

**TUOLUMNE CITY SANITARY DISTRICT**

**INDEPENDENT AUDITOR'S REPORT  
AND  
FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020**

## **TABLE OF CONTENTS**

---

	<b><u>Page</u></b>
<b>INDEPENDENT AUDITOR’S REPORT</b>	1 – 2
<b>MANAGEMENT’S DISCUSSION &amp; ANALYSIS</b>	3 – 7
<b>BASIC FINANCIAL STATEMENTS:</b>	
Statements of Net Position	8
Statements of Revenues, Expenses and Changes in Net Position	9
Statements of Cash Flows	10
Notes to Financial Statements	11 – 20
<b>INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i></b>	21 – 22

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Tuolumne City Sanitary District  
Tuolumne, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the Tuolumne City Sanitary District (District), which comprise the statements of net position as of June 30, 2021 and 2020, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the District's basic 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 controls 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 basic 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 standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, 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 of 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 entity'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 entity'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 opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial positions of the Tuolumne City Sanitary District as of June 30, 2021 and 2020, and the changes in its net positions and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### Required Supplementary Information

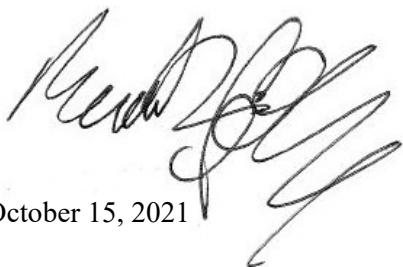
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 - 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### Other Information

The basic financial statements include summarized prior year comparative information. Such prior year information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's basic financial statements for the year ended June 30, 2020, from which such summarized information was derived.

### Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2021, on our consideration of the Tuolumne City Sanitary District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to be "Michael J. [unclear]", is written over the date.

October 15, 2021

**Tuolumne City Sanitary District  
Management's Discussion & Analysis  
Year Ended June 30, 2021**

The Governmental Accounting Standards Board Statement No. 34 (GASB 34) requires that management prepare a Management's Discussion and Analysis (MD&A) section as a component of the audited financial statements. *"MD&A should provide an objective and easily readable analysis of the District's financial activities based on currently known facts, decisions, or conditions. MD&A should include comparisons of the current year to the prior year. It should provide an analysis of the District's overall financial position and results of operations to assist users in assessing whether that financial position has improved or deteriorated as a result of the year's activities. In addition, it should provide an analysis of significant changes that occur in funds and significant variances. It should also describe capital asset and long-term debt activity during the year. MD&A should conclude with a description of currently known facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations."*

This section of the Tuolumne City Sanitary District's (District) Audited Financial Statements provides management's discussion and analysis of the District's financial performance for the period ending June 30, 2021. The MD&A is intended to serve as an introduction to the District's basic financial statements. Readers are encouraged to consider the information presented here as complementary to the information contained in the accompanying financial statements.

The District is a proprietary entity and uses enterprise fund accounting to report its activities for financial statement purposes. Proprietary funds are reported using the accrual basis of accounting and account for activities in a manner similar to a private business enterprise. The intent of the governing body is that the costs (including depreciation) of providing goods and services to the general public on a continuing basis be financed primarily through user rates, fees, and charges.

### ***Overview of the Financial Statements***

The financial statements consist of the following two parts: Management's Discussion and Analysis and the Basic Financial Statements. The Financial Statements include notes which explain in detail some of the information included in the financial schedules.

The Statement of Net Position presents information about the nature and amount of the District's assets, liabilities and net position. Increases and decreases in net position over time may help the reader determine whether the financial position of the District is improving or deteriorating.

The District's revenues and expenses are presented in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the success of the District's operations and can be used to determine its profitability, credit worthiness, and whether the District has successfully recovered all of its current year costs through its operating revenues.

The Statement of Cash Flows provides information about the District's cash receipts, cash payments, and resulting net changes in cash. Transactions are classified as operating, non-capital financing, capital and related financing and investing activities.

## Financial Highlights

The District's financial results are impacted by the collection of sewer service fees that are used to fund operating costs of the District and to fund or finance capital improvement activities. Following are some of the key highlights for the fiscal year ended June 30, 2021 in comparison to the prior fiscal year. A more detailed narrative analysis follows the listing.

- Total Assets increased by \$143 thousand
- Total Liabilities decreased \$21 thousand
- Net Position increased by \$163 thousand
- Operating Revenues decreased \$66 thousand
- Operating Expenses decreased by \$125 thousand
- Non-operating Revenues and Capital Grants increased by \$112 thousand
- Non-operating Expenses decreased by \$2 thousand

## Discussion of Key Changes from Prior Year

This section provides an analysis of the changes that occurred in Assets and Liabilities during the current and previous fiscal year. A table summarizing these amounts is presented below.

Table A-1				
Condensed Statement of Net Position				
	Fiscal Year 2020-2021	Fiscal Year 2019-2020	Dollar Change	Total Percent Change
Assets				
Current assets	\$ 5,115,406	\$ 4,937,063	\$ 178,343	3.61%
Capital assets	10,882,973	10,918,683	(35,710)	-0.33%
Total Assets:	15,998,379	15,855,746	142,633	0.90%
Liabilities				
Current liabilities	341,077	261,737	79,340	30.31%
Non-current liabilities	4,775,979	4,875,979	(100,000)	-2.05%
Total Liabilities:	5,117,056	5,137,716	(20,660)	-0.40%
Net Position				
Net investment in capital assets	6,006,994	5,947,704	59,290	1.00%
Restricted	602,059	566,745	35,314	6.23%
Unrestricted:				
Designated	3,320,222	2,745,255	574,967	20.94%
Undesignated	952,048	1,458,326	(506,278)	-34.72%
Total Net Position:	\$ 10,881,323	\$ 10,718,030	\$ 163,293	1.52%

Analysis of the significant changes shown above is presented below.

Current Assets: The \$178 thousand increase in current assets is primarily due to an increase in grants receivable as detailed in the Statement of Net Position.

Capital Assets: New assets added totaled \$343 thousand in assets that included equipment and treatment plant projects. Depreciation expense of \$379 thousand was recorded bringing the net change compared to the prior year to a decrease in capital assets of \$36 thousand.

Non-current Liabilities: Details of the District's long-term debt issued are discussed in Note 4 accompanying the Financial Statements. As of June 30, 2021, \$4,176,427 in long term debt was outstanding. The source of repayment of the debt is sewer rates. In addition, the District has \$699,552 in unearned connection fees with Black Oak Casino. This liability will be recognized as revenue as the Casino makes connections to the District's sewer system.

Total Net Position: The increase of \$163 thousand in Net Position over the previous year is detailed as follows:

### ***Operating and Non-operating Financial Highlights***

The table below compares the operating and non-operating revenue and expenses for the District for the current and prior fiscal years.

Table A-2				
Condensed Statement of Revenues, Expenses and Changes in Net Position				
	Fiscal Year 2020-2021	Fiscal Year 2019-2020	Dollar Change	Total Percent Change
Operating				
Operating Revenues	\$ 1,130,536	\$ 1,196,128	\$ (65,592)	-5.48%
Operating Expenses				
Depreciation Expense	(379,088)	(392,063)	12,975	-3.31%
Other Operating Expenses	(923,100)	(785,658)	(137,442)	17.49%
Net Operating Income	(171,652)	18,407	(190,059)	-1032.54%
Non-Operating				
Revenues	139,299	167,444	(28,145)	-16.81%
Expenses	(84,479)	(86,379)	1,900	-2.20%
Non-operating, net	54,820	81,065	(26,245)	-32.38%
Capital contributions				
Capital grants	280,125	139,824	140,301	100.34%
Change in net position	163,293	239,296	(76,003)	-31.76%
Beginning net position	10,718,030	10,478,734	239,296	2.28%
Ending net position	<u>\$ 10,881,323</u>	<u>\$ 10,718,030</u>	<u>\$ 163,293</u>	<u>1.52%</u>

## REVENUES

Operating Revenue: Operating revenues decreased by \$66 thousand due to fewer sewer fees with Black Oak Casino.

## EXPENSES

Depreciation expense: Depreciation expense is systematically recorded to match the timing of the expense of an asset with its useful life. The District depreciates its capital assets according to the following established life periods:

Subsurface Lines	50 years
Sewage Treatment Facilities	40 years
Equipment	5 - 10 years
Structures	10 -50 years

Depreciation expense for fiscal year 2020-21 is \$379 thousand, a decrease of \$13 thousand over the prior year. The decrease is consistent with prior year depreciation.

Other Operating Expenses: As shown above, there was an overall increase in other operating expenses of \$137 thousand primarily due to increase in salary and wages, and professional services costs during the current fiscal year.

## NON-OPERATING REVENUES (EXPENSES)

Non-operating Revenue decreased by \$28 thousand compared to the prior year due primarily to a decrease in interest income.

Non-Operating Expenses decreased by \$2 thousand compared to the prior year due to a decrease in interest expense related to the long-term debt.

## CAPITAL CONTRIBUTIONS

Capital Contributions Grants increased by \$140 thousand compared to the prior year due to increase in capital grant funds.

## ECONOMIC CONDITION AND OUTLOOK

The community's economic conditions have stabilized over the past year, but continues present problems due to the Covid-19 pandemic. The unemployment rate has declined slightly from last year to 7.1% in Tuolumne City as of August 2021. This compares to 10.2% in August 2020. The statewide unemployment rate as of August 2021 is 7.5%. Private sector construction activities still remain depressed as infill housing and commercial starts within the District continue to average only about two new units per year. The one bright spot is Tuolumne County's initiation of construction on a resiliency center in the community that will result in both onetime and ongoing revenue to the district. Overall, the community remains economically disadvantaged with the Median Household Income (MHI) about 60% below state-wide income.

District revenues have declined due to the temporary closure and then reduced access to the Black Oak Casino & Resort due to the pandemic. Overall, the District lost approximately \$263,000 in revenue comparing 2020-21 Fiscal Year (FY) revenue received from this source as compared to revenue received in the 2018-19 fiscal year. As the Casino is the District's largest customer, this revenue loss is significant. Management estimates that reduced revenues will continue well into the 2022 calendar year. However, the District remains in a positive financial position with adequate revenues and reserves to address current and foreseen wastewater system operating, debt service and capital costs. The District currently has approximately \$3.3 million in unrestricted reserves to address the economic downturn.

The District is currently under construction on project to improve, renovate, upgrade and/or replace various wastewater treatment plant facilities and equipment. The District estimates that \$1.5 million will be spent during the coming fiscal year on these projects. In addition, the District is waiting for a final contract from the state regarding the \$5.3 million replacement of wastewater collection system sewer lines, utility access holes and related appurtenances. Both of these projects are 100% state funded by the Department of Water Resources (DWR) State Revolving Fund (SRF) grants. By focusing on grant-funding the District will be able to keep its current rate structure in place and avoid having to raise rates which are already high relative to the community's median household income. These improvements are necessary to ensure low cost, long-term operations and to extend the useful life of the facilities.

Issues still remain as the District is heavily dependent on a small base of customers to support operational and capital revenue needs. This dependency has resulted in the District Board and Management placing a premium on cost controls, the establishment of multiple reserve accounts and utilizing grant funding for capital improvement projects where feasible. Another issue is obtaining reimbursement for funds expended for state grant projects. Due to the long delay in obtaining expense reimbursements from the state the district may need to obtain a line of credit to make payments while awaiting reimbursement once our wastewater collection system replacement project begins construction. The District anticipates that through proper financial management high quality wastewater collection and treatment services can be provided to the community at a reasonable cost to the consumer.

The District is also proposing to merge with the Tuolumne Park and Recreation District to form the Tuolumne Community Services District. An application was filed with the Tuolumne County Local Agency Formation Commission (LAFCo) in September 2021. If approved by LAFCo the merger should take place by late 2021 or early 2022. The District anticipates operational and administrative efficiencies can be achieved through this merger. It is also anticipated that this merger will improve transparency, accountability, and customer service.

### ***Requests for Information***

This financial report is designed to provide citizens, customers, taxpayers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need any additional information, contact the District at (209) 928-3517 or P.O. Box 1238, Tuolumne, CA 95379.

# TUOLUMNE CITY SANITARY DISTRICT

## STATEMENTS OF NET POSITION JUNE 30, 2021 AND 2020

	2021	2020
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and investments	\$ 616,127	\$ 1,340,788
Restricted cash and investments	602,059	566,745
Designated cash and investments	3,320,222	2,745,255
Accounts receivable	88,874	35,643
Grant receivable	464,599	248,632
Prepays	23,525	-
Total current assets	5,115,406	4,937,063
<b>Non-current assets</b>		
Capital assets, net of accumulated depreciation	10,882,973	10,918,683
Total non-current assets	10,882,973	10,918,683
Total assets	15,998,379	15,855,746
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable	166,110	96,314
Compensated absences	21,998	18,492
Other current liabilities	11,205	9,217
Interest payable	41,764	42,714
Current portion of long-term debt	100,000	95,000
Total current liabilities	341,077	261,737
<b>Non-current liabilities</b>		
Unearned connection fees	699,552	699,552
Long-term debt	4,076,427	4,176,427
Total non-current liabilities	4,775,979	4,875,979
Total liabilities	5,117,056	5,137,716
<b>NET POSITION</b>		
Net investment in capital assets	6,006,994	5,947,704
Restricted for debt service	193,343	190,932
Restricted for asset replacement	408,716	375,813
Unrestricted		
Designated for property tax	511,603	418,009
Designated for sludge handling	122,631	72,631
Designated for waste water treatment plant	1,049,932	857,271
Designated for collection system construction	1,044,432	851,771
Designated for emergency	166,074	155,601
Designated for operating	369,618	343,657
Designated for current liabilities	55,932	46,315
Undesignated	952,048	1,458,326
Total net position	\$ 10,881,323	\$ 10,718,030

See accompanying notes

# TUOLUMNE CITY SANITARY DISTRICT

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
<b>Operating Revenues</b>		
Charges for services	\$ 1,065,736	\$ 1,196,128
Connection fees	<u>64,800</u>	<u>-</u>
Total operating revenues	<u>1,130,536</u>	<u>1,196,128</u>
<b>Operating Expenses</b>		
Salaries and wages	333,894	301,362
Professional services	272,718	186,458
Repairs & maintenance	44,672	46,013
Utilities	39,389	39,329
Employee benefits	45,156	40,457
Plant supplies	42,318	39,352
Permits & fees - operations	42,605	41,694
Retirement contribution	26,326	20,474
Payroll taxes	25,364	22,711
Workers compensation insurance	13,845	11,959
Liability insurance	26,068	20,607
Office expenses	5,919	8,899
Fuel	4,826	6,343
Depreciation	<u>379,088</u>	<u>392,063</u>
Total operating expenses	<u>1,302,188</u>	<u>1,177,721</u>
Operating income/(loss)	<u>(171,652)</u>	<u>18,407</u>
<b>Nonoperating Revenues/(Expenses)</b>		
Property taxes	83,124	78,705
Other Income	-	4,531
Interest income	56,175	84,208
Interest expense	<u>(84,479)</u>	<u>(86,379)</u>
Total non-operating revenues/(expenses)	<u>54,820</u>	<u>81,065</u>
Net income before capital contributions	(116,832)	99,472
<b>Capital Contributions</b>		
Capital grants	<u>280,125</u>	<u>139,824</u>
<b>Change in Net Position</b>	163,293	239,296
<b>Net Position</b>		
Beginning of year	<u>10,718,030</u>	<u>10,478,734</u>
End of year	<u>\$ 10,881,323</u>	<u>\$ 10,718,030</u>

See accompanying notes

# TUOLUMNE CITY SANITARY DISTRICT

## STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
<b>Operating Activities</b>		
Receipts from customers and users	\$ 1,077,305	\$1,337,431
Payments to suppliers for goods and services	(444,101)	(431,717)
Payments to employees for services	(427,234)	(379,524)
Net cash provided by operating activities	<u>205,970</u>	<u>526,190</u>
<b>Non-capital Financing Activities</b>		
Property taxes received	83,124	78,705
Other income	-	4,531
Net cash provided by non-capital financing activities	<u>83,124</u>	<u>83,236</u>
<b>Capital and Related Financing Activities</b>		
Acquisition of capital assets	(343,378)	(214,275)
Receipts from other governments - capital grants	64,158	-
Principal paid on long-term debt	(95,000)	(95,000)
Interest paid on long-term debt	(85,429)	(87,329)
Net cash provided by (used in) capital and related financing activities	<u>(459,649)</u>	<u>(396,604)</u>
<b>Investing Activities</b>		
Interest received	56,175	84,208
Net cash provided by investing activities	<u>56,175</u>	<u>84,208</u>
<b>Net Increase/(Decrease) in Cash and Investments</b>	(114,380)	297,030
<b>Cash and Investments</b>		
Beginning of year	4,652,788	4,355,758
End of year	<u>\$ 4,538,408</u>	<u>\$ 4,652,788</u>
<b>Cash Flows from Operating Activities</b>		
Operating income (loss)	\$ (171,652)	\$ 18,407
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	379,088	392,063
(Increase) Decrease in accounts receivable	(53,231)	141,303
(Increase) Decrease in other assets	(23,525)	-
Increase (Decrease) in accounts payable	69,796	(34,717)
Increase (Decrease) in compensated absences	3,506	5,480
Increase (Decrease) in other current liabilities	1,988	3,654
<b>Net Cash Provided by Operating Activities</b>	<u>\$ 205,970</u>	<u>\$ 526,190</u>

See accompanying notes

# TUOLUMNE CITY SANITARY DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2021

---

### Note 1 – Summary of Significant Accounting Policies

The financial statements of the Tuolumne City Sanitary District (District) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to enterprise funds of governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by the District are described below:

#### Reporting Entity

The Tuolumne City Sanitary District (the “District”) is a California Special District formed by the Board of Supervisors of Tuolumne County, California, on July 16, 1941, upon petition for formation thereof pursuant to the Sanitary District Act of 1923 as contained in the California Health and Safety Code Section 64000 et seq. The District operates and maintains sewer service for the community of Tuolumne City and immediate surrounding areas, including the Black Oak Casino Resort. The District operates a single sewage treatment plant, which underwent a major expansion and upgrade that was completed in 2013.

The District does not have a relationship with an entity that meets the criteria of Government Accounting Standards Board (“GASB”) Statement No. 14, the Financial Reporting Entity. Therefore the District does not have a component unit.

#### Basis of Accounting and Measurement Focus

The District accounts for its operations in enterprise funds using the economic resources measurement focus and the accrual basis of accounting. A fund is an accounting entity with a self-balancing set of accounts established to record the financial position and results of operations of a specific government activity. The activities of enterprise funds closely resemble those of ongoing businesses in which the purpose is to conserve and add to basic resources while meeting operating expenses from current revenues. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

An enterprise fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District’s principal ongoing operations. The principal operating revenues of the District are charges to customers for sewer service. Operating expenses for the District include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

#### Financial Statement Amounts

*Cash and Investments* – Cash and investments represent the District's cash pooled with the County of Tuolumne. Cash is managed by the office of the Tuolumne County Treasurer. It is maintained in the County’s “Pooled Funds” by the County Treasurer and the County Auditor/Controller with the County’s own funds and funds of other participants. Investments also consist of deposits in the State of California Local Agency Investment Fund. Investments are stated at fair value.

# TUOLUMNE CITY SANITARY DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2021

---

### Note 1 – Summary of Significant Accounting Policies (Continued)

*Accounts Receivable* – Accounts receivable are composed of amounts due from customers for sewer service fees as of June 30, 2021. Sewer service fees for the properties within the District pay a flat annual rate and are collected by the County and are disbursed using the Teeter System. Variable sewer fees for the Black Oak Casino Resort and the three local school districts are invoiced by Tuolumne Sanitary District personnel.

*Capital Assets* – Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are capitalized. Upon sale or retirement of fixed assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities are included as part of the capitalized value of the assets constructed.

Capital assets in service are depreciated using the straight line method over the following estimated useful lives:

	<u>Years</u>
Subsurface lines	50
Sewage treatment facilities	40
Equipment	5 - 10
Structures	10 - 50

*Compensated Absences* – The District allows employees to accumulate unused vacation leave, comp time and sick leave. The rate at which vacation hours are earned is based on length of employment. Sick time is earned at a rate of 1 day per month. Comp time is earned in lieu of overtime hours by employees request. District policy allows accumulated unpaid employee vacation and comp time benefits to be paid to eligible full-time employees upon their request and upon termination. Accordingly, the District recognizes the accumulated balance as a current liability.

Vested or accumulated vacation leave and comp time that is expected to be paid with expendable available financial resources is recorded as an expense and liability as the benefits accrue.

*Long-Term Obligations* – Long-term debt and other long-term obligations are reported as liabilities in the Proprietary Fund Statement of Net Position. Debt principal payments are reported as decreases in the balance of the liability on the Statement of Net Position.

# TUOLUMNE CITY SANITARY DISTRICT

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2021

---

### Note 1 – Summary of Significant Accounting Policies (Continued)

*Unearned Connection Fees* – Unearned connection fees represent resources received in advance for an exchange transaction collected before year-end which were not earned as of June 30, 2021. All unearned connection fees are expected to be earned in future years.

*Net Position/Fund Equity* – The financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted.

- *Net Investment in Capital Assets* – This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted Net Position* – This category presents external restrictions on net position imposed by creditors, grantors, contributors, laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Position* – This category represents net position of the District not restricted for any project or other purpose. Designations of unrestricted net position may be imposed by the Board of Directors to reflect future spending plans or concerns about the availability of future resources. Designations may be modified, amended or removed by Board action.

*Revenues and Expenses* – The District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principle operating revenues of the District are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

*Property Taxes* – Property tax revenues are recognized by the District when available and measurable. Taxes are levied on July 1 for liens established for real property on the previous January 1<sup>st</sup>. The County of Tuolumne is responsible for assessing and collecting property taxes for the District in accordance with state legislation. Taxes are apportioned to the District under the "Teeter Plan," wherein the District receives exactly 100% of assessed amounts. Any late collection deficiencies and collection costs as well as penalty revenues and related interest are absorbed by the County. Apportionments are made to the District three times during the year. 55% is allocated by December 25, 40% by April 25, and the remaining 5% by June 25.

*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 expenditures/expenses during the reporting period. Actual results could differ from those estimates.

# TUOLUMNE CITY SANITARY DISTRICT

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2021

---

### Note 2 – Cash and Investments

Cash and Investments as of June 30, 2021 are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and investments	\$ 616,127
Restricted cash and investments	602,059
Designated cash and investments	<u>3,320,222</u>
	<u>\$ 4,538,408</u>

Cash and Investments as of June 30, 2021 consist of the following:

Held by Fiscal Agent - County - Unrestricted	\$ 615,131
Held by Fiscal Agent - County - Restricted	602,059
Held by Fiscal Agent - County - Designated	3,320,222
Local Agency Investment Fund	<u>996</u>
Total Cash and Investments	<u>\$ 4,538,408</u>

### Fair Value Measurements

The framework for measuring fair value provides a fair value hierarchy that categorizes the inputs to valuation techniques used to measure fair value into three levels. The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

- Level 1: Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2: Inputs to valuation methodology include inputs – other than quoted prices included within Level 1 – that are observable for an asset or liability, either directly or indirectly.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within a fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value.

LAIF is valued based on the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (Level 2 input).

# TUOLUMNE CITY SANITARY DISTRICT

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2021

---

### Note 2 – Cash and Investments (Continued)

#### Cash Held by Fiscal Agent

The District pools all of its cash and investments with the County of Tuolumne. The District uses the County of Tuolumne as a fiscal agent for processing all cash receipts and disbursements. Although the County maintains separate fund accounts for the District, the cash is not segregated, but rather commingled with other County funds and investments. Pooled funds in the County treasury are secured by County assets.

#### Investments Authorized by the California Government Code

The District is authorized under the California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

Limitations as they related to interest rate risk, credit risk, and concentration of credit risk are described below:

<b>Authorized Investment Type</b>	<b>Maximum Maturity</b>	<b>Maximum Percentage of Portfolio</b>	<b>Minimum Credit Quality</b>
Local Agency Bonds	5 Years	None	None
U.S. Treasury Obligations	5 Years	None	None
State of California Obligations	5 Years	None	None
California Local Agency Obligations	5 Years	None	None
U.S. Agency Obligations	5 Years	None	None
Bankers Acceptances	180 Days	40%	None
Commercial Paper	270 Days	25%	A-1
Negotiable Certificates of Deposit	5 Years	30%	None
Repurchase Agreements	1 Year	None	None
Medium Term Notes	5 Years	30%	A or >
Money Market Mutual Funds	N/A	20%	A
Collateralized Bank Deposits	5 Years	None	None
Time Deposits	2 Years	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

# TUOLUMNE CITY SANITARY DISTRICT

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2021

---

### Note 2 – Cash and Investments (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. The District manages its exposure to interest rate risk by pooling its funds with the County of Tuolumne which funds do not have a maturity date.

#### **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 County of Tuolumne does not have a rating provided by a nationally recognized statistical rating organization.

#### **Concentration of Credit Risk**

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. District investments that are greater than 5 percent of total investments are in external investment pools and are therefore exempt.

#### **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 and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental 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 law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

The custodial risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. 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.

# TUOLUMNE CITY SANITARY DISTRICT

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2021

---

### Note 2 – Cash and Investments (Continued)

**Investment in State Investment Pool** - The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment 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 LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

### Note 3 – Capital Assets

Capital asset activity for the year ended June 30, 2021, was as follows:

	<b>Balance July 1, 2020</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance June 30, 2021</b>
Capital assets, not being depreciated				
Land	\$ 38,736	\$ -	\$ -	\$ 38,736
Construction in progress	809,585	280,125	-	1,089,710
Total capital assets, not being depreciated	848,321	280,125	-	1,128,446
Capital assets, being depreciated				
Buildings and improvements	13,824,557	-	-	13,824,557
Equipment and machinery	685,181	63,253	-	748,434
Total capital assets, being depreciated	14,509,738	63,253	-	14,572,991
Less accumulated depreciation for				
Buildings and improvements	(4,049,346)	(339,714)	-	(4,389,060)
Equipment and machinery	(390,030)	(39,374)	-	(429,404)
Total accumulated depreciation	(4,439,376)	(379,088)	-	(4,818,464)
Total capital assets, being depreciated, net	10,070,362	(315,835)	-	9,754,527
Total capital assets, net	\$ 10,918,683	\$ (35,710)	\$ -	\$ 10,882,973

# TUOLUMNE CITY SANITARY DISTRICT

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2021

---

### Note 4 – Long-Term Debt

The following is a summary of the changes in noncurrent liabilities reported in Statement of Net Position for the year ended June 30, 2021:

	<b>Balance July 1, 2020</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance June 30, 2021</b>	<b>Current Portion</b>
Unearned connection fees	\$ 699,552	\$ -	\$ -	\$ 699,552	\$ -
Certificate of Participation (USDA Loan)	<u>4,271,427</u>	<u>-</u>	<u>(95,000)</u>	<u>4,176,427</u>	<u>100,000</u>
Total non-current liabilities	<u>\$ 4,461,427</u>	<u>\$ -</u>	<u>\$ (95,000)</u>	<u>\$ 4,366,427</u>	<u>\$ 95,000</u>

The District generally incurs long-term debt to finance projects or purchase assets which will have useful lives equal to or greater than the related debt. The District's debt issues and transactions are discussed in detail below.

#### Certificate of Participation (USDA Loan)

The District's plant expansion project was funded by proceeds from a tax-exempt Certificate of Participation purchased by USDA Rural Utilities Service from the District, which will be repaid from future service revenues of the District. The projects were completed on July 31, 2013, principal drawn is the amount authorized of \$4,945,000 with an interest rate of 2%. Principal payments are due annually on January 1 and interest semiannually on January 1 and July 1. Final maturity is on January 1, 2052.

#### Debt Service Requirements

The annual requirement to amortize the principal and interest on the above long-term debt at June 30, 2021 were as follows:

<b>Years ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2022	\$ 100,000	\$ 83,600	\$ 183,600
2023	100,000	81,600	181,600
2024	100,000	79,600	179,600
2025	105,000	85,500	190,500
2026	105,000	73,400	178,400
2027 - 2052	<u>3,666,427</u>	<u>1,154,400</u>	<u>4,820,827</u>
	<u>\$ 4,176,427</u>	<u>\$ 1,558,100</u>	<u>\$ 5,734,527</u>

#### Unearned Connection Fees

The District's unearned (prepaid) service connection fees were \$699,552 and \$699,552 as of June 30, 2021 and 2020 respectively. This amount is classified as unearned connection fees because the service connections are not expected to be made within the next fiscal year.

# TUOLUMNE CITY SANITARY DISTRICT

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2021

---

### Note 5 – Retirement Plans

Tuolumne City Sanitary District provided a Simplified Employee Retirement Plan (SEP) for its eligible employees. The plan was terminated December 31, 2019.

The plan was funded quarterly. Employer contributions totaled \$0 and \$11,531 for the years ended June 30, 2021 and 2020, respectively.

### Note 6 – Pension Plans

**Plan Description** - The District contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan, the plan was effective starting January 1, 2020. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office - 400 P Street - Sacramento, CA 95814.

**Funding Policy** – Active plan members in the Plan are required to contribute 6.75% of their covered salary for miscellaneous members. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rates for the fiscal year ended June 30, 2021 PEPR Miscellaneous 7.732%. The contribution requirements of plan members is established by State statute and the employer contribution is established and may be amended by PERS.

**Contributions** – Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on July 1 following the notice of a change in the rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2021, the contributions recognized as part of the pension expense is as follows:

Contributions – employer	\$ 24,610
Contributions – employee	\$ 21,485

### Payable to the Pension Plan

At June 30, 2021, the District has no outstanding amount of contributions to the pension plan required for the years ended June 30, 2021 and June 30, 2020.

# TUOLUMNE CITY SANITARY DISTRICT

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2021

---

### **Note 7 – Economic Dependency**

The Black Oak Casino was responsible for 26% and 36% of operating revenues for the years ended June 30, 2021 and 2020, respectively.

### **Note 8 – Risk Management**

The District is exposed to various risks of loss to torts; theft of, damage of, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District joined together with other special districts for insurance coverage under Special District Risk Management Authority (SDRMA). The District pays an annual premium to SDRMA for its general insurance coverage and workers' compensation.

The District continues to carry employee health, dental, and vision insurance for eligible employees.

### **Note 9 – Subsequent Events**

The District evaluated subsequent events for recognition and disclosure through October 15, 2021, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since June 30, 2021 that required recognition or disclosure in such financial statements.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER  
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors  
Tuolumne City Sanitary District

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Tuolumne City Sanitary District (District), which comprise the statement of net position as of June 30, 2021, and the related statement of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 15, 2021.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Tuolumne City Sanitary District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

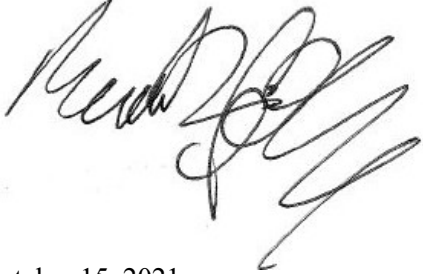
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Tuolumne City Sanitary District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink, appearing to be "Kendall J. [unclear]", written in a cursive style.

October 15, 2021