

**PATTERSON TRACT
COMMUNITY SERVICE DISTRICT**

FINANCIAL STATEMENTS

Year Ended June 30, 2021

PATTERSON TRACT COMMUNITY SERVICE DISTRICT

JUNE 30, 2021

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Susan Crary	Vice-President
Darlene Lasley	Director
Allen Lee	Director
Sylvia Santiago	Director
Linda F. Lee	Secretary/Bookkeeper

TABLE OF CONTENTS

	<u>Page No.</u>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Statement of Net Position	4
Statement of Revenues, Expenses and Changes in Fund Net Position	5
Statement of Cash Flows	6
Notes to Financial Statements.....	8



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Independent Auditors' Report

Board of Directors
Patterson Tract Community Service District

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Patterson Tract Community Service 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 Patterson Tract Community Service 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 Opinion

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 opinion.

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 opinion. 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.

M. Keen and Company LLP

Tulare, California
April 4, 2022

PATTERSON TRACT COMMUNITY SERVICE DISTRICT

STATEMENT OF NET POSITION
JUNE 30, 2021

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 118,230	
Accounts receivable, net	9,072	
Prepaid expenses	<u>1,104</u>	
Total current assets		\$ 128,406

CAPITAL ASSETS:

Capital assets not being depreciated	233,194	
Other capital assets, net of depreciation	<u>60,527</u>	
Total capital assets		<u>293,721</u>
Total assets		<u>\$ 422,127</u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES:

Accounts payable	\$ 11,205	
Customer deposits	<u>1,058</u>	
Total liabilities		\$ 12,263

NET POSITION:

Net investment in capital assets	293,721	
Unrestricted	<u>116,143</u>	
Total net position		<u>409,864</u>
Total liabilities and net position		<u>\$ 422,127</u>

See notes to financial statements.

PATTERSON TRACT COMMUNITY SERVICE DISTRICT

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

OPERATING REVENUES:

Water sales	\$ 60,256
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OPERATING EXPENSES:

Salaries and employee benefits	\$ 10,729
Outside services	5,160
Directors' fees	1,287
Utilities	9,378
Communications	1,352
Legal and professional	9,955
Insurance	2,123
Repairs and maintenance	2,398
Office	3,083
Testing	3,418
Water permit	250
Miscellaneous	221
Bad debt	363
Depreciation	<u>10,223</u>
Total operating expenses	<u>59,940</u>
Operating income	316

NONOPERATING REVENUES:

Interest income	<u>1,522</u>
Increase in net position	1,838
Net position, July 1, 2020	<u>408,026</u>
Net position, June 30, 2021	<u>\$ 409,864</u>

See notes to financial statements.

PATTERSON TRACT COMMUNITY SERVICE DISTRICT

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2021

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$ 58,254	
Cash payments to suppliers for goods and services	(85,669)	
Cash payments to employees for services	<u>(9,775)</u>	
Net cash used by operating activities		\$ (37,190)

CASH FLOWS FROM NONCAPITAL
FINANCING ACTIVITIES:

Customer deposits		(2,051)
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CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES:

Proceeds from grant	45,420	
Equipment purchases	<u>(4,582)</u>	
Net cash provided by capital and related financing activities		40,838

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest income		<u>1,522</u>
Net increase in cash and cash equivalents		3,119
Cash and cash equivalents, July 1, 2020		<u>115,111</u>
Cash and cash equivalents, June 30, 2021		<u>\$ 118,230</u>

(continued)

PATTERSON TRACT COMMUNITY SERVICE DISTRICT

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2021

RECONCILIATION OF OPERATING INCOME TO
NET CASH USED BY OPERATING ACTIVITIES:

Operating income	\$	316	
Adjustments to reconcile operating income to net cash used by operating activities:			
Depreciation		10,223	
Increase in allowance for doubtful accounts		288	
Increase in:			
Accounts receivable		(2,290)	
Deposits and prepaid expenses		(1,104)	
Decrease in accounts payable and accrued fees		<u>(44,623)</u>	
Net cash used by operating activities			<u>\$ (37,190)</u>

See notes to financial statements.

PATTERSON TRACT COMMUNITY SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021

NOTE 1 – Summary of Significant Accounting Policies

Organization

The Patterson Tract Community Service District (the District) was formed as a public water utility district under the laws of the State of California on January 23, 1962, and serves approximately 150 customers with metered water service.

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 operations of the District are accounted for in an enterprise fund. 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.

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.

PATTERSON TRACT COMMUNITY SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021

NOTE 1 – Summary of Significant Accounting Policies (continued)

Budgetary Procedures

The District operates under a budget prepared and approved annually by the Board of Directors. Revenues are estimated and budgeted in total, and expenditures or expenses are estimated and budgeted in total. Once approved, the Board of Directors may amend the adopted budget when unexpected modifications are required in estimated revenues and expenditures or expenses.

Cash and Cash Equivalents

For the purposes of these financial statements, the District considers cash 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 allowance for doubtful accounts is calculated using a comparative analysis based upon the actual collection history of the District. For the year ended June 30, 2021, the provision was \$1,163.

Capital Assets

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

Water plant, system and improvements	20 years
Office equipment and other	5 – 10 years

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:

Net investment in capital assets – 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 and increased by balances of deferred outflows of resources related to 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 and deferred inflows of resources related to the restricted assets. The District did not have any restricted net position as of June 30, 2021.

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.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, management applies restricted net position first, unless a determination is made to use unrestricted net position. The District's policy concerning which to apply first varies with the intended use and legal requirements. Management typically makes this decision on a transactional basis at the incurrence of the expenditure.

PATTERSON TRACT COMMUNITY SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021

NOTE 1 – Summary of Significant Accounting Policies (continued)

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.

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.

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

Cash on hand	\$ 1,597
Cash in Tulare County investment pool	<u>116,633</u>
Total cash and cash equivalents	<u>\$ 118,230</u>

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 approximates fair value. All pooled funds are regulated by the California Government Code.

PATTERSON TRACT COMMUNITY SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021

NOTE 3 – Concentration of Credit Risk

The Patterson Tract Community Service District provides water service to those residents located within its boundaries in an area located to the north of the city of Visalia, California and extends credit to substantially all of its customers.

NOTE 4 – Capital Assets

The following is a summary of changes in capital assets:

	Balance July 1, 2020	Additions	Deletions	Balance June 30, 2021
<u>Capital assets not being depreciated:</u>				
Land	\$ 6,121	\$ -	\$ -	\$ 6,121
Construction in progress	219,972	-	-	219,972
Other	7,101	-	-	7,101
Total capital assets not being depreciated	233,194	-	-	233,194
<u>Other capital assets:</u>				
Water wells	44,355	-	-	44,355
Water lot facilities	41,042	-	-	41,042
Water distribution system	114,143	3,380	-	117,523
Office equipment	1,724	1,202	(742)	2,184
Total other capital assets at historical cost	201,264	4,582	(742)	205,104
Accumulated depreciation	(135,096)	(10,223)	742	(144,577)
Other capital assets, net	66,168	(5,641)	-	60,527
Capital assets, net	\$ 299,362	\$ (5,641)	\$ -	\$ 293,721

The District is working on a capital improvement plan to upgrade its approximately fifty year old water distribution and delivery system. Possible improvements include water meter and service line upgrades, supply and reservoir upgrades, water system infrastructure upgrades and well replacement and upgrades. The District has contracted with an engineering firm to analyze water supply requirements and demands and to propose solutions to the needed improvement plan along with identifying possible funding sources whether by loan or grant. Costs incurred on the plan to date are \$219,972 and are reflected as costs associated with future capital improvements and identified as construction in progress.

PATTERSON TRACT COMMUNITY SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021

NOTE 5 – Construction Planning Grant

The District applied for and was granted funding through an agreement with the State Water Resources Control Board using funds from Proposition 1. This is a planning grant for a construction project known as the "Meter Replacement – System Upgrade Project". The objective of the planning is to evaluate options to address the water system needs including unreliable meters and service connections, an aging distribution system made of asbestos cement pipe, insufficient storage capacity, and open bottom wells with the potential to collapse. This grant does not provide funding for the eventual construction or implementation of any system replacement or upgrade. The maximum funds available through this agreement are \$285,000. All the work associated with the planning grant has been completed. As of June 30, 2021, the District has been reimbursed for all of the grant funds spent totaling \$218,516.

NOTE 6 – 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 7 – Subsequent Events

Management has evaluated subsequent events through April 4, 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 nor have any subsequent events occurred, the nature of which would require disclosure, except as noted below.

The District replaced the pumps on both the East and West wells and had rehabilitation work performed on both wells after the end of the year. The District received a grant from Self Help Enterprises, Inc. for these costs that were paid directly to Ingram Equipment Company. The total cost of the new pumps and rehabilitation was \$78,078. The District also had to replace a fire hydrant that was hit for a total cost of \$7,601. The District also received \$37,225 in insurance proceeds for the hydrant repair, and the two pump replacements. In February 2022, the District received \$3,232 in arrearage grant funds for COVID relief for nonpayment of accounts during the California issued ban on disconnects.

The District and Sunrise Mutual Water Company are applying conjunctively for financial assistance from the California State Water Resources Control Board Drinking Water State Revolving Fund to improve their water system infrastructure. As a stipulation of the grant award, the District would be required to consolidate with Cal Water. On March 14, 2022, the board voted and agreed to consolidate with Cal Water with the understanding that the District will dissolve upon completion of the water system replacement, which will then be operated by Cal Water. The District intends to continue operations until the water system is replaced. The construction and subsequent dissolution of the District is expected to take several years to complete.