

TRANQUILLITY PUBLIC UTILITY DISTRICT



Sewer Rate Study

September 2021

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ABBREVIATIONS

ACS	American Community Survey
AMCE	AM Consulting Engineers
AWWARF	American Water Works Association Research Foundation
CDP	Census-designated Place
CDPH	California Department of Public Health
District	Tranquillity Public Utility District
EDU	Equivalent Dwelling Unit
FY	Fiscal Year
gpd	Gallons per day
MDB&M	Mount Diablo Baseline and Meridian
MGD	Million Gallons per Day
MHI	Median Household Income
PUD	Public Utility District
SDAC	Severely Disadvantaged Community
SWRCB	State Water Resource Control Board
TPUD	Tranquillity Public Utility District
TSS	Total Suspended Solids
WDRs	Waste Discharge Requirements
WEF	Water Environment Federation
WWTP	Wastewater Treatment Plant

EXECUTIVE SUMMARY

Introduction

The community of Tranquillity (“Community”) is located in the central portion of Fresno County approximately four miles northwest of City of San Joaquin and approximately 11 miles southwest of City of Kerman. The community’s population according to the 2015-2019 American Community Survey (ACS) census is 809 and has experienced an average annual growth of 0.14 percent over the last decade. With a median household income (MHI) of \$36,103 which is 48 percent of the State of California MHI, the community is considered a Severely Disadvantaged Community (SDAC).

The Tranquillity Public Utility District (TPUD or “District”) provides wastewater services to the residential and commercial customers within the community of Tranquillity. The sewer utility is a self-supporting enterprise that is funded primarily by revenues derived from sewer service charges. The District’s sewer rates have not been increased since 2011 when the last sewer rate was adopted. TPUD’s current residential and commercial sewer rate is \$25 per month per EDU.

The District is anticipating a need for sewer capital improvement projects in the next few years. In order to proactively address these substantial capital needs, the District retained AM Consulting Engineers, Inc. (AMCE) to develop a financial plan and to provide rate recommendations to support TPUD’s operating and capital programs. Basic objectives of our study include:

- Conduct an independent review of the District’s sewer rates and finances.
- Recommend sewer rate increases needed to recover the cost of providing service and maintain the sewer enterprise’s long-term financial health.
- Phase in necessary rate adjustments over time, to minimize the annual impact on ratepayers.
- Assist the District with the Proposition 218 rate-increase process and rate implementation.

Rate Study Methodology

The methodology used in this study follows the cost causative allocation practice endorsed by American Water Works Association (AWWA) and the Water Environment Federation (WEF). This allocation methodology produces cost of service allocations recognizing the projected customer service requirements. The basic methodology consists of three major components: Revenue Requirements, Cost of Service, and Rate Design.

The following is a brief description of the three components:

- **Revenue Requirements:** Revenue requirements are determined by developing a multi-year financial plan for the enterprise. The financial plan projects revenue requirements based on anticipated changes in the system. Revenue requirements include operation & maintenance, any debt service, and capital expenditures.
- **Cost of Service:** Cost of service is the process of allocating the revenue requirements to functional cost components which are then assigned to specific customer classes. The cost of service is designed to assign costs associated with each customer class based on the demands they put on the system.

- **Rate Design:** Rate design consists of developing a rate structure that adequately recovers the revenue requirements through fixed and variable components yet remains equitable among the specific customer classes.

Summary of Findings and Recommendations

The following are findings and recommendations described in this water and sewer rate study:

- **Financial Overview:** As of June 30, 2021, the District held little more than \$155,000 in its two reserve accounts. According to the past four Audited Financial Reports, the sewer enterprise fund has been operating in a deficit mode. Without rate increases, this operating deficit will continue to grow, and reserves will eventually become depleted.
- **Minimum Fund Reserve Target:** This report recommends that the District adopt a minimum fund reserve target for sewer enterprises equal to approximately 25 percent of annual operating and maintenance costs. Fund reserves provide a financial cushion for dealing with emergencies, unanticipated expenses, and mismatches in the timing between revenues and expenses. It is acceptable for reserves to drop below the target level on a temporary basis provided action is taken to achieve the target over the longer run.
- **Recommended Sewer Rates:** The proposed sewer rates still maintain a flat rate. The recommended sewer rate structure proposes a rate based on the Equivalent Dwelling Units (EDUs) per each connection. Presented below in Table ES-1 are the proposed sewer rates and rate adjustments through July 1st, 2026. The first rate increase is recommended for January 1st, 2022. Until then, the utility will continue operating in a deficit mode.

ES-1 Proposed Rate Structure

Parameter	Current	FY2021/22	FY2022/23	FY2023/24	FY2024/25	FY2025/26
New Proposed Rate	\$25.00	\$37.95	\$39.36	\$40.83	\$41.56	\$43.17
Rate Increase	-	51.8%	3.7%	3.7%	1.8%	3.9%

SECTION 1 - INTRODUCTION

1.1. Purpose of this Rate Study

The purpose of this rate study is to evaluate the Tranquillity Public Utility District's ("TPUD" or "District") self-financing capacity and to determine if revenue increases are required to maintain adequate sewer service and meet future financial obligations. If additional revenues are required to meet future obligations, those revenues will be generated by increasing current sewer service rates.

It should be noted that the financial plan and rates developed herein are based on the funding of capital improvements as stated in the engineering report as well as estimates of operation and maintenance expenses and growth projections. Any significant deviation from the construction cost estimates and funding requirements, major operating changes, or other financial policy changes that were not foreseen, may result in the need for lower or higher revenue than anticipated. It is suggested that the District conduct an update to the rate study at least every three to five years for prudent rate planning.

1.2. Background Information

The Tranquillity Public Utility District is located near the junction of South James Road and Colorado Road. The District was formed in 1948 to provide public street lighting, street sweeping, storm drainage, wastewater collection and treatment, and park maintenance services to the community of Tranquillity.

1.2.1. Wastewater Services

TPUD owns and operates the existing WWTP under Waste Discharge Requirements (WDRs) Order No.80-081. The WWTP is located in the West ½ of Section 4, T15S, R16E, MDB&M. The plant located on Fresno County Assessor Parcel Number 030-410-10T. Figure 1-2 shows a map of TPUD's service area.

The WWTP consists of a refurbished clarigester (combined primary clarifier and digester) followed by oxidation ponds for additional treatment. Final disposal of effluent is through wastewater reclamation by surface irrigation of approximately 34 acres (14 hectares) of District property. Sludge disposal is also to the District Property. The quality of effluent produced by the treatment process is undisinfected secondary. The plant's treatment capacity is rated at 0.12 MGD.

1.3. Goals and Objectives

Basic objectives of this study include:

- Conduct an independent review of TPUD's sewer rates to determine revenue sufficiency to meet the O&M and capital expenditures of the sewer enterprise fund.
- Recommend sewer rate increases (if necessary) needed to recover the cost of providing service and maintain the sewer enterprise's long-term financial health.
- Maintain good financial ratings by providing for a stable and reliable financial position so that debt issuance can be achieved at the lowest cost and that the District maintains eligibility for grants and loans.
- Assist the District with the Proposition 218 rate-increase process and rate implementation, if applicable.
- Phase in any necessary rate adjustments over time, to minimize the annual impact on ratepayers.

TRANQUILLITY PUBLIC
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Sewer Rate Study

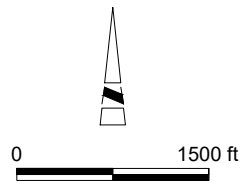
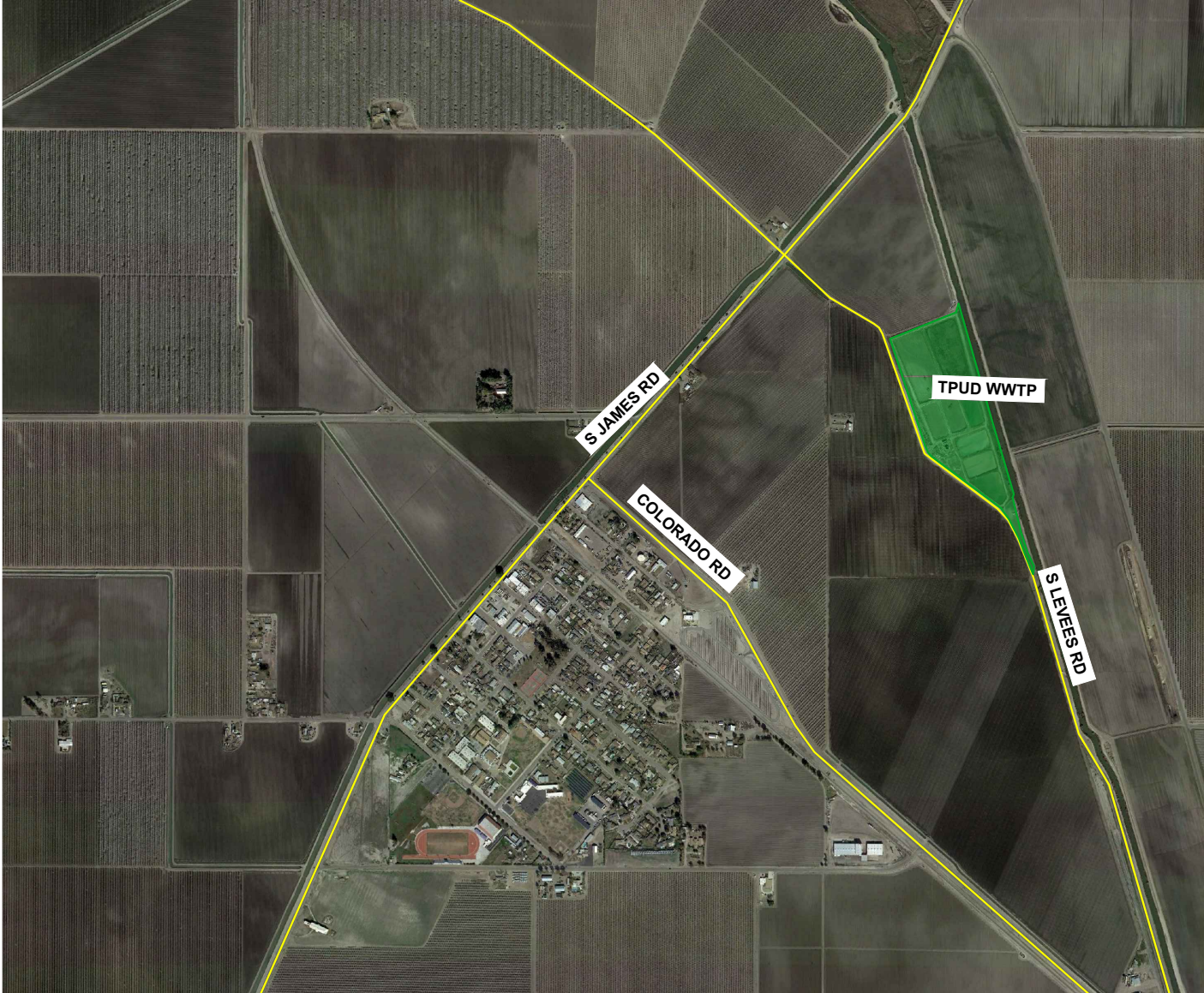
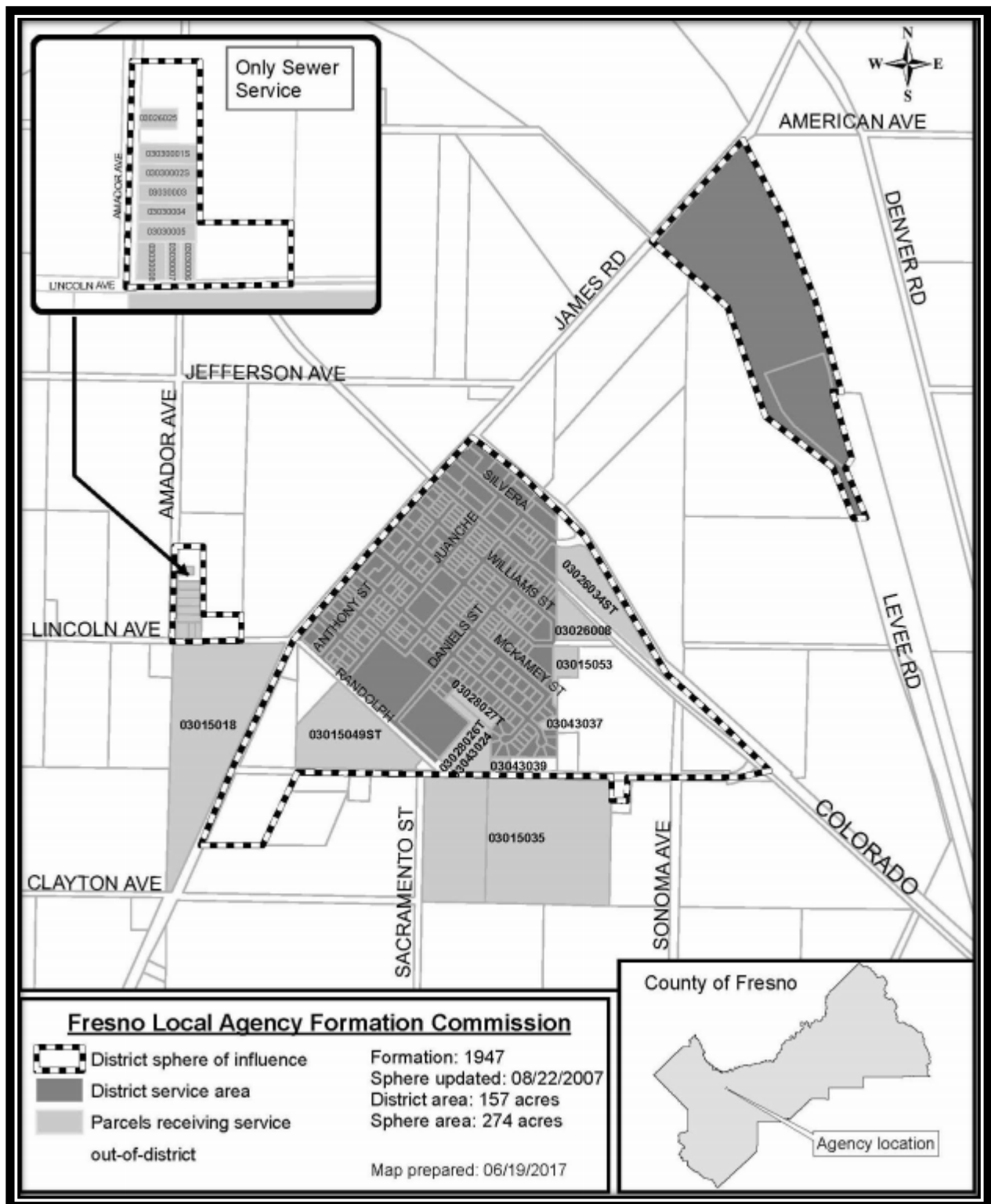


Figure 1-1
Project Location

Figure 1-2 TPUD Service Area



SECTION 2 - ECONOMIC, INCOME AND DEMOGRAPHIC INFORMATION

2.1. Population data

Table 2-1 contains population statistics for the Community of Tranquillity from the 2000 and 2010 US Census and the 2019 American Community Survey (ACS) Census data.

Table 2-1 Historical Housing and Population Statistics

Statistic	Census 2000	Census 2010	Census 2019
Number of Households	236	229	239
Average Household Size	3.44	3.49	3.38
Housing Units	249	255	239
Total Population	813	799	809

According to the US Census data shown in Table 2-1, Tranquillity’s population decreased at an average annual rate of 0.17 percent from 2000 to 2010, and slightly increased at an average annual rate of 0.14 percent from 2010 to 2019. Typically, long-term growth rates provide a better representation of future growth and are used to project population growth. A long-term growth rate of 0.1 percent is used in this rate study to project population growth in the community.

Table 2-2 shows the estimated population increase and additional housing units through year 2025/26 using a growth rate of 0.1 percent. A historical average household size of 3.4 people per household is used to determine the additional new connections. Given Tranquillity’s slow growth rate, this study assumes that no new sewer connections will be added in the near future.

Table 2-2 Population and Housing Unit Projections

Statistic	2021/22	2022/23	2023/24	2024/25	2025/26
Total Population	811	811	812	813	814
Increase from previous year	1	0	1	1	1
Additional New Connections	0	0	0	0	0

2.2. Economic Status

According to the 2015-2019 U.S. Census American Community Survey (ACS), the Tranquillity’s Median Household Income (MHI) was \$36,103. With an MHI of 49 percent of the State of California MHI (\$75,235), TPUD is considered a Severely Disadvantaged Community (SDAC), and thus rate affordability is of utmost importance to the community. A discussion regarding rate affordability is presented below.

2.3. Rate Affordability

Sewer service affordability has been studied and researched widely over the last few years. In every community in the U.S., some households inevitably have difficulty in paying sewer bills. The relative number may be large or small, but there are always some that find public utility service unaffordable. This

is true whether the community as a whole is wealthy or poor, and whether the average cost of sewer service is high or low.

As presented in Section 2.2, Tranquillity’s MHI is among the lowest of the State of California. Therefore, sewer service rate affordability is important, and any recommended increase should avoid surpassing the affordability threshold.

Public agencies such as the US Environmental Protection Agency (USEPA), and the California Department of Public Health (CDPH), and professional organizations such as the American Water Works Association Research Foundation (AWWARF) have developed their own affordability criteria for sewer rates. Table 2-3 shows the affordability criteria by agency.

Table 2-3 Affordability Criteria

	Affordability Criteria
USEPA	Between 1 percent and 2 percent for each utility
CDPH	1.5 percent of MHI if Community’s MHI < State’s MHI
AWWARF	2 percent per utility (4 percent combined)

TPUD’s current residential sewer rate is \$25.00 (approximately 0.8 percent of the MHI). The rate is below the affordability threshold of 1.5 percent of the community MHI.

SECTION 3 - REVENUE REQUIREMENTS

3.1. Introduction

The first step in calculating revenue requirements for sewer utilities is to establish a time frame for the revenue requirements analysis. For this study, the revenue requirements were developed for a five-year projected period (FY 2021/22 – FY 2025/26). Audited financial statements were used to determine actual revenue and expenses for FY 2017/18, FY 2018/19, and FY 2019/20 (see Appendices A, B and C). The FY 2020/21 budget figures were obtained from the actual and estimated Expenses and Revenues summarized by the District. Revenue requirements through FY 2025/26 were projected from the FY 2021/22 budget estimates.

Reviewing a multi-year period is generally recommended to identify any major expenses that may be on the horizon. By anticipating future financial requirements, TPUD can begin planning for these changes sooner, thereby minimizing short-term rate impacts and overall long-term rates.

3.2. Sewer Revenue Requirements

This Section provides the projected revenue requirements (Expenses) for the sewer fund through fiscal year 2025/2026. Revenue requirements include depreciation, fees, permits, repairs/maintenance, insurance, professional expenses, utilities, general administrative expenses, payroll expenses, water purchases, sewer plant operations, and other expenses.

In general, revenue requirement projections are calculated using the FY 2021/22 figures and an annual inflationary factor of 3 percent except as described below.

3.2.1. Payroll Expenses

TPUD has one permanent employee on payroll starting fiscal year 2018. The employment is full-time for one quarter of the year and part-time for the rest of the year and does not include any insurance benefits. The current TPUD staff comprises of the one permanent administrative position on payroll and the Board members who volunteer their time for the District. The District does not anticipate any addition to its staffing level in the near future. Typically, the cost of employee salaries has been escalating at approximately 5 to 7 percent annually. This rate study uses a 7 percent escalating factor for TPUD's employee payroll.

3.2.2. Contract Labor

Prior to adding a permanent employee to payroll in 2018, TPUD hired contract employees to perform its administrative work. Currently, there are two contract employees that read meters and prepare monthly reports for TPUD. The District estimates an increase in contract employee payouts from the current \$1,800 per annum to \$2,500 per annum. This study assumes a 5% annual increase in contract labor costs.

3.2.3. Water Purchases

TPUD purchases water from the United States Bureau of Reclamation (USBR) and Delta-Mendota Water Authority. TPUD water purchase rates differ based on the type of water purchase. Well water is currently rated at \$98 per acre feet, purchased from Tranquillity Irrigation District. Rights water is \$65 per acre feet purchased from USBR, and Contract water is rated at \$180 an acre foot. The water purchase costs have

increased significantly in the past two years due to extended drought conditions and is expected to reach \$7,000 for the FY 21/22. This study forecasts these water purchase rates to appreciate 3% annually.

3.2.4. General and Administrative Expenses

These include miscellaneous expenses as well as administrative expenses such as fuel, postage, and purchase of proprietary computer accounting software for the use by District. This rate study assumes TPUD's miscellaneous expenses to increase at a rate of 3% per year.

3.2.5. Fees

Fees include expenditures associated with the fees charged by USBR and San Luis & Delta-Mendota Water Authority to maintain a water purchase agreement. It also includes the fees related to water permits and other regulatory expenses. TPUD's expenditure in FY21/22 is estimated to be \$14,206. Fees are projected using a 3% increase.

3.2.6. Insurance

Insurance costs mainly include worker's compensation insurance for the District. The District also carries some surety in addition to worker's compensation and estimates an annual expense of \$3,500 for FY21/22. Insurance costs have been increasing in recent times. This rate study uses an annual increase of 3% for all insurance expenditures.

3.2.7. Maintenance and Repairs

Sewer system maintenance and repairs include costs associated with the maintenance and repair of equipment at the WWTP and the sewer collection system. TPUD pays external contractors when repairs and maintenance needs arise. Plant maintenance has been increasing in the last few years. FY 2021/22 is expected to have approximately \$19,036 in annual expenditures. This figure has been used in this rate study to forecast future plant maintenance expenditures using a 3% annual increase.

3.2.8. Professional Services

Professional services expenditures include the costs of preparing the annual audit for the District, legal counsel fees, and engineering consulting fees. The annual cost is \$27,690 and is projected to increase at 3% annually.

3.2.9. Plant Operations

Plant Operations include all the expenditures associated with operating the plant, including contract operator wages and water quality sampling costs. Plant operations are expected to be \$25,900 for FY 2021/22. Plant operations are forecasted at 3% increase annually.

3.2.10. Street Sweeping

Street Sweeping expenditures are incurred after a wet weather event to keep the leaves and runoff debris from reaching the sewer lines. This is budgeted at a constant rate of \$2,000 each year for the next five years.

3.2.11. Utilities

Utility expenditures include primarily the cost of electricity at the WWTP. The amount of electricity used, and the cost of the electricity has been fairly consistent in the last few years. This rate study uses the forecast for FY 2021/22 as the base figure and projects utility expenditures using a 3% annual increase.

3.2.12. Bad Debt/ foreclosures

Bad Debt and foreclosures result when sewer customers do not pay their bills or move out of the District without notifying the District and settling their past dues. A sum of \$600 per year is estimated toward bad debt write off and account foreclosure expenditure in this study.

3.2.13. Depreciation

The District has been using a straight-line depreciation for all capital assets including the land owned by the District, the sewer plant, and the pumps, etc. Depreciation is estimated to be \$33,226 for FY 21/22 based on the previous years’ average. This study assumes that the book value of TPUD’s assets will reduce by the same amount over the next five years.

3.2.14. Water contract conversion fee

Currently, the district has a 4-year repayment agreement with USBR for the California Water Project for an amount of \$3,150 a year which ends in FY 23/24. This repayment amount remains constant until the final payment in 2024.

Table 3-1 shows the current and projected expenses for TPUD’s operating and non-operating expenses.

Table 3-1 TPUD Current and Projected Expenses

Expense	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26
Operating Expenses					
Payroll Expenses	\$25,502	\$27,287	\$29,197	\$31,241	\$33,428
Contract Labor	\$2,500	\$2,625	\$2,756	\$2,894	\$3,039
Water Purchases	\$7,000	\$7,210	\$7,426	\$7,649	\$7,879
General and Administrative expenses	\$6,090	\$6,273	\$6,461	\$6,655	\$6,854
Fees	\$14,206	\$14,632	\$15,071	\$15,523	\$15,989
Insurance	\$3,500	\$3,605	\$3,713	\$3,825	\$3,939
Maintenance and Repairs	\$19,036	\$19,607	\$20,195	\$20,801	\$21,425
Professional Services	\$28,207	\$29,053	\$29,925	\$30,823	\$31,747
Sewer Plant Operations	\$25,637	\$26,406	\$27,198	\$28,014	\$28,855
Street Sweeping	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000
Utilities	\$16,887	\$17,394	\$17,915	\$18,453	\$19,006
Bad Debt/Foreclosures etc.	\$600	\$600	\$600	\$600	\$600
Depreciation	\$33,226	\$33,226	\$33,226	\$33,226	\$33,226
Non-Operating Expenses					
Interest Expense					
Loss on disposition of capital assets					
Water Contract Conversion Fee	\$3,150	\$3,150	\$3,150	\$0	\$0
Total Expenses	\$187,541	\$193,068	\$198,835	\$201,704	\$207,987

SECTION 4 - SEWER SERVICE REVENUE

4.1. Introduction

This Section provides a projection of sewer utility revenues utilizing present rates and the estimated number of accounts. In general, this process involves developing projections for each of the revenue generating categories. Revenue generating categories include use of money and property, service charges and connection fees.

Projecting revenues requires projecting the number of units for each customer group. The number of units for each customer group is then multiplied by the applicable current service rates and connection fees. This method of independently calculating revenues assures the projected revenues used within the analysis tie to the projected billing units.

4.2. Existing Sewer Rates

The current sewer rate of \$25.00 per month per EDU was adopted in June 2011. A wastewater rate of \$25.00 and a connection fee of \$475.00 is used in this rate study to project revenues.

4.3. Historical Revenues

TPUD’s revenue for sewer service consists primarily of monthly service charges. Other potential revenue sources include water sales and property taxes. Some rental and interest income is also present. The sewer revenues for FY 2016/17 through FY 2020/21 are summarized in Table 4-1.

Table 4-1 Historical Sewer Revenue

Revenue Type	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21
Sewer Service Fees	\$ 98,374	\$ 98,564	\$ 104,195	\$ 97,948	\$ 90,000
Property Taxes	\$ 24,889	\$ 25,437	\$ 26,814	\$ 26,497	\$ 24,500
Water Sales	\$ 3,713	\$ 4,680	\$ 6,760	\$ 5,785	\$ 6,890
Other	\$ 7,029	\$ 9,152	\$ 29,976	\$ 7,335	\$ 6,000
Total Revenue	\$ 134,005	\$ 137,833	\$ 167,745	\$ 137,565	\$ 127,390

According to Table 4-1, service charges account for most of the total revenue for sewer services. Property taxes from the County of Fresno and income from water sales are also a major contributor to its revenue.

4.3.1. Service Charges

Projected wastewater flows are directly related to the projected number of connections. The District is limited by its sewer plant capacity to add new connections. The growth in the community has been stagnant and it is hard to predict the number of connections that will be added to the system in the next few years. For purposes of projecting revenues for the wastewater enterprise fund, it is assumed that the number of accounts will remain constant through the 5-year projection. Currently, TPUD has 232 total sewer connections corresponding to 326.3 Equivalent Dwelling Units (EDUs). Table 4-2 shows the projected number of accounts through FY 2025/26.

Table 4-2 Projected Sewer Connections

Connection Status	FY 2021/22	FY 2022/23	FY2023/24	FY2024/25	FY2025/26
Active Connections	232	232	232	232	232
Corresponding EDUs	326.3	326.3	326.3	326.3	326.3
Projected EDUs	326.3	326.3	326.3	326.3	326.3

Table 4-3 shows the projected revenues from sewer service charges through FY 2025/26. The projected sewer revenues were calculated by multiplying the number of projected EDUs by the corresponding monthly sewer rate per EDU. This study assumes that the sewer rate stays constant for the projected years.

Table 4-3 Projected Sewer Service Revenue

Parameter	FY2021/22	FY2022/23	FY2023/24	FY2024/25	FY2025/26
Sewer Rate	\$25.00	\$25.00	\$25.00	\$25.00	\$25.00
EDUs	326.3	326.3	326.3	326.3	326.3
Sewer Services Revenue (\$/yr.)	\$97,890	\$97,890	\$97,890	\$97,890	\$97,890

4.3.2. Rental Income

TPUD rents out farmland and collects rent on it for an amount of \$4000 a year. The District projects an increase in rental revenue from adding solar panels to the property but it is unknown when the project will commence. Hence this study estimates no change in the \$4,000 rental income for the next 5 years.

4.3.3. Property Taxes

A portion of Fresno county property taxes are deposited into TPUD’s Fresno county bank account each year. Revenue from property taxes is estimated at \$26,500 in FY 21/22. This study assumes the same revenue from property taxes for the next 5 years.

4.3.4. Water Sales

The District receives some income in the form of sale of water to farmers renting the farmland. The income is highly variable depending on the amount and type of water sold. The average revenue from the sale of water in the last four years has been \$5,234 and it is assumed to bring revenue at the same rate for the next 5 years.

4.3.5. New Connection Fees

Sewer development fees (also referred to as connection fees) are required for all new construction that requires a sewer connection. The District charges a fee of \$475.00 per new connection. TPUD is not anticipating any new housing development resulting in added connections; hence the new connection fees will not be included in calculating revenue projections.

4.4. Summary of Revenues

Based on the revenue projections presented in this Section, Tables 4-4 shows a summary of the projected sewer service revenues. Sewer service revenues consist mainly of service charges and Fresno county property taxes.

Table 4-4 Projected Sewer Revenue

Revenue Type	FY2021/22	FY2022/23	FY2023/24	FY2024/25	FY2025/26
Sewer Service Fees	\$ 97,890	\$ 97,890	\$ 97,890	\$ 97,890	\$ 97,890
Property Taxes	\$ 26,500	\$ 26,500	\$ 26,500	\$ 26,500	\$ 26,500
Water Sales	\$ 5,234	\$ 5,234	\$ 5,234	\$ 5,234	\$ 5,234
Rental Income	\$ 4,000	\$ 4,000	\$ 4,000	\$ 4,000	\$ 4,000
Other	\$ 3,222	\$ 3,222	\$ 3,222	\$ 3,222	\$ 3,222
Total Revenue	\$136,846	\$136,846	\$136,846	\$136,846	\$136,846

Comparing Table 4-4 with Table 3-1 presented earlier, sewer service revenue is not sufficient to cover the projected expenses for FY's 2021/22 through 2025/26. In order to maintain adequate sewer service, rate adjustments will be required.

SECTION 5 - PROPOSED SEWER RATES

5.1. Introduction

Prudent rate administration dictates that several criteria must be considered when setting or adjusting utility rates. Some of these rate setting criteria are listed below:

- Rates should be easy to understand from the customer’s perspective.
- Rates should be easy for the utility to administer.
- Rates should consider the customer’s ability to pay.

TPUD’s rate structure uses a rate of \$25.00 per EDU for all customers. Utility bills are easy to produce and administer. As seen in section 2.3, although TPUD is considered an SDAC, sewer rates remain below the affordability threshold.

5.2. Expenses vs. Revenue Comparison

Based on the analysis and projections of revenue requirements (expenses) and revenues from service charges, this section provides a comparison of the projected expenses and revenues. Sewer utility funds are self-supporting enterprise funds. Thus, the projected revenue from user fees should meet at minimum the projected requirements to meet O&M expenses.

Table 5-1 provides a comparison of the projected revenue requirements (expenses) described in Section 3 and the projected sewer service revenues using existing rates as presented in Section 4.

Table 5-1 Expenses vs Revenue

Parameter	FY2021/22	FY2022/23	FY2023/24	FY2024/25	FY2025/26
Projected Expenses	\$187,541	\$193,068	\$198,835	\$201,704	\$207,987
Projected Revenue	\$136,846	\$136,846	\$136,846	\$136,846	\$136,846
Excess/(Deficit)	(\$50,695)	(\$56,222)	(\$61,989)	(\$64,857)	(\$71,141)

From Table 5-1 it can be observed that the current sewer service revenue will not be sufficient to fund the projected expenses. In order to ensure that the reserve fund retains a net positive balance, the sewer service rates must be increased.

5.3. Proposed Sewer Rates

TPUD’s existing rate structure is based on a flat monthly rate. From Table 5-1, the deficit required to fund projected expenses can be observed. In order to fund the deficit, the sewer service charge must be increased. Table 5-2 below displays the new proposed flat monthly sewer rate.

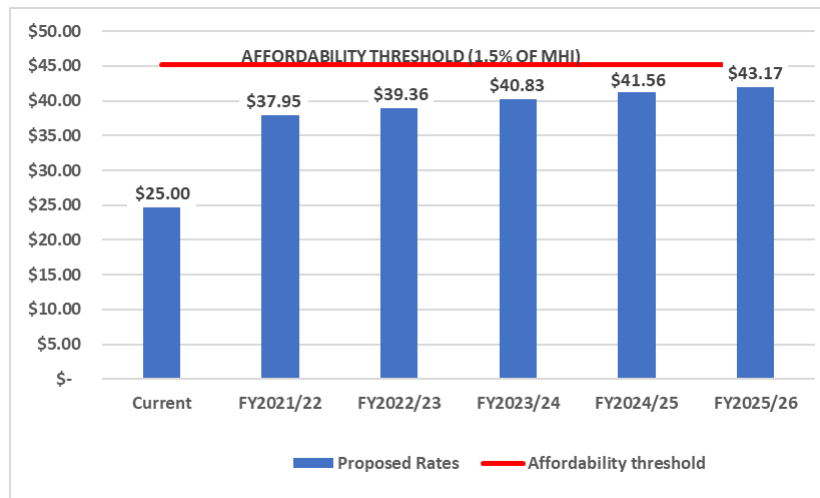
Table 5-2 New Proposed Sewer Service Rate

Parameter	FY2021/22	FY2022/23	FY2023/24	FY2024/25	FY2025/26
Deficit	(\$50,695)	(\$56,222)	(\$61,989)	(\$64,857)	(\$71,141)
Rate Increase to Fund Deficit	\$12.95	\$14.36	\$15.83	\$16.56	\$18.17
Current Projected Rate	\$25.00	\$25.00	\$25.00	\$25.00	\$25.00
New Proposed Rate	\$37.95	\$39.36	\$40.83	\$41.56	\$43.17
Rate Increase	51.8%	3.7%	3.7%	1.8%	3.9%

5.4. Recommendations

The proposed sewer rates are within the affordability thresholds recommended by the public agencies listed in Table 2-3. Assuming an average affordability threshold of 1.5% of Median Household Income, the affordability limit for Tranquillity residents would be \$45.12 per month. The sewer rates proposed in this study are well within that amount. Figure 5-1 shows the proposed sewer rates against the affordability limit for Tranquillity.

Figure 5-1 Affordability Check



This completes the analysis for TPUD’s sewer services. The existing rates must be increased to generate enough revenues to adequately fund the TPUD’s sewer services through FY 2025/26. The sewer rate analysis, as developed, is based on estimates and projections of future costs, anticipated customer consumption and events. As those future costs, customer consumption and events vary from the projections contained herein, the District may need to adjust their rates in the future to reflect any significant differences between the projections contained herein and the actual expenses incurred.

Given that, TPUD should closely monitor their revenues, expenses and capital plans against this study to determine in a timely manner any significant variances and then take appropriate management and Board of Directors action to reconcile any major differences.

SECTION 6 - RATE INCREASE PROCESS

6.1. Proposition 218

Proposition 218, the “Right to Vote on Taxes Act”, was approved by California voters in November 1996 and is codified as Articles XIII C and XIII D of the California Constitution. Proposition 218 establishes requirements for imposing or increasing property related taxes, assessments, fees and charges. For many years, there was no legal consensus on whether water and sewer rates met the definition of “property related fees”. In July 2007, the California Supreme Court essentially confirmed that Proposition 218 applies to water rates. The prevailing legal consensus is that Proposition 218 also applies to wastewater rates.

Proposition 218 establishes certain procedural requirements for adopting rate increases.

These requirements include:

- **Noticing Requirement:** The District must mail a notice of proposed rate increases to all affected property owners. The notice must specify the basis of the fee, the reason for the fee, and the date/time/location of a public rate hearing at which the proposed rates will be considered/adopted.
- **Public Hearing:** The District must hold a public hearing prior to adopting the proposed rate increases. The public hearing must be held not less than 45 days after the required notices are mailed.
- **Rate Increases Subject to Majority Protest:** At the public hearing, the proposed rate increases are subject to majority protest. If more than 50% of affected property owners submit written protests against the proposed rate increases, the increases cannot be adopted.

Proposition 218 also established a number of substantive requirements that are generally deemed to apply to utility service charges, including:

- **Cost of Service** - Revenues derived from the fee or charge cannot exceed the funds required to provide the service. In essence, fees cannot exceed the “cost of service”.
- **Intended Purpose** - Revenues derived from the fee or charge can only be used for the purpose for which the fee was imposed.
- **Proportional Cost Recovery** - The amount of the fee or charge levied on any customer shall not exceed the proportional cost of service attributable to that customer.
- No fee or charge may be imposed for a service unless that service is used by, or immediately available to, the owner of the property. Standby charges shall be classified as “assessments” which are governed by Article 13D Section 4.

Proposition 218 requires that the District ensure that its wastewater rates reasonably reflect the cost of providing service to each customer. It is our opinion that the proposed rates can recover costs for operations, capital needs, debt service, administration, as well as costs related to the prudent long-term operational or financial management of the utility enterprise, such as maintaining adequate fund reserves and planning for contingencies. While Proposition 218 places a number of limitations on the District’s

rates, we believe that TPUD retains substantial latitude to determine actual utility charges provided they do not exceed the cost of providing service.

6.2. AB3030

AB3030, which added Section 53756 to the California Government Code, went into effect on January 1, 2009. The new code clarifies that agencies that provide water, sewer, or refuse collection service may authorize a) automatic rate adjustments for inflation, and/or b) automatic rate pass-throughs for wholesale water charge increases. Pursuant to AB3030, these automatic increases cannot exceed five years and must be clearly defined in the Prop. 218 notice, such as by a formula explaining how the adjustment will be calculated. Additionally, notice of any automatic increase must be sent to ratepayers at least 30 days prior to implementation. If applicable, the District should consult with its legal counsel to ensure compliance with all legal requirements including AB3030.

Appendix A
TPUD Audited Financial Statements for FY 2017/18

TRANQUILLITY PUBLIC UTILITY DISTRICT

REPORT ON AUDITED
FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Tranquillity Public Utility District
Tranquillity, California

We have audited the accompanying statement of net position of Tranquillity Public Utility District (the "District") as of and for the year ended June 30, 2018, and the related statement of revenues, expenses and changes in net position, and cash flows. The prior year comparative information has been derived from the financial statements of the District for the year ended June 30, 2017 and in our report dated January 8, 2018, we expressed an unqualified opinion on those financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Tranquillity Public Utility District

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tranquillity Public Utility District as of June 30, 2018, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

Other Matters

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Sampson, Sampson & Patterson, LLP

Clovis, California
April 4, 2019

TRANQUILLITY PUBLIC UTILITY DISTRICT

STATEMENT OF NET POSITION

(Prior Year Data for Comparison Purposes Only)

ASSETS

	June 30,	
	<u>2018</u>	<u>2017</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$172,255	\$193,818
Accounts receivable	17,966	16,568
Interest receivable	770	
Prepays	<u>5,250</u>	<u>5,375</u>
TOTAL CURRENT ASSETS	196,241	215,761
NON-CURRENT ASSETS:		
Capital assets, not being depreciated	98,980	98,980
Other capital assets, net of accumulated depreciation	<u>284,238</u>	<u>306,368</u>
	383,218	405,348
Other assets:		
Deposits	<u>5,434</u>	<u>5,434</u>
TOTAL NON-CURRENT ASSETS	<u>388,652</u>	<u>410,782</u>
TOTAL ASSETS	<u>\$584,893</u>	<u>\$626,543</u>
<u>LIABILITIES AND NET POSITION</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 6,220	\$ 9,525
Unearned revenue	3,341	4,351
Interest payable	250	375
Current portion of long-term debt	<u>6,800</u>	<u>6,700</u>
TOTAL CURRENT LIABILITIES	16,611	20,951
NON-CURRENT LIABILITIES:		
Long-term debt, net of current portion	<u>7,400</u>	<u>14,200</u>
TOTAL LIABILITIES	24,011	35,151
NET POSITION:		
Invested in capital assets, net of related debt	369,018	384,448
Unrestricted	<u>191,864</u>	<u>206,944</u>
	<u>560,882</u>	<u>591,392</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$584,893</u>	<u>\$626,543</u>

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

TRANQUILLITY PUBLIC UTILITY DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

(Prior Year Data for Comparison Purposes Only)

	<u>Years Ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
OPERATING REVENUES:		
Sewer service fees	\$ 98,564	\$ 98,374
Water sales	4,680	3,713
Permit and connection fees	<u>1,350</u>	
	104,594	102,087
OPERATING EXPENSES:		
Contract labor	23,750	23,200
Water purchases	66	195
Computers and software	1,307	1,471
Fees	17,192	17,102
Insurance	828	885
Maintenance and repairs	7,566	42,057
Postage	1,228	1,225
Professional services	35,261	22,715
Sewer plan operations	25,500	24,605
Street sweeping		1,300
Utilities	18,125	17,564
Miscellaneous	1,837	1,419
Bad debt	375	
Depreciation	<u>34,513</u>	<u>34,203</u>
TOTAL EXPENSES	167,548	187,941
NET OPERATING LOSS	(62,954)	(85,854)
NON-OPERATING REVENUES (EXPENSES):		
Interest income	3,802	3,029
Rental income	4,000	4,000
Property taxes	25,437	24,889
Interest expense	(795)	(1,125)
Loss on disposition of capital assets		<u>(1,200)</u>
	<u>32,444</u>	29,593
CHANGE IN NET POSITION	(30,510)	(56,261)
NET POSITION, beginning of year	<u>591,392</u>	<u>647,653</u>
NET POSITION, end of year	<u>\$560,882</u>	<u>\$591,392</u>

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

TRANQUILLITY PUBLIC UTILITY DISTRICT

STATEMENT OF CASH FLOWS

Increase (Decrease) in Cash

(Prior Year Data for Comparison Purposes Only)

	<u>Years Ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from service fees, water sales, and related activities	\$ 102,186	\$ 102,169
Payments to vendors	(112,590)	(124,916)
Payments to contract labor	<u>(23,750)</u>	<u>(23,200)</u>
Net cash used by operating activities	<u>(34,154)</u>	<u>(45,947)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(12,383)	
Investment income	3,032	3,029
Rental income	<u>4,000</u>	<u>4,000</u>
Net cash provided (used) by investing activities	<u>(5,351)</u>	<u>7,029</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Property taxes	<u>25,437</u>	<u>24,889</u>
Net cash provided by non-capital financing activities	<u>25,437</u>	<u>24,889</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Interest payments on debt borrowings	(545)	(750)
Principal payments on debt borrowings	(1,700)	(1,600)
Prepayment on debt borrowings	<u>(5,250)</u>	<u>(5,375)</u>
Net cash used by financing activities	<u>(7,495)</u>	<u>(7,725)</u>
Net decrease in cash and cash equivalents	(21,563)	(21,754)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>193,818</u>	<u>215,572</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 172,255</u>	<u>\$ 193,818</u>
RECONCILIATION OF NET OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net operating loss	\$ (62,954)	\$ (85,854)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	34,513	34,203
Changes in assets and liabilities:		
Accounts receivable	(1,398)	(1,254)
Accounts payable	(3,305)	5,622
Unearned revenue	<u>(1,010)</u>	<u>1,336</u>
Net cash used by operating activities	<u>\$ (34,154)</u>	<u>\$ (45,947)</u>

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

TRANQUILLITY PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

Measurement Focus and Basis of Accounting

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

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

Use of Estimates

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

Income Taxes

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

Cash and Cash Equivalents

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

Accounts Receivable

The District does not anticipate any material write-off of bad debts and therefore, has not established an “allowance for bad debts” on the balance sheet at June 30, 2018.

TRANQUILLITY PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

(continued)

Capital Assets

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

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

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

Net Position

Net position presents the difference between assets and liabilities in the statement of net position. *Investment in Capital Assets* describes the portion of net position which is represented by the current net book value of the District's capital assets, less the outstanding balance of any debt issued to finance these assets. *Unrestricted* describes the portion of net position which is not restricted as to use.

Classification of Revenues

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

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

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

Comparative Data

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

TRANQUILLITY PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

(continued)

NOTE 2 – CASH AND INVESTMENTS

The carrying amount of cash and investments at June 30, 2018 is as follows:

Cash deposits with financial institutions	\$ 6,822
External Investment Pool – Fresno County	
Treasury Investment Pool	<u>165,433</u>
	<u>\$172,255</u>

Investments Authorized by the California Government Code

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

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

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

The Fresno County Treasury Investment Pool Statement of Investment Policy is more stringent than the California Government Code. As of June 30, 2018, the Investment Pool portfolio complied with its Statement of Investment Policy.

TRANQUILLITY PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

(continued)

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As of year end, the weighted average maturity of the investments contained in the Fresno County Treasury Investment Pool is 2.2 years. 32.4% matures within 12 months, 32.3% between 1 and 3 years, and 35.4% matures between 3 and 5 years.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Fresno County Treasury Investment Pool does not have a rating provided by a nationally recognized statistical rating organization. However, the assets of the portfolio held by the pool as of June 30, 2018, had an average dollar weighted quality rating of “AA+.”

Concentration of Credit Risk

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

Custodial Credit Risk

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

As of June 30, 2018, none of the District’s deposits were in excess of FDIC limits.

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

TRANQUILLITY PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

(continued)

Investments in Fresno County Treasury Investment Pool

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

NOTE 3 – CAPITAL ASSETS

Capital activity for the year ended June 30, 2018 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 98,980	\$ _____	\$ _____	\$ 98,980
	<u>98,980</u>	<u>_____</u>	<u>_____</u>	<u>98,980</u>
Capital assets, being depreciated:				
Structures and improvements	129,460			129,460
Storm drainage system	469,059			469,059
Sewer plant	618,002			618,002
Lincoln-Amador sewer	139,423			139,423
Operating equipment	33,828	12,383		46,211
Anthony Street sewer	<u>161,611</u>	<u>_____</u>	<u>_____</u>	<u>161,611</u>
Total capital assets being depreciated	<u>1,551,383</u>	<u>12,383</u>	<u>_____</u>	<u>1,563,766</u>
Less: Accumulated depreciation for:				
Structures and improvements	(129,460)			(129,460)
Storm drainage system	(389,385)	(9,200)		(398,585)
Sewer plant	(575,809)	(2,688)		(578,497)
Lincoln-Amador sewer	(123,031)	(15,099)		(138,130)
Operating equipment	(16,893)	(3,486)		(20,379)
Anthony Street sewer	<u>(10,437)</u>	<u>(4,040)</u>	<u>_____</u>	<u>(14,477)</u>
Total accumulated depreciation	<u>(1,245,015)</u>	<u>(34,513)</u>	<u>_____</u>	<u>(1,279,528)</u>
Total capital assets, being depreciated, net	<u>306,368</u>	<u>(22,130)</u>	<u>_____</u>	<u>284,238</u>
Business-type capital assets, net	<u>\$ 405,348</u>	<u>\$(22,130)</u>	<u>\$ _____</u>	<u>\$ 383,218</u>

TRANQUILLITY PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

(continued)

NOTE 4 – LONG-TERM LIABILITIES

Changes in long-term liability activity for the year ended June 30, 2018 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Classification</u>	
					<u>Due in One Year</u>	<u>Due in More Than One Year</u>
1979 Sewer Revenue Bonds	\$15,000	\$	\$5,000	\$10,000	\$5,000	\$5,000
1981 Improvement Bonds	<u>5,900</u>	<u> </u>	<u>1,700</u>	<u>4,200</u>	<u>1,800</u>	<u>2,400</u>
	<u>\$20,900</u>	<u>\$ </u>	<u>\$6,700</u>	<u>\$14,200</u>	<u>\$6,800</u>	<u>\$7,400</u>

1979 Sewer Revenue Bonds

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 5,000	\$375	\$ 5,375
2020	<u>5,000</u>	<u>125</u>	<u>5,125</u>
	<u>\$10,000</u>	<u>\$500</u>	<u>\$10,500</u>

TRANQUILLITY PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

(continued)

1981 Improvement Bonds

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$1,800	\$210	\$2,010
2020	1,900	120	2,020
2021	<u>500</u>	<u>25</u>	<u>525</u>
	<u>\$4,200</u>	<u>\$355</u>	<u>\$4,555</u>

Appendix B
TPUD Audited Financial Statements for FY 2018/19

TRANQUILLITY PUBLIC UTILITY DISTRICT

REPORT ON AUDITED
FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Tranquillity Public Utility District
Tranquillity, California

We have audited the accompanying financial statements of Tranquillity Public Utility District (the "District") as of and for the year ended June 30, 2019, and the related notes to the financial statements as listed in the table of contents. The prior year comparative information has been derived from the financial statements of the District for the year ended June 30, 2018 and in our report dated April 4, 2019, we expressed an unmodified opinion on those financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Tranquillity Public Utility District

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tranquillity Public Utility District as of June 30, 2019, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

Other Matters

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Sampson, Sampson & Patterson, LLP

Clovis, California
April 10, 2020

TRANQUILITY PUBLIC UTILITY DISTRICT

STATEMENT OF NET POSITION

(Prior Year Data for Comparison Purposes Only)

ASSETS

	<u>June 30,</u>	
	<u>2019</u>	<u>2018</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$164,412	\$172,255
Accounts receivable	20,379	17,966
Grants receivable	5,244	
Interest receivable	<u>834</u>	<u>770</u>
TOTAL CURRENT ASSETS	190,869	190,991
NON-CURRENT ASSETS:		
Capital assets, not being depreciated	121,439	98,980
Other capital assets, net of accumulated depreciation	<u>248,796</u>	<u>284,238</u>
	370,235	383,218
Other assets:		
Deposits	<u>5,434</u>	<u>5,434</u>
TOTAL NON-CURRENT ASSETS	<u>375,669</u>	<u>388,652</u>
TOTAL ASSETS	<u>\$566,538</u>	<u>\$579,643</u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES:		
Accounts payable	\$ 7,109	\$ 6,220
Unearned revenue	3,107	3,341
Current portion of long-term debt	<u>1,900</u>	<u>1,800</u>
TOTAL CURRENT LIABILITIES	12,116	11,361
NON-CURRENT LIABILITIES:		
Long-term debt, net of current portion	<u>13,338</u>	<u>7,400</u>
TOTAL LIABILITIES	25,454	18,761
NET POSITION:		
Invested in capital assets, net of related debt	367,835	374,018
Unrestricted	<u>173,249</u>	<u>186,864</u>
	<u>541,084</u>	<u>560,882</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$566,538</u>	<u>\$579,643</u>

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

TRANQUILLITY PUBLIC UTILITY DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

(Prior Year Data for Comparison Purposes Only)

	<u>Years Ended June 30,</u>	
	<u>2019</u>	<u>2018</u>
OPERATING REVENUES:		
Sewer service fees	\$104,195	\$ 98,564
Water sales	6,760	4,680
Permit and connection fees	<u>275</u>	<u>1,350</u>
	111,230	104,594
OPERATING EXPENSES:		
Payroll expenses	26,326	
Contract labor	1,800	23,750
Water purchases	2,636	66
General and administrative expenses	7,001	4,372
Fees	18,696	17,192
Insurance	2,235	828
Maintenance and repairs	8,510	7,566
Professional services	28,249	35,261
Sewer plan operations	25,782	25,500
Utilities	17,568	18,125
Bad debt		375
Depreciation	<u>35,442</u>	<u>34,513</u>
TOTAL EXPENSES	174,245	167,548
NET OPERATING LOSS	(63,015)	(62,954)
NON-OPERATING REVENUES (EXPENSES):		
Interest income	3,242	3,802
Rental income	4,000	4,000
Property taxes	26,814	25,437
Grant revenues	22,459	
Water contract conversion fees	(12,838)	
Interest expense	<u>(460)</u>	<u>(795)</u>
	43,217	32,444
CHANGE IN NET POSITION	(19,798)	(30,510)
NET POSITION, beginning of year	<u>560,882</u>	<u>591,392</u>
NET POSITION, end of year	<u>\$541,084</u>	<u>\$560,882</u>

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

TRANQUILLITY PUBLIC UTILITY DISTRICT

STATEMENT OF CASH FLOWS

Increase (Decrease) in Cash

(Prior Year Data for Comparison Purposes Only)

	<u>Years Ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from service fees, water sales, and related activities	\$ 108,583	\$ 102,186
Payments to vendors	(109,788)	(112,590)
Payments for contract labor and payroll expenses	<u>(28,126)</u>	<u>(23,750)</u>
Net cash used by operating activities	<u>(29,331)</u>	<u>(34,154)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(22,459)	(12,383)
Grant revenues	17,215	
Investment income	3,178	3,032
Rental income	<u>4,000</u>	<u>4,000</u>
Net cash provided (used) by investing activities	<u>1,934</u>	<u>(5,351)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Property taxes	<u>26,814</u>	<u>25,437</u>
Net cash provided by non-capital financing activities	<u>26,814</u>	<u>25,437</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Interest payments on debt borrowings	(460)	(795)
Principal payments on debt borrowings	<u>(6,800)</u>	<u>(6,700)</u>
Net cash used by financing activities	<u>(7,260)</u>	<u>(7,495)</u>
Net decrease in cash and cash equivalents	(7,843)	(21,563)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>172,255</u>	<u>193,818</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 164,412</u>	<u>\$ 172,255</u>
RECONCILIATION OF NET OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net operating loss	\$ (63,015)	\$ (62,954)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	35,442	34,513
Changes in assets and liabilities:		
Accounts receivable	(2,413)	(1,398)
Accounts payable	889	(3,305)
Unearned revenue	<u>(234)</u>	<u>(1,010)</u>
Net cash used by operating activities	<u>\$ (29,331)</u>	<u>\$ (34,154)</u>

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

TRANQUILLITY PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

Measurement Focus and Basis of Accounting

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

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

Use of Estimates

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

Income Taxes

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

Cash and Cash Equivalents

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

Accounts Receivable

The District does not anticipate any material write-off of bad debts and therefore, has not established an “allowance for bad debts” on the balance sheet at June 30, 2019.

TRANQUILLITY PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

(continued)

Capital Assets

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

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

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

Net Position

Net position presents the difference between assets and liabilities in the statement of net position. *Investment in Capital Assets* describes the portion of net position which is represented by the current net book value of the District's capital assets, less the outstanding balance of any debt issued to finance these assets. *Unrestricted* describes the portion of net position which is not restricted as to use.

Classification of Revenues

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

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

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

Comparative Data

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

TRANQUILLITY PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

(continued)

Reclassifications

Certain reclassifications have been made to the prior year balances to conform with the current year presentation.

NOTE 2 – CASH AND INVESTMENTS

The carrying amount of cash and investments at June 30, 2019 is as follows:

Cash deposits with financial institutions	\$ 8,474
External Investment Pool – Fresno County	
Treasury Investment Pool	<u>155,938</u>
	<u>\$164,412</u>

Investments Authorized by the California Government Code

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

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

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

The Fresno County Treasury Investment Pool Statement of Investment Policy is more stringent than the California Government Code. As of June 30, 2019, the Investment Pool portfolio complied with its Statement of Investment Policy.

TRANQUILLITY PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

(continued)

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As of year end, the weighted average maturity of the investments contained in the Fresno County Treasury Investment Pool is 1.97 years. 36.2% matures within 12 months, 32.7% between 1 and 3 years, and 31.1% matures between 3 and 5 years.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Fresno County Treasury Investment Pool does not have a rating provided by a nationally recognized statistical rating organization. However, the assets of the portfolio held by the pool as of June 30, 2019, had an average dollar weighted quality rating of “AA+.”

Concentration of Credit Risk

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

Custodial Credit Risk

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

As of June 30, 2019, none of the District’s deposits were in excess of FDIC limits.

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

TRANQUILLITY PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

(continued)

Investments in Fresno County Treasury Investment Pool

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

NOTE 3 – CAPITAL ASSETS

Capital activity for the year ended June 30, 2019 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements/ Adjustments</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 98,980	\$	\$	\$ 98,980
Construction in process		<u>22,459</u>		<u>22,459</u>
	<u>98,980</u>	<u>22,459</u>		<u>121,439</u>
Capital assets, being depreciated:				
Structures and improvements	129,460			129,460
Storm drainage system	469,059			469,059
Sewer plant	618,002			618,002
Lincoln-Amador sewer	139,423			139,423
Operating equipment	46,211			46,211
Anthony Street sewer	<u>161,611</u>			<u>161,611</u>
Total capital assets being depreciated	<u>1,563,766</u>			<u>1,563,766</u>
Less: Accumulated depreciation for:				
Structures and improvements	(129,460)			(129,460)
Storm drainage system	(398,585)	(9,200)		(407,785)
Sewer plant	(578,497)	(15,099)	(12,411)	(606,007)
Lincoln-Amador sewer	(138,130)	(3,486)	11,613	(130,003)
Operating equipment	(20,379)	(3,617)	798	(23,198)
Anthony Street sewer	<u>(14,477)</u>	<u>(4,040)</u>		<u>(18,517)</u>
Total accumulated depreciation	<u>(1,279,528)</u>	<u>(35,442)</u>		<u>(1,314,970)</u>
Total capital assets, being depreciated, net	<u>284,238</u>	<u>(35,442)</u>		<u>248,796</u>
Business-type capital assets, net	<u>\$ 383,218</u>	<u>\$(12,983)</u>	<u>\$</u>	<u>\$ 370,235</u>

TRANQUILLITY PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

(continued)

NOTE 4 – LONG-TERM LIABILITIES

Changes in long-term liability activity for the year ended June 30, 2019 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions/ Adjustments</u>	<u>Ending Balance</u>	<u>Classification</u>	
					<u>Due in One Year</u>	<u>Due in More Than One Year</u>
1979 Sewer Revenue Bonds	\$5,000	\$	\$5,000	\$	\$	\$
1981 Improvement Bonds	4,200		1,800	2,400	1,900	500
USBR Repayment Contract 14-06-200-3537A	_____	<u>12,838</u>	_____	<u>12,838</u>	_____	<u>12,838</u>
	<u>\$9,200</u>	<u>\$12,838</u>	<u>\$6,800</u>	<u>\$15,238</u>	<u>\$1,900</u>	<u>\$13,338</u>

1979 Sewer Revenue Bonds

On July 15, 1979, the District issued \$100,000 of Sewer Revenue Bonds to finance the construction of sewer facilities. The bonds bear interest at 5% which is payable on July 15 and January 15 of each year. Principal payments are payable on July 15 of each year. The final payment on the bonds was paid in June 2019.

1981 Improvement Bonds

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$1,900	\$120	\$2,020
2021	<u>500</u>	<u>25</u>	<u>525</u>
	<u>\$2,400</u>	<u>\$145</u>	<u>\$2,545</u>

TRANQUILLITY PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

(continued)

U.S. Bureau of Reclamation (USBR) Repayment Contract 14-06-200-3537A

On December 20, 2018, the District received a letter acknowledging the District's interest to convert from a water service contract to a repayment contract as outlined in the WIIN Act, Public Law, 114-322, Section 4011. Under this section of the WIIN act, the USBR is required to provide an estimate of the Central Valley Project construction costs allocated to the District. The USBR currently has estimated the District's unpaid construction costs of \$12,838 through September 30, 2017 and are discounted as required by the legislature based on one-half the 20-year Treasury rate. The District is currently negotiating terms for repayment under this contract and the total liability may change once negotiations are complete. Repayment of this obligation must be met by 2030.

NOTE 5 – SUBSEQUENT EVENTS:

The District has reviewed the results of the operations and evaluated subsequent events for the period of time from its year ended June 30, 2019 through the date of the auditor's report.

The District has determined that no adjustments are necessary to amounts reported in the accompanying financial statements, and no subsequent events have occurred, the notice of which would require disclosure.

Appendix C
TPUD Audited Financial Statements for FY 2019/20

TRANQUILLITY PUBLIC UTILITY DISTRICT

REPORT ON AUDITED
FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

Page

FINANCIAL STATEMENTS:

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Statement of cash flows	5
Notes to financial statements	6-12



INDEPENDENT AUDITOR'S REPORT

Board of Directors
Tranquillity Public Utility District
Tranquillity, California

We have audited the accompanying financial statements of Tranquillity Public Utility District (the "District") as of and for the year ended June 30, 2020, and the related notes to the financial statements as listed in the table of contents. The prior year comparative information has been derived from the financial statements of the District for the year ended June 30, 2019 and, in our report, dated April 10, 2020, we expressed an unmodified opinion on those financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Tranquillity Public Utility District

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tranquillity Public Utility District as of June 30, 2020, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

Other Matters

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Sampson, Sampson & Patterson, LLP

Clovis, California
December 30, 2020

TRANQUILLITY PUBLIC UTILITY DISTRICT

STATEMENT OF NET POSITION

(Prior Year Data for Comparison Purposes Only)

ASSETS

	June 30,	
	<u>2020</u>	<u>2019</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$121,035	\$164,412
Accounts receivable	23,326	20,379
Grants receivable	179,252	5,244
Interest receivable	<u>636</u>	<u>834</u>
TOTAL CURRENT ASSETS	324,249	190,869
NON-CURRENT ASSETS:		
Capital assets, not being depreciated	98,980	121,439
Other capital assets, net of accumulated depreciation	<u>440,190</u>	<u>248,796</u>
	539,170	370,235
Other assets:		
Deposits	<u>5,434</u>	<u>5,434</u>
TOTAL NON-CURRENT ASSETS	<u>544,604</u>	<u>375,669</u>
TOTAL ASSETS	<u>868,853</u>	<u>566,538</u>
	<u>LIABILITIES AND NET POSITION</u>	
CURRENT LIABILITIES:		
Accounts payable	152,949	7,109
Unearned revenue	4,354	3,107
Current portion of long-term debt	<u>3,547</u>	<u>1,900</u>
TOTAL CURRENT LIABILITIES	160,850	12,116
NON-CURRENT LIABILITIES:		
Long-term debt, net of current portion	<u>9,271</u>	<u>13,338</u>
TOTAL LIABILITIES	170,121	25,454
NET POSITION:		
Invested in capital assets, net of related debt	538,670	367,835
Unrestricted	<u>160,062</u>	<u>173,249</u>
TOTAL NET POSITION	<u>\$698,732</u>	<u>\$541,084</u>

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

TRANQUILLITY PUBLIC UTILITY DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

(Prior Year Data for Comparison Purposes Only)

	<u>Years Ended June 30,</u>	
	<u>2020</u>	<u>2019</u>
OPERATING REVENUES:		
Sewer service fees	\$ 97,948	\$104,195
Water sales	5,785	6,760
Permit and connection fees		<u>275</u>
TOTAL OPERATING REVENUES	<u>103,733</u>	<u>111,230</u>
OPERATING EXPENSES:		
Payroll expenses	26,081	26,326
Contract labor	1,800	1,800
Water purchases	2,237	2,636
General and administrative expenses	5,837	7,001
Fees	8,701	18,696
Insurance	1,981	2,235
Maintenance and repairs	23,907	8,510
Professional services	28,693	28,249
Sewer plan operations	27,100	25,782
Utilities	16,254	17,568
Depreciation	<u>31,972</u>	<u>35,442</u>
TOTAL OPERATING EXPENSES	<u>174,563</u>	<u>174,245</u>
NET OPERATING LOSS	(70,830)	(63,015)
NON-OPERATING REVENUES (EXPENSES):		
Interest income	2,815	3,242
Rental income	4,000	4,000
Property taxes	26,497	26,814
Water contract conversion fees	520	(12,838)
Interest expense	<u>(118)</u>	<u>(460)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>33,714</u>	<u>20,758</u>
CAPITAL CONTRIBUTIONS, Grant revenues	194,764	22,459
CHANGE IN NET POSITION	157,648	(19,798)
NET POSITION, beginning of year	<u>541,084</u>	<u>560,882</u>
NET POSITION, end of year	<u>\$698,732</u>	<u>\$541,084</u>

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

TRANQUILLITY PUBLIC UTILITY DISTRICT

STATEMENT OF CASH FLOWS

Increase (Decrease) in Cash

(Prior Year Data for Comparison Purposes Only)

	<u>Years Ended June 30,</u>	
	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from service fees, water sales, and related activities	\$ 102,033	\$ 108,583
Payments to vendors	(119,230)	(109,788)
Payments for contract labor and payroll expenses	<u>(27,881)</u>	<u>(28,126)</u>
Net cash used by operating activities	<u>(45,078)</u>	<u>(29,331)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income	3,013	3,178
Rental income	<u>4,000</u>	<u>4,000</u>
Net cash provided (used) by investing activities	<u>7,013</u>	<u>7,178</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Property taxes	<u>26,497</u>	<u>26,814</u>
Net cash provided by non-capital financing activities	<u>26,497</u>	<u>26,814</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital expenditures	(50,547)	(22,459)
Grant revenues	20,756	17,215
Interest payments on debt borrowings	(118)	(460)
Principal payments on debt borrowings	<u>(1,900)</u>	<u>(6,800)</u>
Net cash used by financing activities	<u>(31,809)</u>	<u>(12,504)</u>
Net decrease in cash and cash equivalents	(43,377)	(7,843)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>164,412</u>	<u>172,255</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 121,035</u>	<u>\$ 164,412</u>
RECONCILIATION OF NET OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net operating loss	\$ (70,830)	\$ (63,015)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	31,972	35,442
Changes in assets and liabilities:		
Accounts receivable	(2,947)	(2,413)
Accounts payable	(4,520)	889
Unearned revenue	<u>1,247</u>	<u>(234)</u>
Net cash used by operating activities	<u>\$ (45,078)</u>	<u>\$ (29,331)</u>

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

TRANQUILLITY PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

Measurement Focus and Basis of Accounting

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

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

Use of Estimates

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

Income Taxes

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

Cash and Cash Equivalents

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

Accounts Receivable

The District does not anticipate any material write-off of bad debts and therefore, has not established an “allowance for bad debts” on the balance sheet at June 30, 2020.

TRANQUILLITY PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

(continued)

Capital Assets

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

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

Equipment	4-10 years
Sewer and plant	40 years
Improvements	20-40 years
Storm drainage	25-40 years

Net Position

Net position presents the difference between assets and liabilities in the statement of net position. *Investment in Capital Assets* describes the portion of net position which is represented by the current net book value of the District's capital assets, less the outstanding balance of any debt issued to finance these assets. *Unrestricted* describes the portion of net position which is not restricted as to use.

Classification of Revenues

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

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

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

Comparative Data

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

TRANQUILLITY PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

(continued)

Reclassifications

Certain reclassifications have been made to the prior year balances to conform with the current year presentation.

NOTE 2 – CASH AND INVESTMENTS

The carrying amount of cash and investments at June 30, 2020 is as follows:

Cash deposits with financial institutions	\$ 3,714
External Investment Pool – Fresno County	
Treasury Investment Pool	<u>117,321</u>
	<u>\$121,035</u>

Investments Authorized by the California Government Code

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

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

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

The Fresno County Treasury Investment Pool Statement of Investment Policy is more stringent than the California Government Code. As of June 30, 2020, the Investment Pool portfolio complied with its Statement of Investment Policy.

TRANQUILLITY PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

(continued)

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As of year end, the weighted average maturity of the investments contained in the Fresno County Treasury Investment Pool is 1.91 years. 36.6% matures within 12 months, 31.5% between 1 and 3 years, and 31.9% matures between 3 and 5 years.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Fresno County Treasury Investment Pool does not have a rating provided by a nationally recognized statistical rating organization. However, the assets of the portfolio held by the pool as of June 30, 2020, had an average dollar weighted quality rating of "AA+."

Concentration of Credit Risk

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

Custodial Credit Risk

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

As of June 30, 2020, none of the District's deposits were in excess of FDIC limits.

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

TRANQUILLITY PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

(continued)

Investments in Fresno County Treasury Investment Pool

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

NOTE 3 – CAPITAL ASSETS

Capital activity for the year ended June 30, 2020 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements/ Adjustments</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 98,980	\$	\$	\$ 98,980
Construction in process	<u>22,459</u>	<u> </u>	<u>(22,459)</u>	<u> </u>
	<u>121,439</u>	<u> </u>	<u>(22,459)</u>	<u>98,980</u>
Capital assets, being depreciated:				
Structures and improvements	129,460			129,460
Storm drainage system	469,059			469,059
Sewer plant	618,002			618,002
Lincoln-Amador sewer	139,423			139,423
Operating equipment	46,211	6,143		52,354
Anthony Street sewer	161,611			161,611
Silveria Lift Station Rehabilitation		<u>217,223</u>		<u>217,223</u>
Total capital assets being depreciated	<u>1,563,766</u>	<u>223,366</u>	<u> </u>	<u>1,787,132</u>
Less: Accumulated depreciation for:				
Structures and improvements	(129,460)			(129,460)
Storm drainage system	(407,785)	(6,555)		(414,340)
Sewer plant	(606,007)	(11,995)		(618,002)
Lincoln-Amador sewer	(130,003)	(3,485)		(133,488)
Operating equipment	(23,198)	(4,539)		(27,737)
Anthony Street sewer	(18,517)	(4,040)		(22,557)
Silveria Lift Station Rehabilitation		<u>(1,358)</u>		<u>(1,358)</u>
Total accumulated depreciation	<u>(1,314,970)</u>	<u>(31,972)</u>	<u> </u>	<u>(1,346,942)</u>
Total capital assets, being depreciated, net	<u>248,796</u>	<u>191,394</u>	<u> </u>	<u>440,190</u>
Business-type capital assets, net	<u>\$ 370,235</u>	<u>\$191,394</u>	<u>\$(22,459)</u>	<u>\$ 539,170</u>

TRANQUILLITY PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

(continued)

NOTE 4 – LONG-TERM LIABILITIES

Changes in long-term liability activity for the year ended June 30, 2020 was as follows:

	Beginning Balance	Additions	Reductions/ Adjustments	Ending Balance	Classification	
					Due in One Year	Due in More Than One Year
1981 Improvement Bonds	\$ 2,400	\$	\$1,900	\$ 500	\$ 500	\$
USBR Repayment						
Contract 14-06-200-3537A	<u>12,838</u>	<u> </u>	<u>520</u>	<u>12,318</u>	<u>3,047</u>	<u>9,271</u>
	<u>\$15,238</u>	<u>\$ </u>	<u>\$2,420</u>	<u>\$12,818</u>	<u>\$3,547</u>	<u>\$9,271</u>

1981 Improvement Bonds

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	<u>\$500</u>	<u>\$25</u>	<u>\$525</u>
	<u>\$500</u>	<u>\$25</u>	<u>\$525</u>

U.S. Bureau of Reclamation (USBR) Repayment Contract 14-06-200-3537A

On December 20, 2018, the District received a letter acknowledging the District's interest to convert from a water service contract to a repayment contract as outlined in the WIIN Act, Public Law, 114-322, Section 4011. Under this section of the WIIN act, the USBR is required to provide an estimate of the Central Valley Project construction costs allocated to the District. The USBR currently has estimated the District's unpaid construction costs of \$12,318 through September 30, 2017 and are discounted as required by the legislature. The District negotiated a four-year repayment term for this contract. Annual payments of \$3,134 are due November 1. The interest is .705% based on one half of the 20-year Treasury rate on November 2, 2020 at 1.41%.

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 3,047	\$ 87	\$ 3,134
2022	3,069	65	3,134
2023	3,090	44	3,134
2024	<u>3,112</u>	<u>22</u>	<u>3,134</u>
	<u>\$12,318</u>	<u>\$218</u>	<u>\$12,536</u>

TRANQUILLITY PUBLIC UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

(continued)

NOTE 5 – COMMUNITY DEVELOPMENT BLOCK GRANT:

On August 23, 2018 the District was awarded a Community Development Block Grant (CDBG) for the Silveria Ave. Lift Station Rehabilitation project in the amount of \$217,223. Notice of completion was filed on May 29, 2020 and the outstanding grant revenues receivable for this project at June 30, 2020 were \$179,252.

NOTE 6 – SUBSEQUENT EVENTS:

The District has reviewed the results of the operations and evaluated subsequent events for the period of time from its year ended June 30, 2020 through the date of the auditor's report.

The District has determined that no adjustments are necessary to amounts reported in the accompanying financial statements, and no subsequent events have occurred, the notice of which would require disclosure.