

**TRINITY COUNTY WATERWORKS DISTRICT NO. 1**

**AUDITED FINANCIAL STATEMENTS**

**JUNE 30, 2016**

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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, 2016, and the related consolidated statements of activities and changes in net assets 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 and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. 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

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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.

### **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, 2016, 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**

In June 2012, GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions — an amendment of GASB No. 27. The objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. The Statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, as well as the requirements of Statement No. 50, Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred as to trusts) that meet certain criteria. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not covered by the scope of this Statement.

The District has terminated its contact with PERS effective for the 2016-17 fiscal year. A final determination of the District's outstanding liability will be made at that time and it is the District's intent to fully fund the balance at that time.

### **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.

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

In accordance with Government Auditing Standards, I have also issued my report dated August 31, 2016 on my consideration of the TCWW#1's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering TCWW#1's internal control over financial reporting and compliance.



Donald R. Reynolds,  
Certified Public Accountant  
August 31, 2016

**TRINITY COUNTY WATERWORKS DISTRICT #1**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2016**

	<u>Governmental</u> <u>Activities</u>	<u>Business</u> <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
<b><u>Current Assets:</u></b>			
Cash and Investments			
Available for operations	\$ 10,925	\$ 42,705	\$ 53,630
Restricted cash	-	442,650	442,650
Accounts receivable - Net of allowance	11,250	47,611	58,861
Inventory	-	32,195	32,195
Capital Assets			
Assets not subject to depreciation:			
Construction in Progress	-	4,000	4,000
Assets subject to depreciation:			
Water & Sewer Systems	-	14,876,765	14,876,765
Irrigation System	-	910,490	910,490
General Plant & Equipment	-	308,062	308,062
Accumulated Depreciation	-	(6,704,347)	(6,704,347)
Depreciable assets net	-	9,390,970	9,390,970
Other Assets	-	-	-
Total Assets	<u>\$ 22,175</u>	<u>\$ 9,960,131</u>	<u>\$ 9,982,306</u>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>			
Pension	<u>\$ -</u>	<u>\$ 26,452</u>	<u>\$ 26,452</u>
<b><u>LIABILITIES</u></b>			
Accounts Payable	\$ -	\$ 15,779	\$ 15,779
Payroll Withholdings and Accrued Liabilities	-	9,524	9,524
Accrued Interest Payable	-	-	-
Customer Deposits	-	19,068	19,068
Net pension liability	-	1,599,700	1,599,700
Long-term Debt			
Payable within one year	-	26,348	26,348
Due in more than one year	-	740,899	740,899
Total Liabilities	<u>\$ -</u>	<u>\$ 2,411,318</u>	<u>\$ 2,411,318</u>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>			
GASB 68 Pension adjustments	<u>\$ -</u>	<u>\$ 40,286</u>	<u>\$ 40,286</u>
Total deferred inflows	<u>\$ -</u>	<u>\$ 40,286</u>	<u>\$ 40,286</u>
<b><u>NET POSITION</u></b>			
Non-Spendable Investment in Capital Assets, net of related debt	-	8,627,723	8,627,723
Restricted for:	-	-	-
Debt Service	-	-	-
Levee Maintenance	-	-	-
Unassigned	22,175	(1,092,744)	(1,070,569)
Total Net Position	<u>\$ 22,175</u>	<u>\$ 7,534,979</u>	<u>\$ 7,557,154</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, 2016**

<b>FUNCTIONS/PROGRAMS</b>	<b><u>EXPENSES</u></b>	<b><u>CHARGES FOR SERVICES</u></b>	<b><u>OPERATING GRANTS AND CONTRIBUTIONS</u></b>	<b><u>CAPITAL GRANTS AND CONTRIBUTIONS</u></b>	<b><u>NET (EXPENSE)/REVENUE</u></b>
Cultural, Parks and Recreation					
General Fund	\$ 2,850	\$ -	\$ -	\$ -	\$ (2,850)
Business-Type Activities					
Water	648,165	372,322	-	-	(275,843)
Sewer	222,521	247,317	-	-	24,796
Irrigation	30,350	25,735	-	-	(4,615)
Total Business-Type Activities	901,036	645,374	-	-	(255,662)
Total	\$ 903,886	\$ 645,374	\$ -	\$ -	\$ (258,512)

<b><u>Governmental Activities</u></b>	<b><u>Business Activities</u></b>	<b><u>Total</u></b>
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**CHANGES IN NET POSITION:**

Net (Expense)/Revenue	\$ (2,850)	\$ (255,662)	\$ (258,512)
General Revenues:			
Taxes			
Sales and Use Taxes	-	-	-
Property Taxes	160	3,775	3,935
Other Taxes	-	-	-
Grants and contributions	-	-	-
Intergovernmental	-	-	-
Investment Income	-	640	640
Assessments	-	43,127	43,127
Other	-	14,527	14,527
Transfers - Internal Activity	-	-	-
Total General Revenues and Transfers	160	62,069	62,229
Change in Net Position	(2,690)	(193,593)	(196,283)
Net Position - Beginning	24,865	9,328,272	9,353,137
Prior period adjustments	-	(1,599,700)	(1,599,700)
Net Position - Beginning (Restated)	24,865	7,728,572	7,753,437
Net Position - Ending	\$ 22,175	\$ 7,534,979	\$ 7,557,154

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

**TRINITY COUNTY WATERWORKS DISTRICT #1  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2016**

	<b>Governmental Activities <u>General Fund</u></b>
<b>ASSETS</b>	
<b><u>Current Assets:</u></b>	
Cash	\$ 10,925
Accounts Receivable	11,250
Total Assets	<u>\$ 22,175</u>
<b><u>LIABILITIES</u></b>	
Other Accrued Liabilities	-
Total Liabilities	<u>-</u>
<b><u>FUND BALANCES</u></b>	
Unreserved, Reported In:	-
Capital Projects	-
Total Fund Balances	<u>22,175</u>
Total Liabilities and Net Assets	<u>\$ 22,175</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	<u>\$ 22,175</u>

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, 2016**

	<b>General Fund</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>		
Golf Course Charges	\$ 160	\$ 160
Other	<u>-</u>	<u>-</u>
Total Revenues	<u>160</u>	<u>160</u>
<b>EXPENDITURES</b>		
<u>Current:</u>		
Other - Refunds	<u>2,850</u>	<u>2,850</u>
Total Expenditures	<u>2,850</u>	<u>2,850</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(2,690)</u>	<u>(2,690)</u>
<b>OTHER FINANCING SOURCES (USES)</b>		
Transfers in (out)	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(2,690)	(2,690)
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<u>24,865</u>	<u>24,865</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 22,175</u>	<u>\$ 22,175</u>

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, 2016**

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	\$ (2,690)
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:	<u>None</u>
Change in Net Assets of Governmental Activities	<u><u>\$ (2,690)</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, 2016**

**ASSETS**

Cash and Investments		
Cash available for operations	\$	42,705
Restricted Assets:		
Cash		-
Investments		442,650
Accounts Receivable		47,611
Inventory		32,195
Capital Assets :		
Assets not subject to depreciation:		
Land		4,000
Assets subject to depreciation:		
Water & Sewer Systems		14,876,765
Irrigation System		910,490
General Plant & Equipment		308,062
Accumulated Depreciation		(6,704,347)
Other Assets		-
Total Assets	\$	<u>9,960,131</u>

**DEFERRED OUTFLOWS OF RESOURCES**

Pension	\$	<u>26,452</u>
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**LIABILITIES**

Accounts Payable	\$	15,779
Payroll Withholdings & Accrued Liabilities		6
Compensated Absences		9,518
Customer Deposits		19,068
Other		-
Net Pension Liability		1,599,700
Long term debt		
Amount due within one year		26,348
Amount payable in more than one year		740,899
Total Liabilities	\$	<u>2,411,318</u>

**DEFERRED OUTFLOWS OF RESOURCES**

Pension	\$	<u>40,286</u>
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**NET POSITION**

Investment in Capital Assets, net of related debt		8,627,723
Restricted for:		
Debt Service		-
Unrestricted		(1,092,744)
Total Net Position	\$	<u>7,534,979</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, 2016**

**OPERATING REVENUES**

Water Sales	\$ 334,162
Sewer Service Charges	128,601
Connection, Extension and Other Fees	182,611
Other	-
	<u>645,374</u>

**OPERATING EXPENSES**

Depreciation and Amortization	326,207
Electric Power	28,406
Insurance	6,823
Lab fees	18,046
Office Supplies, Utilities and Maintenance	20,640
Other	8,211
Professional Services	254,767
Salaries and wages, Pension and Payroll Taxes	111,075
State Fees	33,178
System Repairs and Maintenance	65,564
Telemetry and Lab Testing	2,667
Travel, Meetings, Memberships and Subscriptions	745
Total Operating Expenses	<u>876,329</u>
Operating Income (Loss)	<u>(230,955)</u>

**NONOPERATING REVENUES**

Interest	640
Grant Revenue	-
Special assessments	43,127
Taxes	3,775
Other	14,527
Total Nonoperating Revenues	<u>62,069</u>

**NONOPERATING EXPENSES**

Interest	24,707
Other	-
Total Nonoperating Expenses	<u>24,707</u>
Nonoperating Income	<u>37,362</u>

**INCOME BEFORE CONTRIBUTIONS**

Contributed capital	-
	<u>(193,593)</u>

**CHANGE IN NET POSITION**

<b>UNRESTRICTED NET POSITION AT JULY 1, as previously stated</b>	9,328,272
<b>Prior period Adjustment</b>	<u>(1,599,700)</u>
<b>UNRESTRICTED NET POSITION AT JULY 1, as restated</b>	<u>7,728,572</u>
<b>UNRESTRICTED NET POSITION AT JUNE 30, 2016</b>	<u>\$ 7,534,979</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, 2016**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Operating Income (Loss)	\$ (230,955)
Adjustments to Reconcile Operating Income to	
Cash Provided by Operating Activities:	
Depreciation	326,207
Gain or loss on sale of assets	-
(Increase) Decrease in Accounts Receivable	(16,499)
(Increase)Decrease in Inventory	-
(Increase)Decrease in Other Assets	-
(Increase)Decrease in deferred items	13,834
Increase(decrease) in Payroll Withholdings and Accrued Liabilities	(1,000)
Increase(decrease in Customer Deposits	(137)
Increase (Decrease) in Accounts Payable	<u>(4,998)</u>
Net Cash Provided by Operating Activities	<u>86,452</u>

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

Other Nonoperating Revenues	61,429
Operating Transfers-in	-
Operating Transfers-out	<u>-</u>
Net Cash Provided (Used) by Noncapital	
Financing Activities	<u>61,429</u>

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

Proceeds from sale of assets	-
Purchase of fixed assets	(51,174)
Increase in Net Pension Liability	1,599,700
Payments of Long-term Debt	(1,616,765)
Interest Paid on Long-term Debt	<u>(24,707)</u>
Net Cash Provided by Capital and	
Related Financing Activities	<u>(92,946)</u>

**CASH FLOWS FROM INVESTMENT ACTIVITIES:**

Interest Received	<u>640</u>
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**INCREASE (DECREASE) IN CASH AND CASH**  
**EQUIVALENTS**

55,575

**CASH AND CASH EQUIVALENTS - Beginning**

429,780

**CASH AND CASH EQUIVALENTS - Ending**

\$ 485,355

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

**GOVERNMENT WIDE FINANCIAL STATEMENTS**

**TRINITY COUNTY WATERWORKS DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**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, 2016**

**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, 2016**

**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, 2016**

**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, 2016**

**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, 2016, total District cash and investments at fair value were as follows:

**Government Funds**

	Per Books	Per Bank
<i>Cash:</i>		
Cash on hand	\$ <u>10,765</u>	\$ <u>10,765</u>

Continued on the following page.

**TRINITY COUNTY WATERWORKS DISTRICT NO. 1  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 2 CASH AND INVESTMENTS (Continued)**

***Business-Type Funds***

	Per Books	Per Bank
<i>Cash:</i>		
Cash on hand and in bank	\$ <u>43,155</u>	\$ <u>58,761</u>
<i>Restricted cash:</i>		
Cash in bank	73,321	73,321
Deposits	<u>18,752</u>	<u>18,752</u>
Total restricted cash	<u>92,073</u>	<u>92,073</u>
<i>Investments:</i>		
County Pooled Treasury	14,514	14,514
With safekeeping agent	30,107	30,107
Local Agency Investment Fund	<u>302,506</u>	<u>302,506</u>
Total investment	<u>350,127</u>	<u>350,127</u>
Total restricted cash and investments	\$ <u>442,650</u>	\$ <u>408,741</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, 2016, 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>
<b>Investments</b>						
Cash in County Pooled Treasury	Variable	On Demand	\$ 14,514	\$ 14,514	\$ 14,514	-
Mutual Fund	Variable	On Demand	30,107	30,107	30,107	-
Local agency Investment Fund	1.67%-2.85%	On Demand	<u>302,506</u>	<u>302,506</u>	<u>302,506</u>	-
<b>Total Investments in investment pool</b>			<u>\$ 350,127</u>	<u>\$ 350,127</u>	<u>\$ 350,127</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.

Continued on the following page.

**TRINITY COUNTY WATERWORKS DISTRICT NO. 1  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

**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, 2016, 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, 2016.

	<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 with the Securities and Exchange Commission as an investment company, but is

Continued on the following page.

**TRINITY COUNTY WATERWORKS DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 2 CASH AND INVESTMENTS (Continued)**

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, 2016, the District's investment position in the State of California Local Agency Investment Fund (LAIF) was \$302,506, 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, 2016 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.

Continued on the following page.

**TRINITY COUNTY WATERWORKS DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 3 CAPITAL ASSETS**

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

	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers &amp;</u> <u>Adjustments</u>	<u>Balance</u> <u>June 30, 2016</u>
Capital assets, not being depreciated:					
Land	\$ 4,000	\$ -	\$ -	\$ -	\$ 4,000
Total capital assets, not being depreciated	<u>4,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,000</u>
Capital assets, being depreciated:					
Vehicles and Equipment	302,931	5,131	-	-	308,062
Structures and Improvements	<u>15,741,212</u>	<u>46,043</u>	<u>-</u>	<u>-</u>	<u>15,787,255</u>
Total capital assets, being depreciated	<u>16,044,143</u>	<u>51,174</u>	<u>-</u>	<u>-</u>	<u>16,095,317</u>
Less accumulated depreciation for:					
Vehicles and Equipment	(302,395)	(1,396)	-	-	(303,791)
Structures and Improvements	<u>(6,075,745)</u>	<u>(324,811)</u>	<u>-</u>	<u>-</u>	<u>(6,349,081)</u>
Total accumulated depreciation	<u>(6,378,140)</u>	<u>(326,207)</u>	<u>-</u>	<u>-</u>	<u>(6,704,347)</u>
Total capital assets, net	<u>\$ 9,670,003</u>	<u>\$ (275,033)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,394,970</u>

**NOTE 4 LONG-TERM DEBT**

A summary of long-term debt liabilities transactions for the year ended June 30, 2016 is as follows:

	<u>Long Term Portion</u>				
	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Deletions/</u> <u>Adjustments</u>	<u>Balance</u> <u>June 30, 2016</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Notes payable	\$ 242,264	\$ -	\$ 10,583	\$ 231,681	\$ 10,848
Special Assessment Debt with Government Obligation	<u>551,566</u>	<u>-</u>	<u>15,000</u>	<u>535,566</u>	<u>15,500</u>
Total Long-Term Liabilities	<u>\$ 793,830</u>	<u>\$ -</u>	<u>\$ 25,583</u>	<u>\$ 767,247</u>	<u>\$ 26,348</u>
<u>Other Long Term Liabilities</u>					
Compensated absences	<u>\$ 9,519</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,519</u>	<u>\$ 9,519</u>

Continued on the following page.

**TRINITY COUNTY WATERWORKS DISTRICT NO. 1  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 4 LONG-TERM DEBT (CONTINUED)**

As of June 30, 2016, annual debt service requirements to maturity are as follows:

Fiscal Year June 30	Special Assessment		Notes Payable	
	Principal	Interest	Principal	Interest
2017	\$ 15,500	\$ 23,728	\$ 10,847	\$ 7,820
2018	16,000	23,043	11,119	7,546
2019	17,000	21,517	12,566	6,946
2020	17,500	22,297	11,711	6,250
2021	18,500	20,702	12,005	5,675
2022-2025	82,500	73,860	51,092	25,459
2026-2030	126,000	68,948	71,389	20,278
2031-2035	157,500	36,591	50,952	10,771
2036-2038	86,066	3,294	-	-
	<u>\$ 536,566</u>	<u>\$ 293,980</u>	<u>\$ 231,681</u>	<u>\$ 90,745</u>

Long-term liabilities at June 30,2016, consisted of the following:

	Date of Issue	Date of Maturity	Interest Rate	Annual Principal Installments	Original Issue Amount	Outstanding June 30,2016
Note payable - Davis Grunsky	1999	2037	2.50%	\$7,975 - \$16,329	\$ 482,000	\$ 231,681
Special Assessment Debt						
Waterworks District #1 sewer system construction	1997-2000	2039	4.5%	\$9,000-\$41,066	<u>1,103,750</u>	<u>535,566</u>
Total Business - Type Activities					<u>\$ 1,585,750</u>	<u>\$ 767,247</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, 2016**

**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, 2016, total assets in the plan amounted to \$16,063. It is the opinion of the District, that the District has no liability for losses under the plan, but does have the duty of due care that would be required of an ordinary prudent investor. The District believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

**NOTE 6 PENSION PLAN**

**A. Plan Description**

The District's sole employee, as well as current and future retirees are eligible to participate in pension plans offered by California Public Employees Retirement System (CALPERS) a cost sharing multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member

Continued on the following page.

**TRINITY COUNTY WATERWORKS DISTRICT NO. 1  
 NOTES TO THE FINANCIAL STATEMENTS  
 JUNE 30, 2016**

**NOTE 6 PENSION PLAN (Continued)**

employers. CALPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The District participates the Miscellaneous Employee Plan. Benefit provisions under the Plan are established by State statute and District resolution. Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for the Plans are determined on an actuarial basis as of June 30 of each year. The District must contribute the amounts determined by CalPERS. Effective September 30, 2016, the District has withdrawn from CalPERS. The District requested a Termination Valuation from CalPERS and as described in the following paragraphs, the net pension liability is based upon that amount.

***Benefits Provided***

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 55 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employee’s Retirement Law.

The Plans’ provisions and benefits in effect at June 30, 2016 are summarized as follows:

**Miscellaneous**

Hire Date	Prior to January 1, 2014
Benefit vesting schedule	5 years service
Benefit payment	Monthly for life
Retirement age	55
Monthly benefits, as a % of annual salary	2.7
Required employee contribution rates	8.00%
Required employer contribution rates	21.472%

Continued on the following page.

**TRINITY COUNTY WATERWORKS DISTRICT NO. 1  
 NOTES TO THE FINANCIAL STATEMENTS  
 JUNE 30, 2016**

**NOTE 6 PENSION PLAN (Continued)**

*Benefits Provided, Continued*

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

For the year ended June 30, 2016, the contributions recognized against net pension liability for the Plans were as follows:

	Miscellaneous
Contributions - employer	\$ <u>34,274</u>

***Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions***

As of June 30, 2016, the District reported net pension liabilities for its proportionate shares of the net pension liability of the Plans of \$315,909.

If the District was an ongoing member of CalPERS, the District’s net pension liabilities for the Plans would be measured as the proportionate share of the total net pension liability of each Plan. The net pension liability of the Plans are measured as of June 30, 2015, and the total pension liability for the Plans used to calculate the net pension liability was determined by actuarial valuations as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The District’s proportionate share of the net pension liability was based on the District’s plan liability and asset-related information where available, and proportional allocations of individual plan amounts as of the valuation date where not available.

The District’s net pension liability for the Plan determine by CalPERS on February 15, 2016 using Termination Valuations, as of June 30, 2016 is as follows:

	Miscellaneous
Proportion - June 30, 2016	\$ <u>1,599,700</u>

The net pension liability is reflected on the balance sheet as follows:

Net Pension Liability - Regular	\$ 315,909
Net Pension Liability - Termination	<u>1,283,791</u>
Total	\$ <u>1,599,700</u>

**TRINITY COUNTY WATERWORKS DISTRICT NO. 1  
 NOTES TO THE FINANCIAL STATEMENTS  
 JUNE 30, 2016**

**NOTE 6 PENSION PLAN (Continued)**

***Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions, Continued***

For the year ended June 30, 2016, the District recognized pension expense of \$10,974 for current employees and \$23,300 for the unfunded liability. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ -	\$ -
Changes in assumptions	-	(9,912)
Changes in employer's proportion and differences between the employer's contribution and the employer's proportionate share of contributions	1,047	-
Net differences between projected and actual earnings on plan investments	<u>25,405</u>	<u>(30,374)</u>
Total	\$ <u>26,452</u>	\$ <u>(40,286)</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Measurement Period Ending June 30:	
2016	\$(6,939)
2017	(6,939)
2018	(6,306)
2019	6,350

***Actuarial Assumptions*** – The total pension liabilities in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions:

	<u>Miscellaneous Plans</u>
Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.50%
Inflation	1.96%
Projected Salary Increase	Varies by entry age and service
Investment Rate of Return	(1) 2.79%
Mortality	Derived by CalPERS membership data for all funds

(1) Net of pension plan investment expenses, including inflation

**TRINITY COUNTY WATERWORKS DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 6 PENSION PLAN (Continued)**

*Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions, Continued*

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2014 valuation were based on the results of a January 2015 actuarial experience study for the period 1997 to 2012. Further details of the Experience Study can found on the CalPERS website.

**Discount Rate** – The discount rate used to measure the total pension liability was 7.50% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees.

Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

**TRINITY COUNTY WATERWORKS DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 6 PENSION PLAN (Continued)**

*Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions, Continued*

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds’ asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	47.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	12.00%	6.83%	6.95%
Real Estate	11.00%	4.50%	5.13%
Infrastructure and Forestland	3.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

(a) An expected inflation of 2.5% used for this period.  
(b) An expected inflation of 3.0% used for this period.

**TRINITY COUNTY WATERWORKS DISTRICT NO. 1  
 NOTES TO THE FINANCIAL STATEMENTS  
 JUNE 30, 2016**

**NOTE 6 PENSION PLAN (Continued)**

*Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate* – The following presents the District’s proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

<u>1% Decrease</u>	<u>Current</u>	<u>1% Increase</u>
<u>\$529,801</u>	<u>\$315,909</u>	<u>\$139,316</u>

***Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions, Continued***

***Pension Plan Fiduciary Net Position*** – Detailed information about each pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

Payable to the Pension Plan

At June 30, 2015 the District reported a payable of \$0 for outstanding amount of contributions to the pension plan required for the year ended June 30, 2016.

**NOTE 7 NET ASSETS/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

Continued on the following page.

**TRINITY COUNTY WATERWORKS DISTRICT NO. 1  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 7 NET ASSETS/FUND BALANCES (Continued)**

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.

**NOTE 8 CONTRACT AND PROFESSIONAL SERVICES**

During the year end 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 \$18,536 and extends from July 2013 to June 30, 2016. 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 9 PRIOR PERIOD ADJUSTMENTS**

The District recorded prior period adjustments to record the balance of the net pension liability, and to record employer contributions made for pension in fiscal year 2014 as a deferred outflow of resources as well as recognize the termination value of the CalPERS liability. The effect on opening balance equity was \$1,283,791 representing the termination liability and \$305,737 for the regular portion.

Continued on the following page.



**TRINITY COUNTY WATERWORKS DISTRICT NO. 1  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 10      SUBSEQUENT EVENTS**

These financial statements consider subsequent events through August 31, 2016 the date the financial statements were made available to be issued.

# *Donald R. Reynolds*

Certified Public Accountant

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

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

We have audited the basic financial statements of the Trinity County Water Works District #1 as of and for the year ended June 30, 2016, and have issued our report thereon dated August 31, 2016. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

Management of Trinity County Water Works District #1 is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing my audit, I considered the District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Trinity County Water Works District #1's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Trinity County Water Works District #1's internal control over financial reporting.

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

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

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**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Trinity County Water Works District #1's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

**Intended Purpose**

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

This report is intended solely for the information and use of the County Board of Supervisors, the County Commission, the State Commission, the State Controller's Office, federal agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Donald R. Reynolds,  
Certified Public Accountant  
August 31, 2016