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6/11/2024

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

ANNUAL FINANCIAL REPORT

JUNE 30, 2023

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Timber Cove County Water District
Jenner, California

Report on the Financial Statements

Opinions

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, 2023, 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.

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, 2023, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Timber Cove County Water District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Timber Cove County Water District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Timber Cove County Water District’s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Timber Cove County Water District’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited Timber Cove County Water District’s 2022 financial statements, and our report dated March 28, 2023, 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, 2022, 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.

OConnor & Company

Novato, California

Timber Cove County Water District
STATEMENTS OF NET POSITION
For the Year Ended June 30, 2023
(With Comparative Totals for the Year Ended June 30, 2022)

<u>ASSETS</u>	<u>2023</u>	<u>2022</u>
Current assets:		
Cash and investments	\$ 66,971	\$ 206,560
Restricted cash and investments	<u>708,295</u>	<u>796,118</u>
Total cash and investments	<u>775,266</u>	<u>1,002,678</u>
Accounts receivable	74,311	73,029
Prepays and deposits	<u>977</u>	<u>977</u>
Total current assets	<u>850,554</u>	<u>1,076,684</u>
Capital assets:		
Non-depreciable assets	897,100	177,740
Depreciable assets (net of depreciation)	<u>810,808</u>	<u>707,704</u>
Total assets	<u>2,558,462</u>	<u>1,962,128</u>
 <u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Accounts payable	<u>3,685</u>	<u>1,826</u>
Total current liabilities	<u>3,685</u>	<u>1,826</u>
Total liabilities	<u>3,685</u>	<u>1,826</u>
Net position:		
Net investment in capital assets	1,707,908	885,444
Restricted for capital improvements	708,295	796,118
Unrestricted	<u>138,574</u>	<u>278,740</u>
Total net position	<u>\$ 2,554,777</u>	<u>\$ 1,960,302</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, 2023
(With Comparative Totals for the Year Ended June 30, 2022)

	<u>2023</u>	<u>2022</u>
Operating revenues:		
Water sales	\$ 267,231	\$ 353,936
Base rate fees	266,485	257,558
Other operating	-	9,928
Total operating revenues	<u>533,716</u>	<u>621,422</u>
Operating expenses:		
Services and supplies	425,448	481,290
General and administrative expenses	157,275	143,868
Depreciation	<u>56,051</u>	<u>114,040</u>
Total operating expenses	<u>638,774</u>	<u>739,198</u>
Operating income (loss)	<u>(105,058)</u>	<u>(117,776)</u>
Non-operating revenues (expenses):		
Interest revenue	<u>11,489</u>	<u>59</u>
Total non-operating revenues (expenses)	<u>11,489</u>	<u>59</u>
Changes in net position	(93,569)	(117,717)
Prior period adjustment	688,044	-
Net position, beginning of period	<u>1,960,302</u>	<u>2,078,019</u>
Net position, end of period	<u>\$ 2,554,777</u>	<u>\$ 1,960,302</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, 2023
(With Comparative Totals for the Year Ended June 30, 2022)

	2023	2022
Cash flows from operating activities:		
Receipts from customers	\$ 532,434	\$ 654,631
Payments to employees	(345,038)	(323,797)
Payments to suppliers	(235,826)	(308,970)
Net cash provided (used) by operating activities	(48,430)	21,864
Cash flows from capital and related financing activities:		
Disposal of capital assets	11,474	-
Acquisition, adjustment and construction of capital assets	(201,945)	(125,036)
Net cash provided (used) by capital and related financing activities	(190,471)	(125,036)
Cash flows from investing activities:		
Interest earned	11,489	60
Net cash provided by investing activities	11,489	60
Net increase (decrease) in cash and cash equivalents	(227,412)	(103,112)
Cash and cash equivalents - beginning of period	1,002,678	1,105,790
Cash and cash equivalents - end of period	\$ 775,266	\$ 1,002,678
Reconciliation of operating income (loss) to net cash provided (used in) operating activities:		
Operating income (loss)	\$ (105,058)	\$ (117,776)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	56,051	114,040
Changes in certain assets and liabilities:		
Accounts receivable	(1,282)	33,209
Accounts payable	1,859	(7,610)
Prepaid items	-	1
Net cash provided (used) by operating activities	\$ (48,430)	\$ 21,864

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, 2023

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, assets 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.

Accounts Receivables

Accounts receivable represents amounts owed the District by its customers. Payments received in advance are reported as customer prepayments.

Timber Cove County Water District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Cash and Investments (concluded)

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, 2023

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, 2023

NOTE 2 - CASH AND INVESTMENTS

Cash equivalents and investments consisted of the following at June 30, 2023:

Cash:	
Demand accounts at Mechanics Bank	\$ 66,971
Total cash	<u>\$ 66,971</u>
Restricted cash:	
CA Local Agency Investment Fund	\$ 708,295
Total restricted cash	<u>\$ 708,295</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 the possession of an outside party. The custodial credit risk for deposits and 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 requires California banks and savings and loan associations to secure an entity's deposits by pledging government securities with a value of 110% of an entity's deposits. California law also allows financial institutions to secure entity deposits by pledging first trust deed mortgage notes having a value of 150% of an entity's total deposits. The entity's Treasurer may waive the collateral requirement for deposits which are fully insured up to \$250,000 by the FDIC. The collateral for deposits in federal and state-chartered banks is held in safekeeping by an authorized agent of depository recognized by the State of California Department of Banking. The collateral for deposits with savings and loan associations is generally held in safekeeping by the Federal Home Loan Bank in San Francisco, California as an agent of depository. These securities are physically held in an undivided pool for all California public agency depositors.

Fair Value Reporting - Investments

GASB Statement No. 72, *Fair Value Measurements and Application*, establishes a fair value hierarchy consisting of three broad levels: Level 1 inputs consist of quoted prices (unadjusted) for identical assets and liabilities in active markets that a government can access at the measurement date, Level 2 inputs consist of inputs other than quoted prices that are observable for an asset or liability, either directly or indirectly, that can include quoted prices for similar assets or liabilities in active or inactive markets, or market-corroborated inputs, and Level 3 inputs have the lowest priority and consist of unobservable inputs for an asset or liability.

The Local Agency Investment Pool's holdings and cash in banks were not subject to 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, 2023

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2023 was as follows:

<u>Governmental Activities</u>	<u>Balance 6/30/22</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance 6/30/23</u>
Capital assets, not being depr.:				
Land	\$ 171,032	\$ 692,420	\$ 4,376	\$ 859,076
Construction in progress	<u>6,708</u>	<u>38,024</u>	<u>6,708</u>	<u>38,024</u>
Total capital assets, not being depr.	<u>177,740</u>	<u>730,444</u>	<u>11,084</u>	<u>897,100</u>
Capital assets, being depreciated:				
Building	76,751	3,058	-	79,809
Water system	3,125,863	136,444	-	3,262,307
Treatment plant	334,400	-	390	334,010
Fire hydrants	156,172	-	-	156,172
Equipment and other assets	92,981	-	-	92,981
Vehicles	<u>33,558</u>	<u>20,044</u>	<u>-</u>	<u>53,602</u>
Total capital assets, being depr.	<u>3,819,725</u>	<u>159,546</u>	<u>390</u>	<u>3,978,881</u>
Total accumulated depreciation	<u>(3,112,021)</u>	<u>(56,052)</u>	<u>-</u>	<u>(3,168,073)</u>
Total capital assets being depreciated – net	<u>707,704</u>	<u>103,494</u>	<u>(390)</u>	<u>810,808</u>
Capital assets – net	<u>\$ 885,444</u>	<u>\$ 833,938</u>	<u>\$ 11,474</u>	<u>\$ 1,707,908</u>

Depreciation expense of \$56,052 was recorded as an operating expense for the fiscal year ended June 30, 2023.

NOTE 4 - NET POSITION

The proprietary enterprise fund financial statements utilize a net position presentation. Net position categories are as follows:

- Net Investment in Capital Assets - This component of net position consists of capital assets, net of accumulated depreciation and reduced by any debt outstanding against the acquisition, construction or improvement of those assets.
- Restricted Net Position - This component of net position consists of amounts with constraints placed on net position use by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position - This component of net position consists of net position that does not meet the definition of restricted or net investment in capital assets. This may include amounts board-designated to be reported as being held for a particular purpose.

The District may fund operations with a combination of cost-reimbursement grants and capital grants. Thus, both restricted and unrestricted net position may be available to finance expenditure. The District's policy is to first apply restricted resources, followed by unrestricted resources if necessary.

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, 2023

NOTE 6 - PRIOR PERIOD ADJUSTMENT

For the fiscal year ended June 30, 2023, the District has a prior period adjustment of \$688,044. This adjustment is to account for the change in the appraisal of land value for Lyon Court, Timber Cove, and Weir Jenner properties. Additionally, this adjustment is to include the Weir Property and Lyons Court Office that were not recorded at the time of acquisition.

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