increase)/decrease in accounts receivable	(584)	(664)	(1,248)	179
(Increase)/decrease in prepaid expense	4,130	4,130	8,260	(683)
Increase/(decrease) in accounts payable and accrued expense	<u>1,706</u>	<u>(4,666)</u>	<u>(2,960)</u>	<u>(17,280)</u>
Net cash provided by/ (used for) operating activities	<u>\$ 5,560</u>	<u>\$ 13,650</u>	<u>\$ 19,210</u>	<u>\$ 22,432</u>
Summary of cash, end of year				
Cash in bank	\$ 20,833	\$ 20,808	\$ 41,641	\$ 48,753
Cash in county treasury	<u>66,963</u>	<u>40,949</u>	<u>107,912</u>	<u>77,113</u>
Cash, end of year	<u>\$ 87,796</u>	<u>\$ 61,757</u>	<u>\$ 149,553</u>	<u>\$ 125,866</u>

See accompanying notes to financial statements.

SULTANA 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

Sultana 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 and water operations in the community of Sultana, 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.

SULTANA 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)

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 Funds account for the sewer and water systems operations in the community of Sultana, 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.

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:

SULTANA 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)

	<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.

SULTANA 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:

	Bank Balance Category*			Carrying Amount
	1	2	3	
Cash in bank	\$ 41,641	\$	\$	\$ 41,641
County of Tulare		107,912		107,912
	\$ 41,641	\$ 107,912	\$	\$ 149,553

* 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:

	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019
Land*	\$ 4,331	\$	\$	\$ 4,331
Water system	832,207			832,207
Sewer system	982,397			982,397
Construction in progress	91,968			91,968
Capacity rights	99,424			99,424
Total	2,010,327			2,010,327
Allowance for depreciation	(1,637,006)	(39,909)		(1,676,915)
	\$ 373,321	\$ (39,909)	\$	\$ 333,412

* Not currently being depreciated.

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

Note 4: Noncurrent Liabilities

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Classification</u>	
					<u>Due in One Year</u>	<u>Due After One Year</u>
Sewer bonds payable	\$ 29,000	\$	\$ 4,000	\$ 25,000	\$ 5,000	\$ 20,000
Construction loan payable	<u>62,626</u>	<u> </u>	<u>1,405</u>	<u>61,221</u>	<u>61,221</u>	<u> </u>
	<u>\$ 91,626</u>	<u>\$</u>	<u>\$ 5,405</u>	<u>\$ 86,221</u>	<u>\$ 66,221</u>	<u>\$ 20,000</u>

Note 5: Sewer Bonds Payable

Sewer 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 1983. The total amount of the bonds issued was \$99,100 and provides for interest at the rate of five percent per annum. Annual payments of principal and interest began May 1984, and continue until fully paid. Full repayment of the bonds is scheduled to occur in May 2024.

The District has covenanted that it will establish, maintain and collect charges sufficient, from sewer revenues received, to provide a balance on net revenue equal to or greater than the principal and interest payments due and payable within the next succeeding twelve months. The following is a summary of the bonds:

Issue amount of \$74,000, due in annual payments aggregating \$5,500 per year	\$ 25,000
Current portion	<u>(5,000)</u>
Noncurrent portion	<u>\$ 20,000</u>

Future payments of the bonds are as follows:

<u>Due during the year ending</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
June 30, 2020	\$ 1,125	\$ 5,000	\$ 6,125
June 30, 2021	875	5,000	5,875
June 30, 2022	625	5,000	5,625
June 30, 2023	375	5,000	5,375
June 30, 2024	<u>125</u>	<u>5,000</u>	<u>5,125</u>
	<u>\$ 3,125</u>	<u>\$ 25,000</u>	<u>\$ 28,125</u>

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

Note 6: Construction Loan Payable

Construction loan payable reflects an obligation acquired March 14, 2018 to temporarily finance improvements to the District's water system. The obligation bears interest at varying rates (4.11 percent as of June 30, 2019) and requires monthly interest only payments until its maturity in December 2020. The maximum amount that can be borrowed under the obligation is \$100,000. The loan is secured by grant proceeds under an agreement with the State Water Resources Control Board.

Note 7: Subsequent Events

Events affecting the District subsequent to June 30, 2019 through May 18, 2020 have been evaluated in included within these financial statements when applicable.

Note 8: Board of Directors

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

Michael Prado, Sr.	President
Shawn Reagan	Vice President
Michael Prado, Jr.	Director
Kari Quintana	Director
Fred Tuttle	Director

The Secretary to the Board of Directors is Celeste Perez.

SULTANA COMMUNITY SERVICES DISTRICT
WATER ENTERPRISE FUND
STATEMENT OF REVENUE AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEARS ENDED JUNE 30, 2019

	<u>Budget</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
Operating revenue				
Charges for services	\$ 128,839	\$ 128,839	\$ 84,416	\$ (44,423)
Operating expenditures				
Repairs and maintenance	30,000	30,000	22,396	7,604
Legal and professional	75,000	75,000	19,707	55,293
Utilities	13,000	13,000	14,916	(1,916)
Salaries and wages	12,000	12,000	11,400	600
Director fees	9,660	9,660	6,615	3,045
Insurance	5,000	5,000	4,130	870
Transportation and travel	1,800	1,800	2,320	(520)
Communications	2,200	2,200	1,431	769
Employee benefits	1,500	1,500	978	522
Office supplies and postage	500	500	158	342
Miscellaneous	500	500	57	443
Total operating expenditures	<u>151,160</u>	<u>151,160</u>	<u>84,108</u>	<u>67,052</u>
Net operating income/(loss)	<u>(22,321)</u>	<u>(22,321)</u>	<u>308</u>	<u>22,629</u>
Nonoperating revenue/(expenditures)				
Property taxes	4,425	4,425	5,084	659
Interest revenue	750	750	993	243
Intergovernmental	50	50	36	(14)
Debt service	<u>(9,000)</u>	<u>(9,000)</u>	<u>(1,415)</u>	<u>7,585</u>
Net nonoperating revenue/(expenditures)	<u>(3,775)</u>	<u>(3,775)</u>	<u>4,698</u>	<u>8,473</u>
Revenue over/(under) expenditures	<u>\$ (26,096)</u>	<u>\$ (26,096)</u>	<u>5,006</u>	<u>\$ 31,102</u>
Reconciliation to statement of activities				
Depreciation			(19,072)	
Principal paid on long-term debt			<u>1,405</u>	
Change in net position			<u>\$ (12,661)</u>	

See accompanying notes to financial statements.

SULTANA COMMUNITY SERVICES DISTRICT
SEWER ENTERPRISE FUND
STATEMENT OF REVENUE AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEARS ENDED JUNE 30, 2019

	Budget		Actual	Variance
	Original	Final		
Operating revenue				
Charges for services	\$ 104,318	\$ 104,318	\$ 118,881	\$ 14,563
Operating expenditures				
Wastewater treatment	28,272	28,272	28,272	
Repairs and maintenance	35,000	35,000	18,582	16,418
Legal and professional	19,728	19,728	15,345	4,383
Utilities	15,000	15,000	12,637	2,363
Salaries and wages	12,400	12,400	11,400	1,000
Director fees	11,520	11,520	8,685	2,835
Insurance	4,000	4,000	4,130	(130)
Transportation and travel	3,000	3,000	1,798	1,202
Employee benefits	1,500	1,500	978	522
Communications	2,500	2,500	929	1,571
Miscellaneous	3,600	3,600	899	2,701
Office supplies and postage	8,000	8,000	376	7,624
Total operating expenditures	144,520	144,520	104,031	40,489
Net operating income/(loss)	(40,202)	(40,202)	14,850	55,052
Nonoperating revenue/(expenditures)				
Property taxes	4,425	4,425	4,817	392
Interest revenue	750	750	267	(483)
Intergovernmental	50	50	36	(14)
Debt service	(6,000)	(6,000)	(5,312)	688
Net nonoperating revenue/(expenditures)	(775)	(775)	(192)	583
Revenue over/(under) expenditures	\$ (40,977)	\$ (40,977)	14,658	\$ 55,635
Reconciliation to statement of activities				
Capital outlay				
Depreciation			(20,837)	
Principal paid on long-term debt			4,000	
Change in net position			\$ (2,179)	

See accompanying notes to financial statements.

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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

May 18, 2020

Board of Directors
Sultana Community Services District
Sultana, 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 Sultana Community Services District as of and for the year ended June 30, 2019 and 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 May 18, 2020.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Sultana 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 Sultana 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*

CERTIFIED PUBLIC ACCOUNTANTS