

TRINITY COUNTY WATERWORKS DISTRICT NO. 1

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2019

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Donald R. Reynolds

Certified Public Accountant

INDEPENDENT AUDITORS' REPORT

Board of Directors
Trinity County Water Works District #1
Hayfork, California

Report On the Financial Statements

I have audited the accompanying consolidated financial statements of Trinity County Water Works District #1 (TCWW#1), which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities and changes in Net Position and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the TCWW#1's preparation and fair presentation of the consolidated 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 TCWW#1's internal control. Accordingly, I 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 consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

P.O. Box 994508, California 96099-4508 * (530) 246-AUDIT (2834) * FAX (530) 244-0331

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TCWW#1's as of June 30, 2019, and the changes in their net position and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

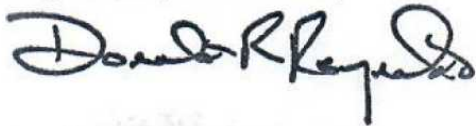
Emphasis of Matter

The District has terminated its contact with CalPERS effective for the 2016-17 fiscal year. A final determination of the District's outstanding liability was made at the time the District made the decision to withdraw. Subsequently the District has received an invoice for a substantially greater amount than the original estimate, (\$1,700,000 versus \$400,000) and District is in continuing negotiations to reduce the ultimate balance, currently reported at \$1,534,409.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis 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. Management has elected to omit the Management Discussion and analysis.



Donald R. Reynolds, CPA
Redding, California
December 10, 2019

GOVERNMENT WIDE FINANCIAL STATEMENTS

TRINITY COUNTY WATERWORKS DISTRICT #1
STATEMENT OF NET POSITION
JUNE 30, 2019

	<u>Governmental</u> <u>Activities</u>	<u>Business</u> <u>Activities</u>	<u>Total</u>
ASSETS			
<u>Current Assets:</u>			
Cash and Investments			
Available for operations	\$ 4,881	\$ 67,785	\$ 72,666
Restricted cash	-	619,500	619,500
Accounts receivable - Net of allowance	11,250	108,844	120,094
Inventory	-	32,195	32,195
Capital Assets			
Assets not subject to depreciation:			
Land	-	4,000	4,000
Construction in Progress	-	45,000	45,000
Assets subject to depreciation:			
Water & Sewer Systems	-	15,051,323	15,051,323
Irrigation System	-	910,490	910,490
General Plant & Equipment	-	189,655	189,655
Accumulated Depreciation	-	(7,465,393)	(7,465,393)
Depreciable assets net	<u>-</u>	<u>8,686,075</u>	<u>8,686,075</u>
Other Assets	-	-	-
Total Assets	<u>\$ 16,131</u>	<u>\$ 9,563,399</u>	<u>\$ 9,579,530</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Pension	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>LIABILITIES</u>			
Accounts Payable	\$ -	\$ 15,412	\$ 15,412
Payroll Withholdings and Accrued Liabilities	-	6	6
Accrued Interest Payable	-	-	-
Customer Deposits	-	21,733	21,733
Net pension liability	-	1,534,409	1,534,409
Long-term Debt			
Payable within one year	-	30,066	30,066
Due in more than one year	-	659,657	659,657
Total Liabilities	<u>\$ -</u>	<u>\$ 2,261,283</u>	<u>\$ 2,261,283</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
GASB 68 Pension adjustments	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total deferred inflows	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>NET POSITION</u>			
Non-Spendable Investment in Capital Assets, net of related debt	-	8,000,352	8,000,352
Restricted for:	-	-	-
Debt Service	-	-	-
Levee Maintenance	-	-	-
Unassigned	<u>16,131</u>	<u>(698,236)</u>	<u>(682,105)</u>
Total Net Position	<u>\$ 16,131</u>	<u>\$ 7,302,116</u>	<u>\$ 7,318,247</u>

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

TRINITY COUNTY WATERWORKS DISTRICT #1
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2019

FUNCTIONS/PROGRAMS	<u>EXPENSES</u>	<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	<u>CAPITAL GRANTS AND CONTRIBUTIONS</u>	<u>NET (EXPENSE)/REVENUE</u>
Cultural, Parks and Recreation					
General Fund	\$ -	\$ -	\$ -	\$ -	\$ -
Business-Type Activities					
Water	673,666	802,505	-	-	128,839
Sewer	292,250	225,565	-	-	(66,685)
Irrigation	30,350	20,196	-	-	(10,154)
Total Business-Type Activities	<u>996,266</u>	<u>1,048,266</u>	<u>-</u>	<u>-</u>	<u>52,000</u>
Total	<u>\$ 996,266</u>	<u>\$ 1,048,266</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 52,000</u>

<u>Governmental Activities</u>	<u>Business Activities</u>	<u>Total</u>
---------------------------------------	-----------------------------------	---------------------

CHANGES IN NET POSITION:

Net (Expense)/Revenue	\$ -	\$ 52,000	\$ 52,000
General Revenues:			
Taxes			
Sales and Use Taxes	-	-	-
Property Taxes	-	32,783	32,783
Other Taxes	-	-	-
Grants and contributions	-	-	-
Intergovernmental	-	-	-
Investment Income	-	594	594
Assessments	-	36,333	36,333
Other	-	15,171	15,171
Transfers - Internal Activity	-	-	-
Total General Revenues and Transfers	<u>-</u>	<u>84,881</u>	<u>84,881</u>
Change in Net Position	-	136,881	136,881
Net Position - Beginning	16,131	7,153,805	7,169,936
Prior period adjustments	-	11,430	11,430
Net Position - Beginning (Restated)	<u>16,131</u>	<u>7,165,235</u>	<u>7,181,366</u>
Net Position - Ending	<u>\$ 16,131</u>	<u>\$ 7,302,116</u>	<u>\$ 7,318,247</u>

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

**TRINITY COUNTY WATERWORKS DISTRICT #1
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019**

	Governmental Activities <u>General Fund</u>
ASSETS	
<u>Current Assets:</u>	
Cash	\$ 4,881
Accounts Receivable	11,250
Total Assets	<u>\$ 16,131</u>
<u>LIABILITIES</u>	
Other Accrued Liabilities	-
Total Liabilities	<u>-</u>
<u>FUND BALANCES</u>	
Unreserved, Reported In:	-
Capital Projects	-
Total Fund Balances	<u>16,131</u>
Total Liabilities and Net Assets	<u>\$ 16,131</u>

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE
GOVERNMENT-WIDE STATEMENT OF NET ASSETS**

Amounts reported for governmental activities in the Statement
of Net Assets are different because:

Capital assets unused in governmental activities are not financial resources
and therefore are not reported in the funds, net of accumulated
depreciation.

\$ -

Other long-term assets are not available to pay for current-period
expenditures and therefore are deferred in the funds:

Long-term liabilities are not due and payable in the current period and
therefore are not reported in the funds:

Net assets of governmental activities

\$ 16,131

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

TRINITY COUNTY WATERWORKS DISTRICT #1
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2019

	General Fund	Total Governmental Funds
REVENUES		
Golf Course Charges	\$ -	\$ -
Other	-	-
	<hr/>	<hr/>
Total Revenues	-	-
EXPENDITURES		
<u>Current:</u>		
Other - Refunds	-	-
	<hr/>	<hr/>
Total Expenditures	-	-
	<hr/>	<hr/>
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-
	<hr/>	<hr/>
OTHER FINANCING SOURCES (USES)		
Transfers in (out)	-	-
	<hr/>	<hr/>
Total Other Financing Sources (Uses)	-	-
	<hr/>	<hr/>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	-	-
	<hr/>	<hr/>
FUND BALANCE - BEGINNING OF YEAR	16,131	16,131
	<hr/>	<hr/>
FUND BALANCE - END OF YEAR	\$ 16,131	\$ 16,131
	<hr/>	<hr/>

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

(Continued)

TRINITY COUNTY WATERWORKS DISTRICT #1
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2019

Reconciliation of the change in fund balances - Total Governmental Funds to the change in net assets of governmental activities	
Net change in fund balances - Total Governmental Funds	\$ -
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the estimated useful life of the assets:	None
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:	None
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets:	None
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures on governmental funds:	None
Change in Net Assets of Governmental Activities	<u>\$ -</u>

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

TRINITY COUNTY WATERWORKS DISTRICT #1
STATEMENT OF NET POSITION
BUSINESS TYPE ACTIVITIES
JUNE 30, 2019

ASSETS

Cash and Investments		
Cash available for operations	\$	67,785
Restricted Assets:		
Cash		-
Investments		619,500
Accounts Receivable		108,844
Inventory		32,195
Capital Assets :		
Assets not subject to depreciation:		
Land		4,000
Construction in Progress		45,000
Assets subject to depreciation:		
Water & Sewer Systems		15,051,323
Irrigation System		910,490
General Plant & Equipment		189,655
Accumulated Depreciation		(7,465,393)
Other Assets		-
Total Assets	\$	<u>9,563,399</u>

DEFERRED OUTFLOWS OF RESOURCES

Pension	\$	<u>-</u>
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LIABILITIES

Accounts Payable	\$	15,412
Payroll Withholdings & Accrued Liabilities		6
Customer Deposits		21,733
Net Pension Liability		1,534,409
Long term debt		
Amount due within one year		30,066
Amount payable in more than one year		659,657
Total Liabilities	\$	<u>2,261,283</u>

DEFERRED OUTFLOWS OF RESOURCES

Pension	\$	<u>-</u>
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NET POSITION

Investment in Capital Assets, net of related debt		8,000,352
Restricted for:		
Debt Service		-
Unrestricted		(698,236)
Total Net Position	\$	<u>7,302,116</u>

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

TRINITY COUNTY WATERWORKS DISTRICT #1
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
BUSINESS TYPE ACTIVITIES
For the Fiscal Year Ended June 30, 2019

OPERATING REVENUES

Water Sales	\$ 478,023
Sewer Service Charges	177,578
Connection, Extension and Other Fees	392,665
Other	-
	<u>1,048,266</u>

OPERATING EXPENSES

Depreciation and Amortization	333,755
Electric Power	32,153
Insurance	202
Lab fees	31,778
Office Supplies, Utilities and Maintenance	15,313
Other	4,941
Professional Services	327,876
Salaries and wages, Pension and Payroll Taxes	115,876
State Fees	39,929
System Repairs and Maintenance	57,682
Telemetry and Lab Testing	4,676
Travel, Meetings, Memberships and Subscriptions	2,178
Total Operating Expenses	<u>966,359</u>
Operating Income (Loss)	<u>81,907</u>

NONOPERATING REVENUES

Interest	594
Grant Revenue	-
Special assessments	36,333
Taxes	32,783
Other	15,171
Total Nonoperating Revenues	<u>84,881</u>

NONOPERATING EXPENSES

Interest	29,907
Other	-
Total Nonoperating Expenses	<u>29,907</u>
Nonoperating Income	<u>54,974</u>

INCOME BEFORE CONTRIBUTIONS

Contributed capital	-
	<u>136,881</u>

CHANGE IN NET POSITION

UNRESTRICTED NET POSITION AT JULY 1, as previously stated	7,153,805
Prior period Adjustment	11,430
UNRESTRICTED NET POSITION AT JULY 1, as restated	<u>7,165,235</u>
UNRESTRICTED NET POSITION AT JUNE 30, 2019	<u>\$ 7,302,116</u>

The accompanying notes are an integral part of these financial statements

TRINITY COUNTY WATERWORKS DISTRICT #1
STATEMENT OF CASH FLOWS -
BUSINESS TYPE ACTIVITIES
For the Fiscal Year Ended June 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES:

Operating Income (Loss)	\$ 93,337
Adjustments to Reconcile Operating Income to Cash Provided by Operating Activities:	
Depreciation	333,755
(Increase) Decrease in Accounts Receivable	(55,057)
(Increase)Decrease in deferred items	-
Increase(decrease in Customer Deposits	1,165
Increase (Decrease) in Accounts Payable	<u>(31)</u>
Net Cash Provided by Operating Activities	<u>373,169</u>

**CASH FLOWS FROM (TO) NONCAPITAL
FINANCING ACTIVITIES:**

Other Nonoperating Revenues	84,287
Operating Transfers-in	-
Operating Transfers-out	<u>-</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>84,287</u>

**CASH FLOWS FROM (TO) CAPITAL AND RELATED
FINANCING ACTIVITIES:**

Purchase of fixed assets	(308,117)
Increase in Net Pension Liability	-
Payments of Long-term Debt	(31,059)
Interest Paid on Long-term Debt	<u>(29,907)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>(369,083)</u>

CASH FLOWS FROM INVESTMENT ACTIVITIES:

Interest Received	<u>594</u>
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**INCREASE (DECREASE) IN CASH AND CASH
EQUIVALENTS**

88,967

CASH AND CASH EQUIVALENTS - Beginning

598,318

CASH AND CASH EQUIVALENTS - Ending

\$ 687,285

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

TRINITY COUNTY WATERWORKS DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

The financial statements of Trinity County Waterworks District No. 1 have been prepared in conformity with Accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Description of Reporting Entity

The Trinity County Waterworks District No. 1 (District) provides water and sewer as well as irrigation water service to customers in Hayfork, California.

In evaluating how to define the District, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the District and/or its citizens, or whether the activity is conducted within the geographic boundaries of the District and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities.

Based upon the application of these criteria, there are no potential component units to be included in the District's reporting entity.

B. Implementation of Governmental Accounting Standards Board Statements

GASB Statement No. 40

At June 30, 2011, the District adopted the provisions of Governmental Accounting

Continued on the following page.

TRINITY COUNTY WATERWORKS DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (Continued)

B. Implementation of Governmental Accounting Standards Board Statements (Continued)

Standards Board (GASB) Statement 40, Deposits and Investment Risk Disclosures an amendment of GASB Statement No. 3. The Statement modifies the custodial credit risk disclosures required by Statement No. 3, Deposits with Financial institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements and addresses deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

Accordingly, the cash and investments disclosure has been revised to conform to the provisions of GASB Statement No. 40.

C. Basis of Presentation and Accounting

The accompanying basic financial statements of the District are prepared on the accrual basis method of accounting in accordance with generally accepted accounting principles as applicable to governmental units. Under this method, revenues are recognized when earned and expenses are recognized when incurred.

All activities of the District are accounted for within a single enterprise fund. Enterprise funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Nonoperating* revenues, such as subsidies and investment earning, result from non exchange transactions or ancillary activities.

Non-exchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. In accordance with GASB No. 33, *Accounting and Reporting for Non-exchange Transactions*, revenue from property taxes is available.

Continued on the following page.

**TRINITY COUNTY WATERWORKS DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (Continued)

C. Basis of Presentation and Accounting (Continued)

Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligible requirements have been satisfied and the resources are available.

When both restricted and unrestricted resources are available for use, it is the District's Policy to use restricted resources first, then unrestricted resources as they are needed.

D. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the District considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

E. Allowance for Doubtful Accounts

The District's receivables consist mostly of special assessments due from tax payers and utility billing due from customers. The District considers accounts receivable to be fully collectible at year-end; accordingly, no allowance for doubtful accounts is required.

F. Capital Assets

Property and equipment is recorded at cost. Donated property and equipment is stated at the fair value at the date of donation and recorded as contributed capital. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets as follows:

Structures and Improvements	10-45 Years
Vehicles and Equipment	3-10 Years

G. Inventory

The District uses the "consumption" method of accounting for inventory. Under the "consumption" method, inventory acquisitions are recorded in the inventory account initially, and charged as expenditures when used.

Continued on the following page.

**TRINITY COUNTY WATERWORKS DISTRICT NO. 1
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (Continued)

H. General Liability Insurance

The District is a member of the Special District Risk Management Authority (S.D.R.M.A.) under a Joint Powers Agreement. The Authority provides general liability and property, and errors and omissions insurance under a self-insurance program funding pool.

I. Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as liabilities of the District and are accrued when incurred.

Accumulated Employee sick leave benefits are not recognized as liabilities of the District since payment of such benefits is not probable. Therefore, sick leave benefits are recorded as expenditures in the period that sick leave is taken.

J. Property Taxes

The State of California (State) Constitution Article XIII A provides that the combined maximum property tax rate on any given property may not exceed one percent (1 %) of its assessed value unless an additional amount for general obligation debt has been approved by voters. Assessed value is calculated at 100% of market value as defined by Article XIII A and may be adjusted by no more than two percent (2%) per year unless the property is sold, transferred, or improved. The State Legislature has determined the method of distribution of receipts from a one percent (1%) tax levy among the counties, cities, school districts, and other districts.

Trinity County assesses, bills for, and collects property taxes as follows:

	<u>Secured</u>	<u>Unsecured</u>
Lien dates:	March 1	March 1
Levy dates	July 1	July 1
Due dates	50% on November 1 and 50% on March 1	July 1
Delinquent as of	December 10 (for November) and April 10 (for March)	August 31

The term "unsecured" refers to taxes on personal property other than real estate, land, and buildings. These taxes are secured by liens on the property being taxed.

Continued on the following page.

**TRINITY COUNTY WATERWORKS DISTRICT NO. 1
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (Continued)

J. Property Taxes (Continued)

Property taxes levied are recorded as revenue when received in the fiscal year of levy because of the adoption of the "alternate method of property tax distribution," known as the Teeter Plan, by the District and the County of Trinity (County). The Teeter Plan authorizes the Controller of the County to allocate 100% of the secured property taxes billed, but not yet paid. The County remits tax monies to the District in three installments, as follows:

55% remitted on December 15
 40% remitted on April 15
 5% remitted on June 15

K. Capitalization of Interest

Interest is capitalized on costs associated with the acquisition and construction of assets. The amount of interest capitalized is the total of all associated interest costs, less interest earned on the temporary investment of the proceeds of any tax-exempt borrowings.

L. 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 CASH AND INVESTMENTS

The District maintains various cash and investment accounts with banks, the Trinity County Treasurer, and a safekeeping agent.

At June 30, 2019, total District cash and investments at fair value were as follows:

Government Funds

	Per Books	Per Bank
<i>Cash:</i>		
Cash on hand	\$ <u>4,881</u>	\$ <u>4,881</u>

Continued on the following page.

**TRINITY COUNTY WATERWORKS DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 2 CASH AND INVESTMENTS (Continued)

Business-Type Funds

	Per Books	Per Bank
<i>Cash:</i>		
Cash on hand and in bank	\$ <u>67,785</u>	\$ <u>67,785</u>
<i>Restricted cash:</i>		
Cash in bank	34,458	34,458
Deposits	<u>21,733</u>	<u>21,733</u>
Total restricted cash	<u>56,191</u>	<u>56,191</u>
<i>Investments:</i>		
County Pooled Treasury	29,230	29,230
With safekeeping agent	31,161	31,161
Local Agency Investment Fund	<u>502,918</u>	<u>502,918</u>
Total investment	<u>563,309</u>	<u>563,309</u>
Total restricted cash and investments	\$ <u>619,500</u>	\$ <u>619,500</u>

INVESTMENTS

The District’s investment policy does not define criteria for selecting acceptable financial institutions, brokers/dealers, or allowable investment types as defined by Government Code 53635.

At June 30, 2019, the District had the following investments:

	<u>Interest Rates</u>	<u>Maturities</u>	<u>Par</u>	<u>Cost</u>	<u>Fair Value</u>	<u>WAM (Years)</u>
Investments						
Cash in County Pooled Treasury	Variable	On Demand	\$ 29,230	\$ 29,230	\$ 29,230	-
Mutual Fund	Variable	On Demand	31,161	31,161	31,161	-
Local agency Investment Fund	1.67%-2.85%	On Demand	<u>502,918</u>	<u>502,918</u>	<u>502,918</u>	-
Total Investments in investment pool			<u>\$ 563,309</u>	<u>\$ 563,309</u>	<u>\$ 563,309</u>	<u>-</u>

Interest Rate Risk

The District’s investment policy does not define a method for limiting investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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**TRINITY COUNTY WATERWORKS DISTRICT NO. 1
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2019**

NOTE 2 CASH AND INVESTMENTS (Continued)

Credit Risk

The District’s investment policy does not define a method for limiting credit risk. State law and the County’s Investment Policy limit investments in commercial paper to the rating of A1 by Standards & Poor’s or P-1 by Moody’s Investors Service. State Law Limits Investors Service. The District has no investments in commercial paper or corporate bonds.

Concentration of Credit Risk

At June 30, 2019, in accordance with State law, the District did not have 5% or more of its net investment in commercial paper, corporate bonds or medium term notes of a single organization, nor did it have 10% or more of its net investment in any one money market mutual fund. Investments in obligations of the U.S. government, U.S. government agencies, or government-sponsored enterprises are exempt from these limitations.

The following is a summary of the credit quality distribution and concentration of credit risk by investment type as a percentage of the District’s investment pool’s fair value at June 30, 2019.

	<u>SAP</u>	<u>Moody’s</u>	<u>% of Portfolio</u>
Cash in county Pooled Treasury	Unrated	Unrated	6.99%
State Farm Mutual Fund	Unrated	Unrated	5.19%
Local Agency Investment Fund (LAIF)	Unrated	Unrated	87.82%
Total			<u>100.00%</u>

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At year end, the District’s investment pool and specific investments had no securities exposed to custodial credit risk.

Local Agency Investment Fund

The District maintains an investment in the State of California Local Agency Investment Fund (LAIF), managed by the State Treasurer. This fund is not registered

Continued on the following page.

TRINITY COUNTY WATERWORKS DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2 CASH AND INVESTMENTS (Continued)

with the Securities and Exchange Commission as an investment company, but is required to invest according to California State Code. Participants in the pool include voluntary and involuntary participants, such as special districts and school districts for which there are legal provisions regarding their investments. The Local Investment Advisor Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute.

At June 30, 2019, the District's investment position in the State of California Local Agency Investment Fund (LAIF) was \$502,918, which approximates fair value and is the same as value of the pool shares. The total amount invested by all public agencies in LAIF on that day was \$64,846,169,000. Of that amount, 97.6% was invested in non-derivative financial products and 2.4% in structured notes and asset-backed securities.

At June 30, 2019 the difference between the cost and fair value of cash and investments was not material (fair value was 97.6% of carrying value). Therefore, an adjustment to fair value was not required. Fair value is based on information provided by the State for the Local Agency Investment Fund. Investments are liquid.

Trinity County Treasury Pool

The Trinity County Treasurer's Pool is not SEC-registered, but is invested in accordance with California State Government Code, and the Trinity County Treasurer's Investment Policy. California State Government Code requires the formation of an Investment Oversight Committee, which is charged with overseeing activity in the pool for compliance to policy and code requirements. To this end, the Oversight Committee reviews the monthly investment report prior to presentation to the Board of Supervisors and causes an audit of investments to occur annually.

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**TRINITY COUNTY WATERWORKS DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 3 CAPITAL ASSETS

A summary of the changes in capital assets is as follows:

	<u>Balance July 1, 2018</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers & Adjustments</u>	<u>Balance June 30, 2019</u>
Capital assets, not being depreciated:					
Construction in Progress	\$ -	\$ 45,000	\$ -	\$ -	\$ 45,000
Land	<u>4,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,000</u>
Total capital assets, not being depreciated	<u>4,000</u>	<u>45,000</u>	<u>-</u>	<u>-</u>	<u>49,000</u>
Capital assets, being depreciated:					
Vehicles and Equipment	314,030	89,359	-	(213,734)	189,655
Structures and Improvements	<u>15,787,255</u>	<u>213,300</u>	<u>-</u>	<u>(38,742)</u>	<u>15,961,813</u>
Total capital assets, being depreciated	<u>16,101,285</u>	<u>302,659</u>	<u>-</u>	<u>(252,476)</u>	<u>16,151,468</u>
Less accumulated depreciation for:					
Vehicles and Equipment	(305,927)	(10,810)	-	(213,734)	(103,003)
Structures and Improvements	<u>(7,038,645)</u>	<u>(322,945)</u>	<u>-</u>	<u>(38,742)</u>	<u>(7,322,848)</u>
Total accumulated depreciation	<u>(7,344,572)</u>	<u>(333,755)</u>	<u>-</u>	<u>(252,476)</u>	<u>(7,425,851)</u>
Total capital assets, net	<u>\$ 8,760,713</u>	<u>\$ 13,084</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,774,617</u>

NOTE 4 LONG-TERM DEBT

A summary of long-term debt liabilities transactions for the year ended June 30, 2019 is as follows:

	<u>Long Term Portion</u>				<u>Amounts Due Within One Year</u>
	<u>Balance July 1, 2018</u>	<u>Additions</u>	<u>Deletions/ Adjustments</u>	<u>Balance June 30, 2019</u>	
Notes payable	\$ 209,714	\$ -	\$ 13,619	\$ 196,095	\$ 11,711
Special Assessment Debt with Government Obligation	<u>507,566</u>	<u>-</u>	<u>17,500</u>	<u>490,066</u>	<u>18,500</u>
Total Long-Term Liabilities	<u>\$ 717,280</u>	<u>\$ -</u>	<u>\$ 31,119</u>	<u>\$ 686,161</u>	<u>\$ 30,211</u>
<u>Other Long Term Liabilities</u>					
Compensated absences	<u>\$ 3,502</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,502</u>	<u>\$ 3,502</u>

Continued on the following page.

**TRINITY COUNTY WATERWORKS DISTRICT NO. 1
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2019**

NOTE 4 LONG-TERM DEBT (CONTINUED)

As of June 30, 2019, annual debt service requirements to maturity are as follows:

Fiscal Year June 30	Special Assessment		Notes Payable	
	Principal	Interest	Principal	Interest
2020	\$ 18,500	\$ 21,517	\$ 11,711	\$ 4,782
2021	19,500	20,702	12,005	4,486
2022	20,000	19,842	12,304	4,182
2023	21,000	18,950	12,612	3,871
2024	22,000	18,020	13,132	3,348
2025-2029	126,000	73,485	70,687	11,306
2029-2033	157,500	42,226	63,644	2,808
2034-2038	<u>105,566</u>	<u>7,600</u>	<u>-</u>	<u>-</u>
	<u>\$ 490,066</u>	<u>\$ 222,342</u>	<u>\$ 196,095</u>	<u>\$ 34,783</u>

Long-term liabilities at June 30,2019, consisted of the following:

	Date of Issue	Date of Maturity	Interest Rate	Annual Principal Installments	Original Issue Amount	Outstanding June 30,2019
Note payable - Davis Grunsky	1999	2037	2.50%	\$7,975 - \$16,329	\$ 482,000	\$ 196,095
Special Assessment Debt Waterworks District #1 sewer system construction	1997-2000	2039	4.5%	\$9,000-\$41,066	<u>1,103,750</u>	<u>490,066</u>
Total Business - Type Activities					<u>\$ 1,585,750</u>	<u>\$ 686,161</u>

Note Payable

The Davis-Grunsky loan, of which the original amount was \$482,000, is payable in annual principal installments due January 1 of each year. The current interest rate is 2.5% and is payable July 1 and January 1 of each year. An accumulated deferred interest is also payable at \$2,164 per year, due January 1 of each year.

Special Assessment Debt and Sewer System Construction

On August 13, 1997, the voters in the District approved a measure to borrow \$1,200,000 from the Rural Utilities Service (RUS) for the construction of a sewer collection and treatment system for the residents of the District. This loan is to be

Continued on the following page.

**TRINITY COUNTY WATERWORKS DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 4 LONG-TERM DEBT (CONTINUED)

Special Assessment Debt and Sewer System Construction (Continued)

repaid out of annual property tax assessments. In August 2000, the District was granted a Community Block Service Grant for \$500,000 to pay off the assessments on behalf of qualified low-income households.

NOTE 5 DEFERRED COMPENSATION PLAN

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the District (without being restricted to the provisions of benefits under the plan), subject only to the District's general creditors.

Participants' rights under the plan are equal to those of general creditors of the district in an amount equal to the fair market value of the deferred account for each participant.

At June 30, 2019, there were no active participants.

NOTE 6 CONTINGENT LIABILITY

As stated in the previous Note, the District withdrew from CalPERS effective October 1, 2016 . At that time CalPERS estimated the District's termination liability to be approximately \$487,000. Subsequently the figure was recalculated and increased to the \$1,534,409 currently showing on the balance sheet. No adjustment has been made in the current year to that amount.

The District has entered negotiations with those employees to determine if another method of payment can be arrived at that will offset the proposed reduction in the PERs benefit. At this time the nature of those payments and the nature of that agreement is undetermined. The District is currently seeking an attorney to assist them in exploring and drafting such an agreement and it will be determined at that time how to quantify and classify that liability. It is assumed, at this time, that it will fall under GASB 45 as

Continued on the following page.

TRINITY COUNTY WATERWORKS DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 6 CONTINGENT LIABILITY (Continued)

an “Other Post Employment Benefit”. The District has made the determination that the liability currently on the books (\$1,534,409) approximates the amount that will be required to fund the new arrangement, should one be crafted, and therefore the amount remains on the books. After a new agreement is arrived at, if one is arrived at, an actuarial determination will be made to determine the actual amount.

NOTE 7 Net Position/FUND BALANCES

Beginning with fiscal year 2010-11, the District implemented GASB Statement 54 “Fund Balance Reporting and Governmental Fund Type Definitions”. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable fund balance-amounts in fund balance that cannot be spent because they are either not in spendable form (such as prepaids and inventory) or legally/contractually are required to be maintained intact;

Restricted fund balance-resources that are constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through externally enforceable legal restrictions (cannot be spent due to their form).

Committed fund balance-amounts are constrained to specific purposes by action of the district itself, using its highest level of decision-making authority; Removal or modification of the restrictions on the use of these amounts can only be accomplished if the District takes the same highest level action to remove or change the constraint;

Assigned fund balance-amounts the District intends to use for a specific purpose; intent can be expressed by the District, a District created committee, or an official designated by the District to which it delegates the authority; Informal commitments (no formal action by the District).

Unassigned fund balance-Resources in the fund balance that cannot be classified into any of the other categories. These amounts that are available for any purpose; positive amounts are reported only in the general fund.

The District establishes fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the District.

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TRINITY COUNTY WATERWORKS DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 9 CONTRACT AND PROFESSIONAL SERVICES

During the year the district outsourced its operations and maintenance to a private contractor. The contract calls for the contractor to provide all operations and maintenance services that were previously provided by District staff as well as any additional services the Board may deem necessary during the term of the contract. The contractor is payable in monthly installments of \$21,675 and extends from July 1, 2017 to June 30, 2019. It is the determination of management that the contract will result in a significant cost savings to the District. The contract is reflected in the financial statements by a significant decrease in payroll and payroll related expenses as well as other vehicle related expenses. The corresponding increase in professional services reflects the contract payments plus other incidental expenses.

NOTE 10 SUBSEQUENT EVENTS

These financial statements consider subsequent events through December 10, 2019 the date the financial statements were made available to be issued.