

**TIPTON COMMUNITY
SERVICES DISTRICT**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2021

TIPTON COMMUNITY SERVICES DISTRICT

JUNE 30, 2021

BOARD OF DIRECTORS

Doug Cardoza	President
Jerry Stover	Vice-President
Janice McKay	Treasurer
Anthony Mendonsa	Director
Gary Perryman	Director

ADMINISTRATION

Carol Vaught	Clerk/Secretary
Johnny Price	Maintenance Supervisor

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TIPTON COMMUNITY SERVICES DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2021

This section of Tipton Community Services District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2021. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- Assets of the District exceeded its liabilities as of June 30, 2021, by \$4,441,612. Of this amount, unrestricted net position of \$213,331 may be used to meet the District's ongoing obligations to customers and creditors. As of June 30, 2020, assets exceeded liabilities by \$4,548,144 with unrestricted net position equaling \$261,565.
- Total net position decreased by \$106,532 for the year ended June 30, 2021. For the year ended June 30, 2020, total net position decreased by \$81,038. This fluctuation is due primarily to a decrease of current assets.
- During the current year, the District's capital assets decreased by a net of \$91,777. This decrease was attributable to capital assets and construction in progress additions of only \$93,571 whereas depreciation expense amounted to \$185,348 for the current year. In the prior year depreciation was \$176,350.
- Total liabilities increased by a net of \$176,383 during the current year and was attributable to an increase in accounts payable and unearned revenue. The District has long-term debt of \$779,600. This consists of the loan portion of federal funds awarded and is paid semi-annually.

OVERVIEW OF THE FINANCIAL STATEMENTS

The report consists of two parts – management's discussion and analysis (this section) and the basic financial statements. In addition, we have included other supplementary information pertinent to these basic financial statements. The basic financial statements also include notes that further explain some of the information presented in the basic financial statements and provide more detailed data.

Proprietary Fund Accounting and Reporting

The District operates multiple funds in a business-like manner. Thus, the District uses the accrual approach to account for and report financial transactions. This means that revenues are recognized as soon as they are earned and expenses are recognized as soon as the liability is incurred, regardless of the timing of related cash inflows and outflows. All assets and liabilities that are measurable and probable are included in the financial statements. The full acquisition costs of all capital assets are included in the Statement of Net Position and are depreciated over their estimated useful life. Consequently, the District's accounting practices generally resemble a commercial entity's approach.

See independent auditors' report.

TIPTON COMMUNITY SERVICES DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2021

CONDENSED COMPARATIVE FINANCIAL STATEMENT INFORMATION

Condensed financial information as compared to the previous year is as follows:

Statement of Net Position

	2021	2020	Increase (Decrease)	Percentage of Change
Assets:				
Current assets	\$ 517,283	\$ 375,634	\$ 141,649	37.709%
Restricted assets	1,783,356	1,763,377	19,979	1.133%
Capital assets	3,224,525	3,316,302	(91,777)	-2.767%
Other assets	5,000	5,000	-	0.000%
Total assets	<u>\$ 5,530,164</u>	<u>\$ 5,460,313</u>	<u>\$ 69,851</u>	1.279%
Liabilities:				
Current liabilities	\$ 78,252	\$ 57,569	\$ 20,683	35.927%
Long-term liabilities, net of current portion	760,300	779,600	(19,300)	-2.476%
Unearned revenue	250,000	75,000	175,000	233.333%
Total liabilities	<u>1,088,552</u>	<u>912,169</u>	<u>176,383</u>	19.337%
Net Position:				
Net investment in capital assets	2,444,925	2,523,202	(78,277)	-3.102%
Restricted for debt service	52,433	52,419	14	0.027%
Restricted for plant expansion	1,730,923	1,710,958	19,965	1.167%
Unrestricted	213,331	261,565	(48,234)	-18.441%
Total net position	<u>4,441,612</u>	<u>4,548,144</u>	<u>(106,532)</u>	-2.342%
Total liabilities and net position	<u>\$ 5,530,164</u>	<u>\$ 5,460,313</u>	<u>\$ 69,851</u>	1.279%

See independent auditors' report.

TIPTON COMMUNITY SERVICES DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2021

Statement of Revenues, Expenses and Changes in Fund Net Position

	2021	2020	Increase (Decrease)	Percentage of Change
Operating Revenues:				
Customer services fees	\$ 480,985	\$ 481,918	\$ (933)	-0.194%
Other	29,687	15,754	13,933	88.441%
Total operating revenues	<u>510,672</u>	<u>497,672</u>	<u>13,000</u>	2.612%
Operating Expenses:				
Water expenses	406,144	370,877	35,267	9.509%
Sewer expenses	211,552	211,501	51	0.024%
Total operating expenses	<u>617,696</u>	<u>582,378</u>	<u>35,318</u>	6.064%
Nonoperating Revenues (Expenses):				
Other income	15,664	11,531	4,133	35.843%
Property taxes	14,027	14,227	(200)	-1.406%
Interest income	4,569	9,060	(4,491)	-49.570%
Gain on sale of assets	20	3,500	(3,480)	-99.429%
Interest expense	(33,788)	(34,650)	862	2.488%
Total nonoperating revenues (expenses)	<u>492</u>	<u>3,668</u>	<u>(3,176)</u>	-86.587%
Decrease in net position	(106,532)	(81,038)	(25,494)	-31.459%
Net position, beginning of year	<u>4,548,144</u>	<u>4,629,182</u>	<u>(81,038)</u>	-1.751%
Net position, end of year	<u><u>\$ 4,441,612</u></u>	<u><u>\$ 4,548,144</u></u>	<u><u>\$ (106,532)</u></u>	-2.342%

- 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, the unreserved net position 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, 2021, the District's enterprise funds reported a total ending net position of \$4,441,612, a decrease of \$106,532 in comparison to the prior year. Of this ending net position \$213,331 is unreserved and unrestricted and is available for spending at the District's discretion.

See independent auditors' report.

TIPTON COMMUNITY SERVICES DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2021

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2021, the District had a total investment of \$3,224,525 in a broad range of capital assets, including land, improvements, machinery and equipment, office furniture and equipment, and construction in progress. This amount includes additions of \$18,082 of construction in progress, \$75,489 in additions to water assets and no additions to sewer assets.

Details to capital assets are as follows:

	2021	2020	Increase (Decrease)
<u>Water Plant:</u>			
<u>Capital assets not being depreciated:</u>			
Land	\$ 109,555	\$ 109,555	\$ -
Construction in progress	14,208	7,963	6,245
Total capital assets not being depreciated	123,763	117,518	6,245
<u>Other capital assets:</u>			
Improvements	5,548,629	5,479,805	68,824
Machinery and equipment	106,857	107,222	(365)
Office furniture and equipment	17,998	17,998	-
Total other capital assets	5,673,484	5,605,025	68,459
Accumulated depreciation	(2,852,133)	(2,712,136)	(139,997)
Other capital assets, net	2,821,351	2,892,889	(71,538)
Water plant capital assets, net	\$ 2,945,114	\$ 3,010,407	\$ (65,293)
<u>Sewer Plant:</u>			
<u>Capital assets not being depreciated:</u>			
Land	\$ 16,485	\$ 16,485	\$ -
Construction in progress	45,854	34,017	11,837
Total capital assets not being depreciated	62,339	50,502	11,837
<u>Other capital assets:</u>			
Improvements	441,821	441,821	-
Machinery and equipment	382,260	382,625	(365)
Office furniture and equipment	15,058	15,058	-
Total other capital assets	839,139	839,504	(365)
Accumulated depreciation	(622,067)	(584,111)	(37,956)
Other capital assets, net	217,072	255,393	(38,321)
Sewer plant capital assets, net	\$ 279,411	\$ 305,895	\$ (26,484)
Net capital assets (water and sewer)	\$ 3,224,525	\$ 3,316,302	\$ (91,777)

See independent auditors' report.

TIPTON COMMUNITY SERVICES DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2021

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Long-Term Debt

At June 30, 2021, the District had \$779,600 in debt. The District decreased debt by \$18,500 during the fiscal year.

Details to long-term debt are as follows:

	<u>2021</u>	<u>2020</u>	<u>Increase (Decrease)</u>
<u>Water Plant:</u>			
Certificates of Participation	<u>\$ 779,600</u>	<u>\$ 798,100</u>	<u>\$ (18,500)</u>

ECONOMIC FACTORS RELATIVE TO FUTURE PERIODS

The budget for the year ending June 30, 2022, projects a deficit of \$141,345. Total revenue is projected at \$492,000, salaries and employee benefits are projected at \$195,876, services and supplies are projected at \$368,969, other expenses are projected at \$68,500 and fixed asset acquisitions are projected at \$679,311. The deficit is projected to be covered by utilizing cash reserves.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, dischargers, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Secretary at Tipton Community Services District, 263 South Graham Road, Tipton, California 93272.

See independent auditors' report.



HANFORD | PORTERVILLE | TULARE | VISALIA

M. GREEN AND COMPANY LLP

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Independent Auditors' Report

Board of Directors
Tipton Community Services District

Report on the Financial Statements

Opinions

We have audited the financial statements of each major fund of Tipton Community Services 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 Tipton Community Services 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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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. We 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The budgetary comparison schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 our opinion, the budget comparison schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

M Green and Company LLP

Tulare, California
June 1, 2022

TIPTON COMMUNITY SERVICES DISTRICT

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

TIPTON COMMUNITY SERVICES DISTRICT

STATEMENT OF NET POSITION JUNE 30, 2021

ASSETS

CURRENT ASSETS:

	<u>Water</u>	<u>Sewer</u>	<u>Totals</u>
Cash and cash equivalents	\$ 128,572	\$ 323,568	\$ 452,140
Accounts receivable	33,788	26,569	60,357
Taxes receivable	-	1,116	1,116
Prepaid insurance	1,835	1,835	3,670
	<u>164,195</u>	<u>353,088</u>	<u>517,283</u>

RESTRICTED ASSETS,

cash and cash equivalents

<u>1,224,525</u>	<u>558,831</u>	<u>1,783,356</u>
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CAPITAL ASSETS:

Land	109,555	16,485	126,040
Construction in progress	14,208	45,854	60,062
Other capital assets, net of depreciation	2,821,351	217,072	3,038,423
	<u>2,945,114</u>	<u>279,411</u>	<u>3,224,525</u>

OTHER ASSETS:

Land rights	<u>5,000</u>	<u>-</u>	<u>5,000</u>
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Total assets	<u>\$ 4,338,834</u>	<u>\$ 1,191,330</u>	<u>\$ 5,530,164</u>
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LIABILITIES AND NET POSITION

CURRENT LIABILITIES:

	<u>Water</u>	<u>Sewer</u>	<u>Totals</u>
Current portion of long-term debt	\$ 19,300	\$ -	\$ 19,300
Accounts payable and accrued expenses	29,929	13,425	43,354
Compensated absences payable	5,038	5,038	10,076
Interest payable	5,522	-	5,522
	<u>59,789</u>	<u>18,463</u>	<u>78,252</u>
Total current liabilities	<u>59,789</u>	<u>18,463</u>	<u>78,252</u>

LONG-TERM LIABILITIES, net of current:

Certificates of Participation	760,300	-	760,300
Unearned revenue, capacity rights fees	75,000	-	75,000
Unearned revenue, grant revenue	175,000	-	175,000
	<u>1,010,300</u>	<u>-</u>	<u>1,010,300</u>
Total long-term liabilities, net of current	<u>1,010,300</u>	<u>-</u>	<u>1,010,300</u>
Total liabilities	<u>1,070,089</u>	<u>18,463</u>	<u>1,088,552</u>

NET POSITION:

Invested in capital assets, net of related debt	2,165,514	279,411	2,444,925
Restricted for debt service	52,433	-	52,433
Restricted for plant expansion	1,172,092	558,831	1,730,923
Unrestricted	(121,294)	334,625	213,331
	<u>3,268,745</u>	<u>1,172,867</u>	<u>4,441,612</u>
Total net position	<u>3,268,745</u>	<u>1,172,867</u>	<u>4,441,612</u>
Total liabilities and net position	<u>\$ 4,338,834</u>	<u>\$ 1,191,330</u>	<u>\$ 5,530,164</u>

See notes to financial statements.

TIPTON COMMUNITY SERVICES 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>Totals</u>
Customer services fees	\$ 282,116	\$ 198,869	\$ 480,985
Other	17,997	11,690	29,687
Total operating revenues	300,113	210,559	510,672
<u>OPERATING EXPENSES:</u>			
Salaries and employee benefits	73,452	72,856	146,308
Directors' fees	2,625	2,550	5,175
Utilities	71,480	11,258	82,738
Communications	2,335	3,304	5,639
Licenses and fees	3,145	25,070	28,215
Legal and professional	40,506	27,027	67,533
Small tools and instruments	6,804	393	7,197
Insurance	8,328	8,298	16,626
Repairs and maintenance	26,502	11,153	37,655
Office	7,814	4,393	12,207
Rent	150	222	372
Travel	2,753	2,753	5,506
Miscellaneous	2,168	3,715	5,883
Testing	11,055	239	11,294
Depreciation	147,027	38,321	185,348
Total operating expenses	406,144	211,552	617,696
Operating loss	(106,031)	(993)	(107,024)
<u>NONOPERATING REVENUES (EXPENSES):</u>			
Other income	15,133	531	15,664
Property taxes	-	14,027	14,027
Interest income	1,958	2,611	4,569
Gain on sale of assets	10	10	20
Interest expense	(33,788)	-	(33,788)
Total nonoperating revenues (expenses)	(16,687)	17,179	492
Increase (decrease) in net position	(122,718)	16,186	(106,532)
Net position, July 1, 2020	3,391,463	1,156,681	4,548,144
Net position, June 30, 2021	\$ 3,268,745	\$ 1,172,867	\$ 4,441,612

See notes to financial statements.

TIPTON COMMUNITY SERVICES DISTRICT

STATEMENT OF CASH FLOWS YEAR ENDED JUNE 30, 2021

CASH FLOWS FROM OPERATING

ACTIVITIES:

	<u>Water</u>	<u>Sewer</u>	<u>Totals</u>
Cash received from customers	\$ 279,688	\$ 189,325	\$ 469,013
Other cash receipts	17,997	11,690	29,687
Cash payments to suppliers for goods and services	(173,365)	(87,938)	(261,303)
Cash payments to employees for services	(76,077)	(75,405)	(151,482)
Net cash provided by operating activities	<u>48,243</u>	<u>37,672</u>	<u>85,915</u>

CASH FLOWS FROM NONCAPITAL

FINANCING ACTIVITIES:

Property taxes received	-	14,027	14,027
Other income received	15,133	531	15,664
Unearned grant revenue received	175,000	-	175,000
Net cash provided by noncapital financing activities	<u>190,133</u>	<u>14,558</u>	<u>204,691</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Acquisition of capital assets	(81,734)	(11,837)	(93,571)
Proceeds from sale of assets	10	10	20
Payments on long-term debt	(18,500)	-	(18,500)
Cash paid for interest	(33,919)	-	(33,919)
Net cash used by capital and related financing activities	<u>(134,143)</u>	<u>(11,827)</u>	<u>(145,970)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest income	<u>1,980</u>	<u>2,633</u>	<u>4,613</u>
Net increase in cash and cash equivalents	106,213	43,036	149,249
Cash and cash equivalents, July 1, 2020	<u>1,246,884</u>	<u>839,363</u>	<u>2,086,247</u>
Cash and cash equivalents, June 30, 2021	<u>\$ 1,353,097</u>	<u>\$ 882,399</u>	<u>\$ 2,235,496</u>

See notes to financial statements.

TIPTON COMMUNITY SERVICES DISTRICT

STATEMENT OF CASH FLOWS YEAR ENDED JUNE 30, 2021

RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

	<u>Water</u>	<u>Sewer</u>	<u>Totals</u>
Operating loss	\$ (106,031)	\$ (993)	\$ (107,024)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	147,027	38,321	185,348
Increase in:			
Accounts receivable	(2,428)	(9,545)	(11,973)
Prepaid insurance	(225)	(225)	(450)
Increase in:			
Accounts payable and accrued expenses	<u>9,900</u>	<u>10,114</u>	<u>20,014</u>
Net cash provided by operating activities	<u>\$ 48,243</u>	<u>\$ 37,672</u>	<u>\$ 85,915</u>

See notes to financial statements.

TIPTON COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021

NOTE 1 – Summary of Significant Accounting Policies

Organization

Tipton Community Services District (the District) was formed in 1959 under the provisions of California Government Code Section 6100 et seq. for the purpose of constructing and operating a sanitary sewer system. On July 1, 1981, the District took over the existing facilities and assumed the responsibility for services of the Tipton Mutual Water Company. On November 1, 1983, the District took over the existing facilities and assumed the responsibility for services of the North Tipton Mutual Water Company. The District now provides both water and sewer services to the community.

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 as defined by the GASB statements.

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.

TIPTON COMMUNITY SERVICES 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 expenditures or 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 revenues and expenditures or expenses.

Cash and Cash Equivalents

For purposes of these financial statements, the District considers cash in checking, cash in money market accounts, 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 considers all accounts receivable to be fully collectible. Therefore, an allowance for doubtful accounts is not reflected in these financial statements.

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 – 39 years
Water equipment	5 – 30 years
Sewer facilities	7 – 45 years
Sewer equipment	5 – 30 years

TIPTON COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021

NOTE 1 – Summary of Significant Accounting Policies (continued)

Compensated Absences

Employees are entitled to sick, personal time off and vacation pay based on years of service with the District. For sick pay, full-time employees earn one day per month and part-time employees earn one-half a day per month. A maximum of 36 days will be allowed. Any amount over the 36 days will be paid out at 25 percent. Full-time employees earn three paid personal days per year and part-time employees earn one and one-half days per year. Employees earn vacation pay based on the number of years of service with the District. All vacation leave unused prior to the District's fiscal year end will accumulate for a three year period.

Net Position 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 – 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.

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.

TIPTON COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021

NOTE 1 – Summary of Significant Accounting Policies (continued)

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.

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 and the State Treasurer's Local Agency Investment Fund. 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:

	<u>Water</u>	<u>Sewer</u>	<u>Totals</u>
Petty cash	\$ 13	\$ 13	\$ 26
Cash on hand	200	200	400
Cash in bank, revolving	115	82	197
Cash in bank, general	39,283	23,708	62,991
Cash in money market accounts	1,302,934	856,840	2,159,774
Cash in Local Agency Investment Fund	<u>10,552</u>	<u>1,556</u>	<u>12,108</u>
Total cash and cash equivalents	<u>\$ 1,353,097</u>	<u>\$ 882,399</u>	<u>\$ 2,235,496</u>

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

Restricted for plant expansion	\$ 1,172,092	\$ 558,831	\$ 1,730,923
Restricted for debt service	52,433	-	52,433
Unrestricted	<u>128,572</u>	<u>323,568</u>	<u>452,140</u>
Total cash and cash equivalents	<u>\$ 1,353,097</u>	<u>\$ 882,399</u>	<u>\$ 2,235,496</u>

TIPTON COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021

NOTE 2 – Cash and Cash Equivalents (continued)

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 deposits (including amounts in checking accounts and money market accounts) was \$2,222,961 and the bank balance was \$2,229,405. The difference between the bank balance and the carrying amount represents outstanding checks and deposits in transit. Of the bank balance, \$250,000 was covered by the federal depository insurance and \$1,979,405 was uninsured but collateralized (i.e., collateralized with securities held by the pledging financial institution at 110 percent of the deposits, in accordance with the State of California Government Code, deemed to be held in the District's name). The District's investment in the Local Agency Investment Fund 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.

NOTE 3 – Concentration of Credit Risk

Tipton Community Services District serves the residents of Tipton, 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>Water Plant:</u>				
<u>Capital assets not being depreciated:</u>				
Land	\$ 109,555	\$ -	\$ -	\$ 109,555
Construction in progress	7,963	6,245	-	14,208
Total capital assets not being depreciated	117,518	6,245	-	123,763
<u>Other capital assets:</u>				
Improvements	5,479,805	75,489	(6,665)	5,548,629
Machinery and equipment	107,222	-	(365)	106,857
Office furniture and equipment	17,998	-	-	17,998
Total other capital assets at historical cost	5,605,025	75,489	(7,030)	5,673,484
Accumulated depreciation	(2,712,136)	(147,027)	7,030	(2,852,133)
Other capital assets, net	2,892,889	(71,538)	-	2,821,351
Water plant capital assets, net	\$ 3,010,407	\$ (65,293)	\$ -	\$ 2,945,114

TIPTON COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021

NOTE 4 – Capital Assets (continued)

	Balance July 1, 2020	Additions	Deletions	Balance June 30, 2021
<u>Sewer Plant:</u>				
<u>Capital assets not being depreciated:</u>				
Land	\$ 16,485	\$ -	\$ -	\$ 16,485
Construction in progress	34,017	11,837	-	45,854
Total capital assets not being depreciated	50,502	11,837	-	62,339
<u>Other capital assets:</u>				
Improvements	441,821	-	-	441,821
Machinery and equipment	382,625	-	(365)	382,260
Office furniture and equipment	15,058	-	-	15,058
Total other capital assets at historical cost	839,504	-	(365)	839,139
Accumulated depreciation	(584,111)	(38,321)	365	(622,067)
Other capital assets, net	255,393	(38,321)	-	217,072
Sewer plant capital assets, net	\$ 305,895	\$ (26,484)	\$ -	\$ 279,411

Construction in progress (CIP) consists of several ongoing projects. Water's CIP is pertaining to the well #6 project, while sewer's CIP is to set up a new water pipeline for the wastewater treatment plant and the wastewater flow meter.

NOTE 5 – Land Rights

In March 1996, the District entered into an agreement for fifty years with the South Tulare County Memorial District for the exclusive right and easement to construct, install, maintain, operate, repair and reconstruct a water well on property located in Tipton for \$5,000.

NOTE 6 – Long-Term Obligations

Changes in long-term obligations for the period ended June 30, 2021, are as follows:

	Balance July 1, 2020	Additions	Payments	Balance June 30, 2021	Amounts due Within One Year
Certificates of Participation	\$ 798,100	\$ -	\$ (18,500)	\$ 779,600	\$ 19,300

In May 2005, the District was awarded federal funds from USDA Rural Development in the amount of \$1,833,865, of which, \$833,865 was a grant and \$1,000,000 was a loan and was financed through the issuance of Certificates of Participation (COPS) through the Public Property Financing Corporation on behalf of the District.

TIPTON COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021

NOTE 6 – Long-Term Obligations (continued)

In accordance with the installment agreement signed May 18, 2005, escalating annual principal payments began on May 1, 2006, for a term of forty years. Interest is payable at a rate of 4.25 percent beginning November 1, 2005, and is paid semiannually thereafter on May 1 and November 1 of each year. Future commitments for the Certificates of Participation as of June 30, 2021, are as follows:

Year Ended June 30	Principal	Interest	Totals
2022	\$ 19,300	\$ 33,133	\$ 52,433
2023	20,100	32,313	52,413
2024	21,000	31,459	52,459
2025	21,900	30,566	52,466
2026	22,800	29,635	52,435
2027-2031	129,400	132,787	262,187
2032-2036	159,400	102,850	262,250
2037-2041	196,400	65,960	262,360
2042-2045	189,300	20,532	209,832
Totals	<u>\$ 779,600</u>	<u>\$ 479,235</u>	<u>\$ 1,258,835</u>

NOTE 7 – Restricted Net Position

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. As of June 30, 2021, capacity rights fees reserved for future water and sewer system capacity development are reflected in these financial statements as both a restricted asset and restricted net position.

	Water	Sewer	Totals
Balance July 1, 2020	\$ 1,163,316	\$ 547,642	\$ 1,710,958
Capacity rights fees	8,500	8,100	16,600
Interest earned	6,521	3,089	9,610
Capacity related expenses	<u>(6,245)</u>	<u>-</u>	<u>(6,245)</u>
Balance June 30, 2021	<u>\$ 1,172,092</u>	<u>\$ 558,831</u>	<u>\$ 1,730,923</u>

Cash restricted for debt service are those funds accumulated to pay the required principal and interest payments on the Certificates of Participation in accordance with the installment and trust agreements. As of June 30, 2021, cash reserved for future principal and interest payments in the amount of \$52,433 is reflected in these financial statements as both a restricted asset and restricted net position.

TIPTON COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021

NOTE 8 – Operating Lease Income

The District leases water tower antenna space to a communication company pursuant to an operating lease agreement. The initial lease term was for five years from April 28, 2005 through April 28, 2010, with option for tenant to extend the lease for five additional five-year terms, which the District has exercised to date.

The following is a summary of future minimum rental income under this noncancelable lease with remaining terms in excess of one year at June 30, 2021:

2022	\$ 14,604
2023	14,604
2024	14,604
2025	14,968
2026	16,788
Thereafter	<u>160,894</u>
Total	<u>\$ 236,462</u>

NOTE 9 – Board Designations

The Board designated \$548,755 of unrestricted net position for future well replacement and rehabilitation, \$102,674 for water line replacement, \$490,908 for waste water projects, \$15,200 for machine depreciation, \$2,000 for vehicle replacements, and \$2,000 for pavement sealing/stripping. In addition, the Board has designated a total of \$60,000 for debt service payments. The above amounts designated by the Board are included in the legally restricted portion, \$1,783,356, cash and cash equivalents, restricted assets, on the Statement of Net Position as of June 30, 2021.

NOTE 10 – Commitments and Contingencies

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) a pandemic. As a result, economic uncertainties have arisen which may negatively impact net position. Other financial impacts could occur though such potential impacts are unknown at the time.

NOTE 11 – Subsequent Events

Management has evaluated subsequent events through June 1, 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.

On September 13, 2021, the District paid \$75,000 to a property owner to clear unearned revenue, capacity rights fees.

The County of Tulare announced they were awarded American Rescue and Recovery Funds and the District will be receiving some of these funds to assist with future well/water line improvements.

SUPPLEMENTARY INFORMATION

TIPTON COMMUNITY SERVICES DISTRICT

BUDGETARY COMPARISON SCHEDULE JUNE 30, 2021

	All Activities		
	Original Budget	Actual	Variance Favorable (Unfavorable)
<u>OPERATING REVENUES:</u>			
Customer services fees	\$ 478,000	\$ 480,985	\$ 2,985
Other	-	29,687	29,687
Total operating revenues	478,000	510,672	32,672
<u>OPERATING EXPENSES:</u>			
Salaries and employee benefits	141,300	146,308	(5,008)
Directors' fees	6,000	5,175	825
Utilities	72,800	82,738	(9,938)
Communications	5,900	5,639	261
Licenses and fees	2,000	28,215	(26,215)
Legal and professional	85,500	67,533	17,967
Small tools and instruments	6,000	7,197	(1,197)
Insurance	17,400	16,626	774
Repairs and maintenance	98,000	37,655	60,345
Office	12,400	12,207	193
Rent	2,700	372	2,328
Travel	6,000	5,506	494
Miscellaneous	34,400	5,883	28,517
Testing	10,000	11,294	(1,294)
Total operating expenses	500,400	432,348	68,052
Operating income (loss)	(22,400)	78,324	100,724
<u>NONOPERATING REVENUES (EXPENSES):</u>			
Other income	12,000	15,664	3,664
Property taxes	-	14,027	14,027
Interest income	-	4,569	4,569
Gain on sale of assets	-	20	20
Interest expense	(35,100)	(33,788)	1,312
Total nonoperating revenues (expenses)	(23,100)	492	23,592
Increase (decrease) in net position, budgetary basis	\$ (45,500)	78,816	\$ 124,316
Depreciation		(185,348)	
Decrease in net position, financial statement basis		\$ (106,532)	

Water			Sewer		
Original Budget	Actual	Variance Favorable (Unfavorable)	Original Budget	Actual	Variance Favorable (Unfavorable)
\$ 283,000	\$ 282,116	\$ (884)	\$ 195,000	\$ 198,869	\$ 3,869
-	17,997	17,997	-	11,690	11,690
283,000	300,113	17,113	195,000	210,559	15,559
71,750	73,452	(1,702)	69,550	72,856	(3,306)
3,000	2,625	375	3,000	2,550	450
59,400	71,480	(12,080)	13,400	11,258	2,142
2,500	2,335	165	3,400	3,304	96
-	3,145	(3,145)	2,000	25,070	(23,070)
50,000	40,506	9,494	35,500	27,027	8,473
5,000	6,804	(1,804)	1,000	393	607
8,200	8,328	(128)	9,200	8,298	902
48,000	26,502	21,498	50,000	11,153	38,847
6,300	7,814	(1,514)	6,100	4,393	1,707
700	150	550	2,000	222	1,778
3,000	2,753	247	3,000	2,753	247
9,450	2,168	7,282	24,950	3,715	21,235
6,500	11,055	(4,555)	3,500	239	3,261
273,800	259,117	14,683	226,600	173,231	53,369
9,200	40,996	31,796	(31,600)	37,328	68,928
12,000	15,133	3,133	-	531	531
-	-	-	-	14,027	14,027
-	1,958	1,958	-	2,611	2,611
-	10	10	-	10	10
(35,100)	(33,788)	1,312	-	-	-
(23,100)	(16,687)	6,413	-	17,179	17,179
\$ (13,900)	24,309	\$ 38,209	\$ (31,600)	54,507	\$ 86,107
	(147,027)			(38,321)	
	\$ (122,718)			\$ 16,186	

See independent auditors' report.