

**TIMBER COVE COUNTY WATER
DISTRICT**

JENNER, CALIFORNIA

BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

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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, 2016, 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. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

Timber Cove County Water District does not maintain accounting records sufficient to assure that all transactions are recorded. Accordingly, it was not practicable for us to extend our procedures sufficiently to determine that all of the assets and liabilities of Timber Cove County Water District's and changes in their net position are recorded in the financial statements referred to above. We were unable to obtain sufficient appropriate audit evidence about the completeness, accuracy and occurrence of revenue and expense accounts or subsequent events by other auditing procedures. In addition, we were unable to obtain written representations from management of the Timber Cove County Water District as required by generally accepted auditing standards.

Disclaimer of Opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements referred to in the first paragraph.

Other Matters

Required Supplementary Information

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 these matters.

R. J. Ricciardi, Inc.

R. J Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
May 15, 2020

Timber Cove County Water District
STATEMENTS OF NET POSITION
 For the Year Ended June 30, 2016

ASSETS

Current assets:	
Cash and investments	\$ 522,038
Restricted cash and investments:	
Debt service	57,855
Capital improvements	291,755
Total cash and investments	871,648
Accounts receivable	99,204
Prepays and deposits	5,574
Total current assets	976,426
Capital assets:	
Non-depreciable assets	194,850
Depreciable assets (net of depreciation)	1,096,107
Total assets	2,267,383

LIABILITIES AND NET POSITION

Current liabilities:	
Accounts payable	6,440
Total current liabilities	6,440
Long-term liabilities:	
Due within one year	21,915
Due in more than one year	70,337
Total long-term liabilities	92,252
Total liabilities	98,692
Net position:	
Invested in capital assets, net of related debt	1,198,705
Restricted for debt service	57,855
Restricted for capital improvements	291,755
Unrestricted	620,376
Total net position	\$ 2,168,691

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, 2016

Operating revenues:	
Water sales	\$ 249,984
Base rate fees	284,800
Other operating	<u>573</u>
Total operating revenues	<u>535,357</u>
Operating expenses:	
Contract services and related expenses	68,250
Services and supplies	419,905
General and administrative expenses	60,838
Depreciation	<u>128,325</u>
Total operating expenses	<u>677,318</u>
Operating income (loss)	<u>(141,961)</u>
Non-operating revenues (expenses):	
Interest revenue	365
Other income	<u>47,292</u>
Total non-operating revenues (expenses)	<u>47,657</u>
Changes in net position	(94,304)
Net position, beginning of period	<u>2,262,995</u>
Net position, end of period	<u>\$ 2,168,691</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, 2016

Cash flows from operating activities:	
Receipts from customers	\$ 468,530
Payments to suppliers	<u>(557,035)</u>
Net cash provided (used) by operating activities	<u>(88,505)</u>
Cash flows from non-capital financing activities:	
Taxes and assessments	<u>47,292</u>
Net cash provided (used) by non-capital financing activities	<u>47,292</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	-
Payment on current portion of bonds	<u>(21,282)</u>
Net cash provided (used) by capital and related financing activities	<u>(21,282)</u>
Cash flows from investing activities:	
Interest earned	<u>365</u>
Net cash provided by investing activities	<u>365</u>
Net increase (decrease) in cash and cash equivalents	(62,130)
Cash and cash equivalents - beginning of period	<u>933,778</u>
Cash and cash equivalents - end of period	<u><u>\$ 871,648</u></u>
Reconciliation of operating income (loss) to net cash provided (used in) operating activities:	
Operating income (loss)	\$ (141,961)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	128,325
Changes in certain assets and liabilities:	
Accounts receivable	(66,827)
Accounts payable	(2,468)
Prepaid items	<u>(5,574)</u>
Net cash provided (used) by operating activities	<u><u>\$ (88,505)</u></u>

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, 2016

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 the 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 Investments with County Treasurer

Acting as fiscal agent for the District, the County of Sonoma collects flat charges (special assessments) from property owners and allocates them to the District. Sufficient funds are held on deposit in order to make debt service payments on the District's State Water Loan. All other amounts are distributed to the District which deposits the funds with WestAmerica Bank.

The District benefits from the County Treasurer's practice of pooling the cash and investments of certain funds. The fair value of pooled investments is determined annually and is based on current market prices. The method used to determine the District's equity for the purpose of making withdrawals is the book value of the District's percentage of participation at the date of the withdrawal. Interest earned on pooled investments is allocated quarterly, based on the District's average daily balance for that quarter.

Timber Cove County Water District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Cash and Investments (concluded)

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.

Accounts Receivables

Accounts receivable represents amount 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.

Timber Cove County Water District
NOTES TO BASIC FINANCIAL STATEMENTS
 For the Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Capital Assets (concluded)

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:

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

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.

Timber Cove County Water District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

J. Standing Rules and Regulations (concluded)

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.

NOTE 2 - CASH AND INVESTMENTS

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

	2016
Cash :	
Demand accounts at Bank of America	\$ 522,038
Total cash	\$ 522,038
	2016
Restricted cash:	
Cash/investments with County of Sonoma for debt services	\$ 57,855
Edward Jones – capital improvements	291,755
Total restricted cash	\$ 349,610

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).

Timber Cove County Water District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 2 - CASH AND INVESTMENTS (concluded)

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.

Investment in Sonoma County Investment Pool

The District's cash is pooled with the Sonoma County Treasurer, who acts as a disbursing agent for the District. 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 the Treasury Pool for the entire Treasury Pool portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on accounting records maintained by the Treasury Pool, which are on an amortized cost basis. Interest earned on investments pooled with the County is allocated quarterly to the appropriate fund based on its respective average daily balance for that quarter. The Treasury Oversight Committee has regulatory oversight for all monies deposited into the Treasury Pool.

A copy of the Treasury Pool investment policy is available upon request from the Sonoma County Treasurer at 585 Fiscal Drive, Room 100-F, Santa Rosa, California, 95403-2871.

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).

Restricted cash and investments held for debt service consists of funds held by the County of Sonoma that are received through special assessments. These funds are to be used for payment of the State Water Loan.

Timber Cove County Water District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

<u>Governmental Activities</u>	Balance 6/30/15	Increase	Decrease	Balance 6/30/16
Capital assets, not being depreciated:				
Land	\$ 170,232	\$ -	\$ -	\$ 170,232
Construction in progress	<u>24,618</u>	-	-	<u>24,618</u>
Total capital assets, not being depreciated	<u>194,850</u>	-	-	<u>194,850</u>
Capital assets, being depreciated:				
Building	76,751	-	-	76,751
Water system	2,972,698	-	-	2,972,698
Treatment plant	250,102	-	-	250,102
Fire hydrants	156,172	-	-	156,172
Equipment and other assets	<u>85,446</u>	-	-	<u>85,446</u>
Total capital assets, being depreciated	<u>3,541,169</u>	-	-	<u>3,541,169</u>
Total accumulated depreciation	<u>(2,316,737)</u>	<u>(128,325)</u>	-	<u>(2,445,062)</u>
Total capital assets being depreciated – net	<u>1,224,432</u>	<u>(128,325)</u>	-	<u>1,096,107</u>
Capital assets – net	<u>\$ 1,419,282</u>	<u>\$ (128,325)</u>	<u>\$ -</u>	<u>\$ 1,290,957</u>

Depreciation expense of \$128,325 was recorded as an operating expense for the fiscal years ended June 30, 2016.

NOTE 4 - LONG TERM DEBT

Loan Payable – SDWR

Under the Safe Drinking Water Bond Law of 1988, the California Department of Water Resources provided Timber Cove County Water District with a \$460,000 loan and a \$400,000 grant. The District is obligated to make semi-annual payments to the State for a period not to exceed 25 years at an interest rate of 2.955%. The first semi-annual payment was due October 1, 1998. Included in the payment schedule was a 5% administrative fee bringing the total initial principal amount to \$483,000. The outstanding balance as of June 30, 2016 was \$92,252.

The following is a summary of long term debt for the fiscal year ended June 30, 2016:

<u>Year End June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 21,915	\$ 2,565	\$ 24,480
2018	22,568	1,913	24,481
2019	23,239	1,241	24,480
2020	23,931	549	24,480
2021	<u>599</u>	<u>9</u>	<u>608</u>
Total	<u>\$ 92,252</u>	<u>\$ 6,277</u>	<u>\$ 98,529</u>

Timber Cove County Water District
NOTES TO BASIC FINANCIAL STATEMENTS
 For the Year Ended June 30, 2016

NOTE 4 - LONG TERM DEBT (concluded)

Changes in Long Term Debt

The following is a summary of long term debt for the fiscal year:

<u>Business-Type Activity</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Amount Due in One Year</u>
Loan Payable (SDWR)	\$ 113,534	\$ -	\$ 21,282	\$ 92,252	\$ 21,915

Debt Issued Without Government Commitment

Assessment District 1994 – In August 1994, the District issued \$1,128,829 of Assessment District 1994, Limited Obligation Improvement Bonds. The Bonds were issued for the acquisition of a water reservoir site and the construction of a water storage reservoir, a water treatment plant, a water main and pumping facilities.

The District is in no way liable for repayment but is only acting as an agent for the property owners in collecting the assessments, forwarding the collection to bondholders, and initiating foreclosure proceedings for the benefit of the bondholders. For these reasons, neither the debt nor the related debt service transactions are recorded in the District’s basic financial statements. The principal balance outstanding at June 30, 2016 is \$92,252.

NOTE 5 - 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.

In the government-wide financial statements, net position is reported in three categories: net investment in capital assets, restricted and 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.

Net 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.

Restricted net position describes the portion of net position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the District cannot unilaterally alter. These principally include developer fees received for use on capital projects, debt service requirements, and gas tax funds for street construction.

Unrestricted net position describes the portion of net position which is not restricted as to use.

Timber Cove County Water District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 6 - CONTINGENT LIABILITIES

The District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the District's counsel that resolution of these matters will not have a materially adverse effect on the financial condition of the District.

NOTE 7 - 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.