

TRANQUILLITY PUBLIC UTILITY DISTRICT

REPORT ON AUDITED
FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Tranquillity Public Utility District
Tranquillity, California

We have audited the accompanying statement of net position of Tranquillity Public Utility District (the "District") as of and for the year ended June 30, 2017, and the related statement of revenues, expenses and changes in net position, and cash flows. The prior year comparative information has been derived from the financial statements of the District for the year ended June 30, 2016 and in our report dated March 24, 2017, we expressed an unqualified opinion on those financial statements.

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 State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Tranquillity Public Utility District

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position on the Tranquillity Public Utility District as of June 30, 2017, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

Other Matters

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Sampson, Sampson & Patterson, LLP

Clovis, California
January 8, 2018

TRANQUILLITY PUBLIC UTILITY DISTRICT

STATEMENT OF NET POSITION

(Prior Year Data for Comparison Purposes Only)

ASSETS

	June 30,	
	<u>2017</u>	<u>2016</u>
CURRENT ASSETS:		
Cash and investments	\$193,818	\$215,572
Accounts receivable	16,568	15,314
Prepays	<u>5,375</u>	<u>5,500</u>
TOTAL CURRENT ASSETS	215,761	236,386
NON-CURRENT ASSETS:		
Capital assets, not being depreciated	98,980	98,980
Other capital assets, net of accumulated depreciation	<u>306,368</u>	<u>341,771</u>
	405,348	440,751
Other assets:		
Deposits	<u>5,434</u>	<u>5,434</u>
TOTAL NON-CURRENT ASSETS	<u>410,782</u>	<u>446,185</u>
TOTAL ASSETS	<u>\$626,543</u>	<u>\$682,571</u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES:		
Accounts payable	\$ 9,525	\$ 3,903
Unearned revenue	4,351	3,015
Interest payable	375	500
Current portion of long-term debt	<u>6,700</u>	<u>6,600</u>
TOTAL CURRENT LIABILITIES	20,951	14,018
NON-CURRENT LIABILITIES:		
Long-term debt, net of current portion	<u>14,200</u>	<u>20,900</u>
TOTAL LIABILITIES	35,151	34,918
NET POSITION:		
Invested in capital assets, net of related debt	384,448	413,251
Unrestricted	<u>206,944</u>	<u>234,402</u>
	<u>591,392</u>	<u>647,653</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$626,543</u>	<u>\$682,571</u>

See independent auditor's report and notes to financial statements.

TRANQUILLITY PUBLIC UTILITY DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

(Prior Year Data for Comparison Purposes Only)

	<u>Years Ended June 30,</u>	
	<u>2017</u>	<u>2016</u>
OPERATING REVENUES:		
Sewer service fees	\$ 98,374	\$ 97,927
Water sales	<u>3,713</u>	<u>4,271</u>
	102,087	102,198
OPERATING EXPENSES:		
Contract labor	23,200	18,550
Water purchases	195	153
Computers and software	1,471	1,148
Fees	17,102	17,102
Insurance	885	655
Maintenance and repairs	42,057	7,269
Postage	1,225	1,153
Professional services	22,715	11,393
Sewer plan operations	24,605	23,495
Street sweeping	1,300	1,300
Utilities	17,564	17,400
Miscellaneous	1,419	1,676
Bad debt		650
Depreciation	<u>34,203</u>	<u>33,876</u>
TOTAL EXPENSES	187,941	135,820
NET OPERATING LOSS	(85,854)	(33,622)
NON-OPERATING REVENUES (EXPENSES):		
Interest income	3,029	2,627
Rental income	4,000	4,000
Property taxes	24,889	24,063
Interest expense	(1,125)	(1,450)
Loss on disposition of capital assets	<u>(1,200)</u>	<u></u>
	29,593	29,240
CHANGE IN NET POSITION	(56,261)	(4,382)
NET POSITION, beginning of year	<u>647,653</u>	<u>652,035</u>
NET POSITION, end of year	<u>\$591,392</u>	<u>\$647,653</u>

See independent auditor's report and notes to financial statements.

TRANQUILLITY PUBLIC UTILITY DISTRICT

STATEMENT OF CASH FLOWS

Increase (Decrease) in Cash

(Prior Year Data for Comparison Purposes Only)

	<u>Years Ended June 30,</u>	
	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from service fees, water sales, and related activities	\$ 102,169	\$105,640
Payments to vendors	(124,916)	(86,193)
Payments to contract labor	<u>(23,200)</u>	<u>(18,550)</u>
Net cash provided (used) by operating activities	<u>(45,947)</u>	<u>897</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income	3,029	2,627
Rental income	<u>4,000</u>	<u>4,000</u>
Net cash provided by investing activities	<u>7,029</u>	<u>6,627</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Property taxes	<u>24,889</u>	<u>24,063</u>
Net cash provided by non-capital financing activities	<u>24,889</u>	<u>24,063</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital expenditures		(5,621)
Interest payments on debt borrowings	(750)	(950)
Principal payments on debt borrowings	(1,600)	(1,500)
Prepayment on debt borrowings	<u>(5,375)</u>	<u>(5,500)</u>
Net cash used by financing activities	<u>(7,725)</u>	<u>(13,571)</u>
Net increase (decrease) in cash and cash equivalents	(21,754)	18,016
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>215,572</u>	<u>197,556</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 193,818</u>	<u>\$215,572</u>
RECONCILIATION OF NET OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net operating loss	\$ (85,854)	\$ (33,622)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	34,203	33,876
Changes in assets and liabilities:		
Accounts receivable	(1,254)	2,486
Accounts payable	5,622	(2,799)
Unearned revenue	<u>1,336</u>	<u>956</u>
Net cash provided (used) by operating activities	<u>\$ (45,947)</u>	<u>\$ 897</u>

See independent auditor's report and notes to financial statements.

TRANQUILLITY PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Tranquillity Public Utility District (the “District”) was formed in 1947 pursuant to Section 15501-18055 of the Public Utilities Code. The District is approximately 157 acres in size and provides wastewater and treatment and storm drainage services to the community of Tranquillity, California. The District is administered by an elected three member Board of Directors. The District owns its wastewater collection and treatment system which includes sewer mains, pumps, and the treatment plant. The District contracts with PG&E for street light maintenance.

Measurement Focus and Basis of Accounting

The accompanying financial statements have been presented on the accrual basis of accounting.

Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Use of Estimates

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

Income Taxes

As a governmental agency, the District is exempt from both federal income taxes and California state franchise taxes.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers short term and highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Accounts Receivable

The District does not anticipate any material write-off of bad debts and therefore, has not established an “allowance for bad debts” on the balance sheet at June 30, 2017.

TRANQUILLITY PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

(continued)

Capital Assets

Capital assets, which include property and equipment, are defined by the District as assets with estimated useful lives of more than one year. All such assets are recorded at cost or estimated historical costs. Donated assets are recorded at estimated fair market value at the date donated. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. The District does not have a policy for capitalizing assets above a certain amount.

Property and equipment is depreciated over the estimated useful lives using the straight-line method. Estimated useful lives are as follows:

Equipment	4-10 years
Sewer and plant	40 years
Improvements	25-40 years
Storm drainage	25-40 years

Net Position

Net position presents the difference between assets and liabilities in the statement of net position. Net position invested in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition or improvement of those assets when applicable.

Classification of Revenues

The District has classified its revenue as either operating or non-operating revenues. Certain significant revenue streams relied upon for operations are recorded as non-operating revenues, as defined by GASB Statement 34 including investment income. Revenues and expense are classified according to the following criteria:

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as service fees, sewer plant operations and administration costs.

Non-operating revenues: Non-operating revenues include activities that have the characteristics of non exchange transactions and other revenue sources described in GASB Statement 34 such as investment income, rental income, intergovernmental revenue and interest expense.

Comparative Data

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the prior year financial statements from which this data was derived.

TRANQUILLITY PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

(continued)

NOTE 2 – CASH AND INVESTMENTS

The carrying amount of cash and investments at June 30, 2017 is as follows:

Cash deposits with financial institutions	\$ 5,647
External Investment Pool – Fresno County	
Treasury Investment Pool	<u>188,171</u>
	<u>\$193,818</u>

Investments Authorized by the California Government Code

The District does not have an investment policy independent of what is allowed under the California Government Code.

The table below identifies the investment types that are authorized for the District by the California Government Code. The table also identifies certain provisions of the Code that addresses interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker’s Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Non-negotiable Certificates of Deposit	5 years	None	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base value	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	None
Mortgage Pass-through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
JPA Pools (other investment pools)	N/A	None	None

The Fresno County Treasury Investment Pool Statement of Investment Policy is more stringent than the California Government Code. As of June 30, 2017, the Investment Pool portfolio complied with its Statement of Investment Policy.

TRANQUILLITY PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

(continued)

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As of year end, the weighted average maturity of the investments contained in the Fresno County Treasury Investment Pool is 2.2 years. 33.4% matures within 12 months, 33.7% between 1 and 3 years, and 32.9% matures between 3 and 5 years.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Fresno County Treasury Investment Pool does not have a rating provided by a nationally recognized statistical rating organization. However, the assets of the portfolio held by the pool as of June 30, 2017, had an average dollar weighted quality rating of "AA+."

Concentration of Credit Risk

There are no investments in any one issuer that represents 5% or more of total District investments.

Custodial Credit Risk

Custodial credit *risk* for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provisions for deposits: The California Government Code requires that financial institution secure deposits made by the state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California laws also allow financial institutions to secure district deposits by pledging the first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2017, none of the District's deposits were in excess of FDIC limits.

Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as the Fresno County Treasury Investment Pool).

TRANQUILLITY PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

(continued)

Investments in Fresno County Treasury Investment Pool

The District is a voluntary participant in the Fresno County Treasury Investment Pool that is regulated by the California Government Code under the oversight of the Auditor-Controller/Treasurer-Tax Collector of Fresno County. The fair value of the District's investments in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by the Treasury Investment Pool for the entire Treasury Investment Pool portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the Treasury Investment Pool, which are recorded on an amortized cost basis.

NOTE 3 – CAPITAL ASSETS

Capital activity for the year ended June 30, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 98,980	\$ _____	\$ _____	\$ 98,980
	<u>98,980</u>	<u> </u>	<u> </u>	<u>98,980</u>
Capital assets, being depreciated:				
Structures and improvements	129,460			129,460
Storm drainage system	469,059			469,059
Sewer plant	618,002			618,002
Lincoln-Amador sewer	139,423			139,423
Operating equipment	46,654		(12,826)	33,828
Anthony Street sewer	<u>161,611</u>	<u> </u>	<u> </u>	<u>161,611</u>
Total capital assets being depreciated	<u>1,564,209</u>	<u> </u>	<u>(12,826)</u>	<u>1,551,383</u>
Less: Accumulated depreciation for:				
Structures and improvements	(129,460)			(129,460)
Storm drainage system	(380,185)	(9,200)		(389,385)
Sewer plant	(560,710)	(15,099)		(575,809)
Lincoln-Amador sewer	(119,546)	(3,485)		(123,031)
Operating equipment	(26,140)	(2,379)	11,626	(16,893)
Anthony Street sewer	<u>(6,397)</u>	<u>(4,040)</u>	<u> </u>	<u>(10,437)</u>
Total accumulated depreciation	<u>(1,222,438)</u>	<u>(34,203)</u>	<u>11,626</u>	<u>(1,245,015)</u>
Total capital assets, being depreciated, net	<u>341,771</u>	<u>(34,203)</u>	<u>(1,200)</u>	<u>306,368</u>
Business-type capital assets, net	<u>\$ 440,751</u>	<u>\$(34,203)</u>	<u>\$ (1,200)</u>	<u>\$ 405,348</u>

TRANQUILLITY PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

(continued)

NOTE 4 – LONG-TERM LIABILITIES

Changes in long-term liability activity for the year ended June 30, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Classification</u>	
					<u>Due in One Year</u>	<u>Due in More Than One Year</u>
1979 Sewer Revenue Bonds	\$20,000	\$	\$(5,000)	\$15,000	\$5,000	\$10,000
1981 Improvement Bonds	<u>7,500</u>	<u> </u>	<u>(1,600)</u>	<u>5,900</u>	<u>1,700</u>	<u>4,200</u>
	<u>\$27,500</u>	<u>\$</u>	<u>\$(6,600)</u>	<u>\$20,900</u>	<u>\$6,700</u>	<u>\$14,200</u>

1979 Sewer Revenue Bonds

On July 15, 1979, the District issued \$100,000 of Sewer Revenue Bonds to finance the construction of sewer facilities. The bonds bear interest at 5% which is payable on July 15 and January 15 of each year. Principal payments are payable on July 15 of each year. The final payment on the bonds is due July 15, 2019. Annual debt service requirements to maturity for the bonds are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 5,000	\$ 625	\$ 5,625
2019	5,000	375	5,375
2020	<u>5,000</u>	<u>125</u>	<u>5,125</u>
	<u>\$15,000</u>	<u>\$1,125</u>	<u>\$16,125</u>

TRANQUILLITY PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

(continued)

1981 Improvement Bonds

On January 21, 1982, the District issued \$33,200 of Special Assessment Bonds to finance the construction of sewer main extensions. The bonds bear interest at 5%, which is payable on July 2 and January 2 of each year. Principal payments are payable on July 2 of each year. The final payment on the bonds is due July 2, 2021. Installments of principal and interest on assessments levied for the payment of the bonds are collected on the County tax roll. Annual debt service requirements to maturity for the bonds are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$1,700	\$295	\$1,995
2019	1,800	210	2,010
2020	1,900	120	2,020
2021	<u>500</u>	<u>25</u>	<u>525</u>
	<u>\$5,900</u>	<u>\$650</u>	<u>\$6,550</u>