

EARLIMART PUBLIC UTILITY DISTRICT

FINANCIAL STATEMENTS

Year Ended June 30, 2021

EARLIMART PUBLIC UTILITY DISTRICT

JUNE 30, 2021

BOARD OF DIRECTORS/ADMINISTRATION

Ronnie Garcia Nadal	President
David Amaya	Director
Benny Camit, Jr.	Director
Rachel Garcia	Secretary/District Manager

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Independent Auditors' Report

Board of Directors
Earlimart Public Utility District

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of each major fund of Earlimart Public Utility District, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of Earlimart Public Utility District, as of June 30, 2021, 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 as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with auditing standards generally accepted in the United States of America, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Management has omitted the management's discussion and analysis section that accounting principles generally accepted in the United States of America require 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.



Tulare, California
February 14, 2022

EARLIMART PUBLIC UTILITY DISTRICT

**STATEMENT OF NET POSITION
JUNE 30, 2021**

EARLIMART PUBLIC UTILITY DISTRICT

STATEMENT OF NET POSITION JUNE 30, 2021

ASSETS

CURRENT ASSETS:

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Cash and cash equivalents	\$ 4,003,305	\$ 575,880	\$ 4,579,185
Accounts receivable, net	183	1,757	1,940
Prepaid expenses	<u>6,704</u>	<u>5,205</u>	<u>11,909</u>
Total current assets	<u>4,010,192</u>	<u>582,842</u>	<u>4,593,034</u>

RESTRICTED ASSETS:

Cash and cash equivalents	<u>542,200</u>	<u>191,040</u>	<u>733,240</u>
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CAPITAL ASSETS:

Capital assets not being depreciated	125,755	163,041	288,796
Other capital assets, net of depreciation	<u>1,513,388</u>	<u>2,137,624</u>	<u>3,651,012</u>
Total capital assets	<u>1,639,143</u>	<u>2,300,665</u>	<u>3,939,808</u>

Total assets	<u>\$ 6,191,535</u>	<u>\$ 3,074,547</u>	<u>\$ 9,266,082</u>
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LIABILITIES AND NET POSITION

<u>CURRENT LIABILITIES:</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Current portion of long-term debt	\$ -	\$ 40,235	\$ 40,235
Accounts payable	42,503	20,241	62,744
Payroll taxes payable	2,531	2,531	5,062
Customer deposits	13,495	995	14,490
Accrued interest payable	-	7,218	7,218
	<hr/>	<hr/>	<hr/>
Total current liabilities	58,529	71,220	129,749
	<hr/>	<hr/>	<hr/>
<u>LONG-TERM DEBT,</u>			
<u>net of current portion</u>	-	641,915	641,915
	<hr/>	<hr/>	<hr/>
<u>NET POSITION:</u>			
Invested in capital assets, net of related debt	1,639,143	1,618,515	3,257,658
Unrestricted	3,951,663	551,857	4,503,520
Restricted for critical infrastructure and resiliency	94,332	-	94,332
Restricted for water system expansion	447,868	-	447,868
Restricted for sewer system expansion	-	134,919	134,919
Restricted for debt service	-	56,121	56,121
	<hr/>	<hr/>	<hr/>
Total net position	6,133,006	2,361,412	8,494,418
	<hr/>	<hr/>	<hr/>
Total liabilities and net position	\$ 6,191,535	\$ 3,074,547	\$ 9,266,082
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See notes to financial statements.

EARLIMART PUBLIC UTILITY DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION YEAR ENDED JUNE 30, 2021

<u>OPERATING REVENUES:</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Charges for services	\$ 485,234	\$ 337,828	\$ 823,062
<u>OPERATING EXPENSES:</u>			
Salaries and employee benefits	129,985	73,337	203,322
Directors' fees	6,600	6,600	13,200
Utilities and communications	166,242	26,509	192,751
Legal, professional and engineering	69,982	28,154	98,136
Insurance	30,461	27,601	58,062
Repairs and maintenance	73,761	77,086	150,847
Supplies	42,226	20,705	62,931
Office	15,205	12,813	28,018
Rent	12,519	12,519	25,038
Miscellaneous	38,574	30,714	69,288
Depreciation	122,898	95,296	218,194
Total operating expenses	708,453	411,334	1,119,787
Operating loss	(223,219)	(73,506)	(296,725)
<u>NONOPERATING REVENUES (EXPENSES):</u>			
Other income	85	30,267	30,352
Rent income	2,206	2,206	4,412
Land lease income	-	3,200	3,200
Interest income	-	7,632	7,632
Property taxes	-	13,003	13,003
Grant revenue	98,000	-	98,000
Disposal of assets	-	(7,526)	(7,526)
Interest expense	-	(17,080)	(17,080)
Total nonoperating revenues (expenses)	100,291	31,702	131,993
Decrease in net position	(122,928)	(41,804)	(164,732)
Net position, July 1, 2020	6,255,934	2,403,216	8,659,150
Net position, June 30, 2021	\$ 6,133,006	\$ 2,361,412	\$ 8,494,418

See notes to financial statements.

EARLIMART PUBLIC UTILITY DISTRICT

STATEMENT OF CASH FLOWS YEAR ENDED JUNE 30, 2021

CASH FLOWS FROM

OPERATING ACTIVITIES:

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Cash received from customers	\$ 485,509	\$ 338,481	\$ 823,990
Cash payments to suppliers for goods and services	(466,815)	(242,626)	(709,441)
Cash payments to employees for services	<u>(130,125)</u>	<u>(73,477)</u>	<u>(203,602)</u>
Net cash provided (used) by operating activities	<u>(111,431)</u>	<u>22,378</u>	<u>(89,053)</u>

CASH FLOWS FROM NONCAPITAL

FINANCING ACTIVITIES:

Property taxes received	-	13,003	13,003
Other income received	<u>2,291</u>	<u>35,673</u>	<u>37,964</u>
Net cash provided by noncapital financing activities	<u>2,291</u>	<u>48,676</u>	<u>50,967</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Acquisition of capital assets	(154,065)	(4,058)	(158,123)
Proceeds from grant income	98,000	-	98,000
Payments on note payable	-	(39,301)	(39,301)
Cash paid for interest	<u>-</u>	<u>(16,819)</u>	<u>(16,819)</u>
Net cash used by capital and related financing activities	<u>(56,065)</u>	<u>(60,178)</u>	<u>(116,243)</u>

CASH FLOWS FROM

INVESTING ACTIVITIES:

Interest income	<u>-</u>	<u>7,632</u>	<u>7,632</u>
Net increase (decrease) in cash and cash equivalents	(165,205)	18,508	(146,697)
Cash and cash equivalents, July 1, 2020	<u>4,710,710</u>	<u>748,412</u>	<u>5,459,122</u>
Cash and cash equivalents, June 30, 2021	<u>\$ 4,545,505</u>	<u>\$ 766,920</u>	<u>\$ 5,312,425</u>

(continued)

EARLIMART PUBLIC UTILITY DISTRICT

STATEMENT OF CASH FLOWS YEAR ENDED JUNE 30, 2021

RECONCILIATION OF OPERATING LOSS

TO NET CASH PROVIDED (USED)

BY OPERATING ACTIVITIES:

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating loss	\$ (223,219)	\$ (73,506)	\$ (296,725)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:			
Depreciation	122,898	95,296	218,194
(Increase) decrease in:			
Accounts receivable	275	653	928
Prepaid expenses	(317)	(315)	(632)
Increase (decrease) in:			
Accounts payable	(10,353)	481	(9,872)
Payroll taxes payable	(140)	(140)	(280)
Customer deposits	<u>(575)</u>	<u>(91)</u>	<u>(666)</u>
Net cash provided (used) by operating activities	<u>\$ (111,431)</u>	<u>\$ 22,378</u>	<u>\$ (89,053)</u>

See notes to financial statements.

EARLIMART PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021

NOTE 1 – Summary of Significant Accounting Policies

Organization

Earlimart Public Utility District (the District) was organized in 1955 under the statutory authority of the Public Utility Section 1-5501-18004. The District began operations in September 1959 and serves residential and business customers with water and sewer facility services.

Reporting Entity

The District's basic financial statements include the accounts of all its operations. The District evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the District's reporting entity include whether:

- the organization is legally separate (can sue and be sued in its name)
- the District holds the corporate powers of the organization
- the District appoints a voting majority of the organization's board
- the District is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the District
- there is fiscal dependency by the organization on the District
- exclusion of the organization would render the financial statements incomplete or misleading

Based on these criteria, the District has no component units. Additionally, the District is not a component unit of any other reporting entity.

Fund Accounting

The accounts of the District are organized on the basis of fund accounting. Under fund accounting, different types of District operations are accounted for in different funds, each with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues and expenses as appropriate and are displayed in separate columns. Resources are allocated to and accounted for in individual funds, based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District had no non-major funds for the year ended June 30, 2021.

The operations of the District are accounted for in two enterprise funds. An enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where costs (expenses, including depreciation) of providing services to the general public on a continuing basis are financed through user charges.

The following major enterprise funds are utilized by the District:

The *Water Fund* is used to account for water use, fees and expenses associated with providing water services to District residents.

The *Sewer Fund* is used to account for sewer use, fees and expenses associated with providing sewer services to District residents.

EARLIMART PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021

NOTE 1 – Summary of Significant Accounting Policies (continued)

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts of the District and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The accrual basis of accounting is required for enterprise funds and is utilized by the District. Under this method, revenues are recorded when earned and expenditures or expenses are recorded when incurred.

Operating and Nonoperating Revenues

Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as property taxes and investment earnings, result from nonexchange transactions or ancillary activities.

Budgetary Procedures

The District operates under a budget prepared and approved annually by the Board of Directors. The budget is prepared on a detailed line item basis. Revenues are budgeted by source and expenses are budgeted by department (water and sewer) and use (salaries and employee benefits, services and supplies, other charges, fixed asset acquisitions and contingencies). Once approved, the Board of Directors may amend the adopted budget when unexpected modifications are required in estimated revenue and expenses.

Cash and Cash Equivalents

For the purposes of these financial statements, the District considers cash in checking, cash in savings, and all other highly liquid investments with original maturities of three months or less at date of purchase to be cash and cash equivalents.

Allowance for Doubtful Accounts

The District calculates its allowance for uncollectible accounts based on management's analysis of aged receivables. The allowance at June 30, 2021, was \$13,800.

Capital Assets

Capital assets are recorded at cost and are depreciated using the straight-line method over the following estimated useful lives:

Water facilities	7 - 40 years
Water equipment	4 - 50 years
Sewer facilities	7 - 50 years
Sewer equipment	4 - 50 years

EARLIMART PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021

NOTE 1 – Summary of Significant Accounting Policies (continued)

Equity Classifications

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. The District reports three categories of net position as follows:

Invested in capital assets, net of related debt – consists of net capital assets reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets.

Restricted net position – net position is considered restricted if their use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws. Restricted net position is reduced by liabilities related to the restricted assets.

Unrestricted net position – consists of all other net position that does not meet the definition of the above two components and is available for general use by the District.

Nature and Purpose of Restricted Net Position

Restricted net position is an amount which is legally segregated for specific usage or commitments to outside third parties. Resources of restricted net position are used to fund these commitments before unrestricted resources. When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the policy of the District to use restricted resources first, then unrestricted resources.

Property Taxes

Secured property taxes attach as an enforceable lien on property as of January 1. These taxes are levied from July 1 through June 30. Taxes are payable in two installments on November 1 and February 1 and are collected December 10 and April 10. Unsecured property taxes are payable in one installment on or before August 31. The County of Tulare bills and collects the taxes for the District. Property tax revenues are recognized by the District when received, except at year end, an accrual is made when property taxes are received soon enough thereafter to pay liabilities of the current period.

Income Taxes

The District is a governmental agency and is not subject to income taxes.

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 certain 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 expenditures or expenses during the reporting period. Accordingly, actual results could differ from those estimates.

EARLIMART PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021

NOTE 2 – Cash and Cash Equivalents

Statutes authorize districts to invest cash in obligations of the U.S. Treasury and U.S. agencies, certificates of deposit, banker's acceptances, repurchase agreements, insured money market accounts, commercial paper, county investment pools and the State Treasurer's Local Agency Investment Fund.

The Board has placed limits on District investments. District investments are limited to bank or savings and loan association accounts fully insured by the Federal Deposit Insurance Corporation, or collateralized with securities held by the pledging financial institution at 110 percent of the deposits in accordance with the State of California Government Code, State Treasurer's Local Agency Investment Fund, and the Tulare County Investment Pool. No investment with a term in excess of five years may be made without express authority from the Board.

Cash and cash equivalents at June 30, 2021, were as follows:

	Water	Sewer	Total
Cash on hand	\$ 428	\$ 428	\$ 856
Cash in Bank of America	4,545,077	228,692	4,773,769
Cash in Tulare County Investment Pool	-	537,800	537,800
Total cash and cash equivalents	<u>\$ 4,545,505</u>	<u>\$ 766,920</u>	<u>\$ 5,312,425</u>

Restricted and unrestricted cash and cash equivalents at June 30, 2021, were as follows:

Unrestricted	\$ 4,003,305	\$ 575,880	\$ 4,579,185
Restricted	<u>542,200</u>	<u>191,040</u>	<u>733,240</u>
Total cash and cash equivalents	<u>\$ 4,545,505</u>	<u>\$ 766,920</u>	<u>\$ 5,312,425</u>

The California Government code requires California banks and savings and loan associations to collateralize a district's deposits by pledging government securities. The market value of the pledged securities must equal at least 110 percent of a district's deposits. California law also allows financial institutions to collateralize a district's deposits by pledging first trust deed mortgage notes having a value of 150 percent of a district's total deposits. The district may waive collateral requirements for deposits which are fully insured up to \$250,000 by Federal Deposit Insurance.

At June 30, 2021, the carrying amount of the District's cash in Bank of America was \$4,773,769 and the bank's balance was \$4,776,439. The difference between the bank balance and the carrying amount represents outstanding checks and deposits in transit. The District places its cash and cash equivalents with a high quality financial institution, but at times has exceeded federally insured amounts. Cash deposits in excess of federally insured limits at June 30, 2021, are \$4,526,439.

The District's cash and cash equivalents in the Tulare County Investment Pool was not subject to credit risk categorization and is carried at cost which approximated fair value. All pooled funds are regulated by the California Government Code.

EARLIMART PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021

NOTE 3 – Capital Assets

The following is a summary of changes in capital assets:

	Balance July 1, 2020	Additions	Deletions	Balance June 30, 2021
<u>Water Plant:</u>				
<u>Capital assets not being depreciated:</u>				
Land	\$ 36,216	\$ -	\$ -	\$ 36,216
Construction in progress	20,745	68,794	-	89,539
 Total capital assets not being depreciated	 56,961	 68,794	 -	 125,755
 <u>Other capital assets:</u>				
Plant and improvements	3,491,347	85,271	-	3,576,618
Equipment	101,072	-	(181)	100,891
 Total other capital assets at historical cost	 3,592,419	 85,271	 (181)	 3,677,509
Accumulated depreciation	(2,041,404)	(122,898)	181	(2,164,121)
 Other capital assets, net	 1,551,015	 (37,627)	 -	 1,513,388
 Water plant capital assets, net	 \$ 1,607,976	 \$ 31,167	 \$ -	 \$ 1,639,143
 <u>Sewer Plant:</u>				
<u>Capital assets not being depreciated:</u>				
Land	\$ 70,909	\$ -	\$ -	\$ 70,909
Construction in progress	92,132	-	-	92,132
 Total capital assets not being depreciated	 163,041	 -	 -	 163,041
 <u>Other capital assets:</u>				
Plant and improvements	3,891,331	4,058	(8,782)	3,886,607
Equipment	226,535	-	(6,732)	219,803
 Total other capital assets at historical cost	 4,117,866	 4,058	 (15,514)	 4,106,410
Accumulated depreciation	(1,881,478)	(95,296)	7,988	(1,968,786)
 Other capital assets, net	 2,236,388	 (91,238)	 (7,526)	 2,137,624
 Sewer plant capital assets, net	 \$ 2,399,429	 \$ (91,238)	 \$ (7,526)	 \$ 2,300,665

EARLIMART PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021

NOTE 4 – Long-Term Debt

Sewer Lift Station

Due to the California State Water Resources Control Board/Clean Water State Revolving Fund (the Board). Payable in annual installments of \$23,216 each December 17 including interest at 2.6 percent per annum. The first payment was due December 2012 and the final payment is due December 2031. The funding was to finance Phase 1 of the Sutter Street Sanitary Sewer Lift Station Modification Project. The project consisted of replacing the existing duplex lift station with a modified duplex lift station. The debt is secured by future revenues pledged by the District. If the District defaults, the State has the option to declare the unpaid balance due and payable immediately including accrued interest and all penalty assessments due.

Force Main Extension

Due to the California State Water Resources Control Board/Clean Water State Revolving Fund (the Board). Payable in annual installments of \$32,905 each February 26, including interest at 2.2 percent per annum. The first payment was due February 2019 and the final payment is due February 2038. The funding financed Phase II of the Force Main Extension Project. The debt is secured by future revenues pledged by the District. If the District defaults, the State has the option to declare the unpaid balance due and payable immediately including accrued interest and all penalty assessments due.

Changes in long-term debt are as follows:

	Balance July 1, 2020	Additions	Principal Payments	Balance June 30, 2021
Notes from direct borrowings:				
Sewer Lift Station	\$ 236,708	\$ -	\$ 17,061	\$ 219,647
Force Main Extension	484,743	-	22,240	462,503
Totals	<u>\$ 721,451</u>	<u>\$ -</u>	<u>\$ 39,301</u>	<u>\$ 682,150</u>

Future principal and interest repayment requirements are as follows:

	Sewer Lift Station		Force Main Extension	
	Principal	Interest	Principal	Interest
2022	\$ 17,505	\$ 5,711	\$ 22,730	\$ 10,175
2023	17,960	5,256	23,230	9,675
2024	18,427	4,789	23,741	9,164
2025	18,906	4,310	24,263	8,642
2026	19,398	3,818	24,797	8,108
Thereafter	127,451	11,845	343,742	51,114
Totals	<u>\$ 219,647</u>	<u>\$ 35,729</u>	<u>\$ 462,503</u>	<u>\$ 96,878</u>

EARLIMART PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021

NOTE 5 – Net Position

Restricted for System Expansion

Capacity rights fees are established, collected, and used for development of water and sewer capacity and for expenses related to the inspection and administration of physical connections to the District's water and sewer systems. The accumulation of capacity rights fees, although not actually segregated from other District assets, are legally segregated for accounting purposes, and restricted for their intended use. These accumulated fees are presented as both a restricted asset and as restricted for system expansion in the statement of net position.

	Water	Sewer	Total
Balance, July 1, 2020	\$ 445,374	\$ 134,168	\$ 579,542
Interest earned	2,494	751	3,245
Balance, June 30, 2021	<u>\$ 447,868</u>	<u>\$ 134,919</u>	<u>\$ 582,787</u>

Restricted for Debt Service

The California Safe Drinking Water State Revolving Fund loans require that reserve funds be established to provide assurance that the principal and interest payments can be made when due. The required restricted reserve is one year's worth of principal and interest payments for each loan, totaling to \$56,121. The accumulation of these cash reserves, although not actually segregated from other District assets, are legally segregated for accounting purposes, and restricted for their intended use. This accumulated cash reserve is presented as both a restricted asset and as restricted for debt service in the statement of net position.

Restricted for Critical Infrastructure and Resiliency

The District received a \$98,000 state grant from the California Governor's Office of Emergency Services. This grant is restricted to be spent on certain types of backup power equipment or contingency power plans. The District plans on using these funds for a generator on the Front Street Well. Total expenses paid for this project at June 30, 2021, is \$3,668, leaving a restricted net position of \$94,332.

Board Designations

Board designated funds are determined by the District's Board of Directors and are constrained by the District's intent to be used for specific purposes. Board designations are a part of unrestricted net position and not restricted net position as they are not externally imposed by creditors, grantors, or contributors, or by laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. At the direction of the Board of Directors, designations can be removed or modified at any time.

EARLIMART PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021

NOTE 5 – Net Position (continued)

Board Designations (continued)

In April 2019, the District finalized a settlement agreement with two chemical companies for damages and other relief related to the contamination of drinking water sourced at the Clay Street and Front Street well sites. The agreement and payment for damages to the District in the amount of \$3,801,230, released the chemical companies from any future claims of contamination at these two well sites.

The settlement agreement precludes the District from filing additional claims for future similar contamination at other District well sites unless the District has installed and maintained a granular activated carbon filtration system or other then-approved State treatment on one of the two previously contaminated well sites. Or a regulatory authority has permitted the District to cease treatment at the previously contaminated wells.

As an alternative, the District can however, choose to use the settlement funds in any way they choose for the betterment of the District.

The District is in the process of developing a plan for improvements to the Front Street well that would include installation of a granular activated carbon filtration system or other State approved process for treatment of the contamination. The installation of these improvements is dependent on the District acquiring outside funding for the capital costs of the improvements and has elected to proceed with a Construction Grant Application financed with funds advanced from the settlement proceeds. If funded, the District would be reimbursed these advanced costs.

The Board has designated the settlement proceeds for future operating costs of the Front Street well filtration system, plus the development and installation of a new well located at another site. This new site has been identified, an escrow opened, and deposit paid to secure a purchase option so that a test well can be drilled. If the test well is successful, the purchase price has been negotiated and title would transfer to the District with payment of the agreed upon price.

The current age and capacity of the Clay Street well does not warrant additional capital investment and will be abandoned.

NOTE 6 – Lease Income

The District leases approximately 160 acres of land to a local resident for the purpose of growing row crops. The lease term was from August 31, 2013 through August 31, 2016, on February 15, 2016, there was an amendment to the lease agreement. The amendment extends the lease term for seven years from August 31, 2016 through August 31, 2023. The annual rent income is \$3,200 and is due September 1 of each year, beginning on September 1, 2016. Lease income for the year ended June 30, 2021, was \$3,200.

EARLIMART PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021

NOTE 7 – Operating Lease

Commencing May 1, 2009, the District entered into a five-year noncancelable lease agreement for office space with annual increases of three percent and with the option of five-year extensions. The District exercised their first extension option at May 1, 2014, and has exercised their second extension on May 1, 2019, extending the lease through April 30, 2024. The monthly lease amount at June 30, 2021, is \$2,139 per month.

The following is a summary of future minimum rental payments required under this noncancelable lease at June 30, 2021:

2022	\$	25,794
2023		26,567
2024		<u>22,690</u>
Total	\$	<u>75,051</u>

Lease expense was \$25,038 for the year ended June 30, 2021.

NOTE 8 – Concentration of Credit Risk

The Earlimart Public Utility District serves the residents of Earlimart, California and extends credit to substantially all of its customers.

NOTE 9 – Commitments and Contingencies

On March 11, 2020, the World Health Organization declared an outbreak of a coronavirus (COVID-19) a pandemic. As a result, economic uncertainties have arisen, though such potential impacts are unknown at this time.

NOTE 10 – Subsequent Events

Management has evaluated subsequent events through February 14, 2022, the date the financial statements were available to be issued and has determined that no adjustments are necessary to the amounts reported in the accompanying financial statements, however subsequent events have occurred, the nature of which are disclosed below.

Mary Ann Well Project

On October 5, 2021, the District entered into an agreement with the State Water Resources Control Board for a replacement well on Mary Ann Street. The grant project funding amount is \$584,506 and must be completed by March 31, 2024.

EARLIMART PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021

NOTE 10 – Subsequent Events (continued)

Sewer Interceptor Project

On October 22, 2021, the District entered into an agreement with the State Water Resources Control Board for a sewer interceptor relief pipeline project. The grant project funding amount is \$470,600 and must be completed by December 31, 2024.

County of Tulare Infrastructure Funding

On October 18, 2021, the District was awarded infrastructure funding from the County of Tulare American Rescue Act for the Interceptor and Relief Sewer Project, the Front Street Well Project, and Clay West Sound Wall Project. The projects were allocated \$1.6 million, \$2.2 million, and \$75,000, respectively.