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7/15/2021

To be used only for management discussion purposes; engagement is incomplete; this draft is subject to final review and possible revision. **Report/Letter date is TENTATIVE-TBD**

**TIMBER COVE COUNTY WATER
DISTRICT**

JENNER, CALIFORNIA

BASIC FINANCIAL STATEMENTS

JUNE 30, 2020

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Timber Cove County Water District
Jenner, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the major fund of Timber Cove County Water District, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Timber Cove County Water District's basic financial statements as listed in the table of contents.

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 conducting the audit in accordance with auditing standards generally accepted in the United States of America. 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 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the major fund of Timber Cove County Water District as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Report on Summarized Comparative Information

We have previously audited Timber Cove County Water District's 2019 financial statements, and our report dated May 22, 2021, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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 is not modified with respect to this matter.

R. J Ricciardi, Inc.
Certified Public Accountants

San Rafael, California

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Timber Cove County Water District
STATEMENTS OF NET POSITION
For the Year Ended June 30, 2020
(With Comparative Totals for the Year Ended June 30, 2019)

<u>ASSETS</u>	<u>2020</u>	<u>2019</u>
Current assets:		
Cash and investments	\$ 260,812	\$ 614,841
Restricted cash and investments	<u>795,825</u>	<u>295,009</u>
Total cash and investments	<u>1,056,637</u>	<u>909,850</u>
Accounts receivable	89,278	42,245
Prepays and deposits	<u>978</u>	<u>979</u>
Total current assets	<u>1,146,893</u>	<u>953,074</u>
Capital assets:		
Non-depreciable assets	168,731	175,660
Depreciable assets (net of depreciation)	<u>702,252</u>	<u>807,388</u>
Total assets	<u>2,017,876</u>	<u>1,936,122</u>
 <u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Accounts payable	<u>4,786</u>	<u>16,975</u>
Total current liabilities	<u>4,786</u>	<u>16,975</u>
Total liabilities	<u>4,786</u>	<u>16,975</u>
Net position:		
Invested in capital assets, net of related debt	870,983	983,048
Restricted for capital improvements	795,825	295,009
Unrestricted	<u>346,282</u>	<u>641,090</u>
Total net position	<u>\$ 2,013,090</u>	<u>\$ 1,919,147</u>

The accompanying notes are an integral part of these financial statements.

Timber Cove County Water District
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
For the Year Ended June 30, 2020
(With Comparative Totals for the Year Ended June 30, 2019)

	<u>2020</u>	<u>2019</u>
Operating revenues:		
Water sales	\$ 314,983	\$ 293,407
Base rate fees	275,285	271,390
Other operating	-	11,037
Total operating revenues	<u>590,268</u>	<u>575,834</u>
Operating expenses:		
Services and supplies	225,191	299,108
General and administrative expenses	193,787	195,135
Depreciation	105,137	113,395
Total operating expenses	<u>524,115</u>	<u>607,638</u>
Operating income (loss)	<u>66,153</u>	<u>(31,804)</u>
Non-operating revenues (expenses):		
Interest revenue	1,498	2,745
Interest expense	-	-
Total non-operating revenues (expenses)	<u>1,498</u>	<u>2,745</u>
Changes in net position	<u>67,651</u>	<u>(29,059)</u>
Net position, beginning of period	1,919,147	1,903,423
Prior period adjustment	26,292	44,783
Net position, beginning of period restated	<u>1,945,439</u>	<u>1,948,206</u>
Net position, end of period	<u>\$ 2,013,090</u>	<u>\$ 1,919,147</u>

The accompanying notes are an integral part of these financial statements.

Timber Cove County Water District
STATEMENTS OF CASH FLOWS
For the Year Ended June 30, 2020
(With Comparative Totals for the Year Ended June 30, 2019)

	2020	2019
Cash flows from operating activities:		
Receipts from customers	\$ 569,527	\$ 597,284
Payments to employees	(196,678)	(196,678)
Payments to suppliers	(234,488)	(332,298)
Net cash provided (used) by operating activities	138,361	68,308
Cash flows from capital and related financing activities:		
Acquisition, adjustment and construction of capital assets	6,928	(11,407)
Net cash provided (used) by capital and related financing activities	6,928	(11,407)
Cash flows from investing activities:		
Interest earned	1,498	2,745
Net cash provided by investing activities	1,498	2,745
Net increase (decrease) in cash and cash equivalents	146,787	59,646
Cash and cash equivalents - beginning of period	909,850	850,204
Cash and cash equivalents - end of period	\$ 1,056,637	\$ 909,850
Reconciliation of operating income (loss) to net cash provided (used in) operating activities:		
Operating income (loss)	\$ 66,153	\$ (31,804)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	105,137	113,395
Prior period adjustment	26,292	44,784
Changes in certain assets and liabilities:		
Accounts receivable	(47,033)	(23,334)
Accounts payable	(12,189)	(36,732)
Prepaid items	1	1,999
Net cash provided (used) by operating activities	\$ 138,361	\$ 68,308

The accompanying notes are an integral part of these financial statements.

Timber Cove County Water District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Timber Cove County Water District (the District) was formed under the California Water District Code, Section 30290, in an election on April 1, 1984, when the District assumed various assets and liabilities of the Timber Cove Mutual Water Company. The District is governed by a Board of Directors and provides water services to the property owners in the Timber Cove area. The County of Sonoma (the County) acts as fiscal agent for debt service payments on behalf of the District for special assessment bonds. The County collects special assessments from District taxpayers which are used to make special assessment bond payments. In its role as fiscal agent for the District, the County ensures the District complies with special assessment bond ordinance requirements.

B. Accounting Policies

The District conforms to accounting principles generally accepted in the United States of America as applicable to governmental units. These financial statements report the financial position and results of operations of the District's operating fund, which is a proprietary (enterprise) fund type for financial reporting purposes.

C. Basis of Presentation

The District's Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred, or economic asset is used. Revenues, expenses, gains, losses, asset and liabilities resulting from an exchange are recognized when the exchange takes place.

When an expense is incurred for a purpose for which both restricted and unrestricted net position are available, the District's policy is to apply restricted net position first.

D. Budget

The District is required to adopt an annual budget for the District's general operations each fiscal year. The annual budget is prepared in accordance with the basis of accounting utilized by the District. The budget is amended from time-to-time as the need arises and is approved by the Board of Directors.

E. Cash and Investments

Cash and Cash Equivalents

For the purposes of the Statement of Cash Flows, the District considers both operating cash and investments purchased with maturities of less than one year to be cash equivalents.

Deposits

It is the District's policy for deposits to be either insured by the FDIC or collateralized.

Timber Cove County Water District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Cash and Investments (concluded)

Accounts Receivables

Accounts receivable represents amounts owed the District by its customers. Management believes all customers with 90 or more days of exposure are considered uncollectible. The District uses these account balances in their calculation of the allowance for doubtful accounts. Payments received in advance are reported as customer prepayments.

Investment Policy

It is the policy of the District to invest funds in a manner that will provide the highest return with maximum security while still meeting the daily cash flow demands of the District. All investments must conform to the requirements of California Government Code Sections 5921 and 53601. All investments are in the form of Inactive Public Deposits or Certificates of Deposit and the balances indicated on the balance sheet as investments, restricted and unrestricted, approximate fair value.

F. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

G. Risk Management

The District is exposed to various risks of loss related to torts, theft to, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The District carries insurance for all risks. Settled claims resulting from these risks have not exceeded insurance coverage in the past three years.

H. Capital Assets

Property, plant and equipment are valued at historical cost or at an estimate of their historical cost, if actual historical cost is not available. Donated assets are valued to their estimated fair value on the date donated. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Depreciation of all exhaustible fixed assets used by Proprietary Funds is charged as an expense against their operations. Accumulated depreciation is reported on Proprietary Fund balance sheets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

<u>Assets</u>	<u>Years</u>
Distribution system	30
Treatment plant	25
Fire hydrants	25-30
Equipment and miscellaneous assets	3-25

Timber Cove County Water District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

I. Proprietary Fund Financial Statements

The District has a sole fund which is considered a proprietary fund.

Proprietary Fund Financial Statements include a Statement of Net Position, A Statement of Revenues, Expenses, and Changes in Net Position, and a Statement of Cash Flows for the proprietary fund.

Proprietary funds are accounted for using the “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or non-current) are included on the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. In these funds, receivables have been recorded as revenue and provisions have been made for uncollectible amounts.

Operating revenues in the proprietary fund are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

J. Standing Rules and Regulations

In accordance with California Water Code §31007, the rates and charges to be collected by the District shall be so fixed as to yield an amount sufficient to do each of the following:

- a) Pay the operating expenses of the District
- b) Provide for repairs and depreciation of works owned or operated by the District
- c) Pay the interest on any bonded debt
- d) So far as possible, provide a fund for the payment of the principal of the bonded debt as it becomes due.

It is intended by this section to require the District to pay the interest and principal of its bonded debt from the revenues of the District.

The District shall not commit to the delivery of water it cannot reliably produce.

The District shall develop the ability to produce sufficient water to serve a full build out of the subdivision ahead of actual demand.

The Board shall bill customers at a rate to cover District operational costs and capital replacement costs.

The rate shall be composed of two elements; a Base Rate for future replacement cost and a Tier Rate to cover ongoing operational costs.

The minimum tier must be greater than actual operating cost and will be billed in gallons.

The Base rate must be greater than the depreciation adjusted by replacement cost.

Special assessments must be charged in anticipation of capital improvements such as new wells, property acquisitions, etc.

The Board shall meet annually in January to set the tier rate. This meeting shall be noticed to the customers of the District.

Timber Cove County Water District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 2 - CASH AND INVESTMENTS

Cash equivalents and investments consisted of the following at June 30, 2020:

Cash:

Demand accounts at Rabo Bank	\$ 260,812
Total cash	<u>\$ 260,812</u>

Restricted cash:

Edward Jones – capital improvements	\$ 795,825
Total restricted cash	<u>\$ 795,825</u>

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 possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) 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 deposits or investments, 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 fair 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's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

The District's deposits with financial institutions in excess of federal depository insurance limits are legally required by the California Government Code to collateralize the City's deposits as noted above.

Fair Value Reporting - Investments

The District categorizes the fair value measurements of its investments within the fair value hierarchy established by GAAP. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. These levels are determined by the District's investment manager based on a review of the investment class, structure and what kind of securities are held in the portfolio. The District's holdings are classified in Level 1 of the fair value hierarchy.

Restricted Cash and Investments

Restricted cash and investments held for capital improvements consists of funds collected from all property owners for water services. The base rate money is to be spent on water system improvements and replacement of depreciated equipment, as stated in the Standing Rules and Regulations (see Note 1).

Timber Cove County Water District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 3 - CAPITAL ASSETS

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

<u>Governmental Activities</u>	<u>Balance</u> 6/30/19	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> 6/30/20
Capital assets, not being depreciated:				
Land	\$ 171,032	\$ -	\$ -	\$ 171,032
Construction in progress	<u>4,628</u>	<u>1,080</u>	<u>8,009</u>	<u>(2,301)</u>
Total capital assets, not being depreciated	<u>175,660</u>	<u>1,080</u>	<u>8,009</u>	<u>168,731</u>
Capital assets, being depreciated:				
Building	76,751	-	-	76,751
Water system	3,021,160	-	-	3,021,160
Treatment plant	250,102	-	-	250,102
Fire hydrants	156,172	-	-	156,172
Equipment and other assets	<u>85,446</u>	<u>-</u>	<u>-</u>	<u>85,446</u>
Total capital assets, being depreciated	<u>3,589,631</u>	<u>\$ -</u>	<u>\$ -</u>	<u>3,589,631</u>
Total accumulated depreciation	<u>(2,782,243)</u>			<u>(2,887,380)</u>
Total capital assets being depreciated – net	<u>807,388</u>			<u>702,251</u>
Capital assets – net	<u>\$ 983,048</u>			<u>\$ 870,982</u>

Depreciation expense of \$105,137 was recorded as an operating expense for the fiscal year ended June 30, 2020.

NOTE 4 - NET POSITION

GASB Statement No. 63 requires that the differences between assets added to the deferred outflows of resources and liabilities added to the deferred inflows of resources be reported as net position. Net position is classified as either net investment in capital assets, restricted, or unrestricted.

Net position that is net investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by the outstanding principal of related debt. Restricted net position represents the portion of net position that has external constraints placed on it by parties outside of the District, such as creditors, grantors, contributors, or laws and regulations of other governments, or through constitutional provisions or enabling legislation. Unrestricted net position consists of net position that does not meet the definition of net investment in capital assets or restricted net position.

NOTE 5 - SUBSEQUENT EVENTS

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through the date the financial statements were issued.

Timber Cove County Water District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 6 - CONTINGENCY

Coronavirus Pandemic

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) began to spread among various countries, including the United States. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, multiple jurisdictions in the U.S., including California, declared a state of emergency and issued shelter-in-place orders in response to the outbreak. Only the District Manager and Facilities Director positions are considered “essential” employees. The immediate impact to the District’s operations included new restrictions on employees’ work location and planning heightened sanitation awareness requirements on office staff. It is anticipated that the impacts from this pandemic will continue for some time. As of the report date, the financial impact of the coronavirus outbreak cannot be measured.

NOTE 7 - PRIOR PERIOD ADJUSTMENT

The June 30, 2019 prior period adjustment of \$44,783 was to remove the accounts receivable monthly float adjustment account. The bookkeeper was incorrectly using this account to reconcile the accounts receivable balance to match period close reports from their billing software.

The June 30, 2020 prior period adjustment of \$26,292 was to remove the accounts receivable allowance uncollectable account. The account was originally set up for accounts past due 90 days to be considered uncollectable. However, the District has since changed policies and has now put measures in place to collect delinquent accounts. At 90 days, a pre-lien notice is sent informing customers that the District will place a lien with the Sonoma County and collect through their property taxes. If they default with Sonoma County, they face foreclosure. The District now also holds up escrow on delinquent accounts and any monies owed are then collected through escrow.