

**TRINITY COUNTY WATERWORKS DISTRICT NO. 1**

**AUDITED FINANCIAL STATEMENTS**

**JUNE 30, 2012**

**TABLE OF CONTENTS**

FINANCIAL SECTION

Independent Auditor’s Report. . . . . 1

Statement of Net Assets. . . . . 2

Statement of Activities. . . . . 3

Balance Sheet - Governmental Funds. . . . . 4

Reconciliation of the Governmental Funds Balance Sheet to the  
Government-Wide Statement of Net Assets. . . . . 4

Statement of Revenues, Expenditures and Changes in  
Fund Balance - Governmental Funds. . . . . 5

Reconciliation of Governmental Funds Statement of Revenues,  
Expenditures and Changes in Fund Balance to the Government-wide  
Statement of Activities and Changes in Net Assets. . . . . 6

Statement of Net Assets. . . . . 7

Statement of Revenues, Expenses and Changes in Fund Net Assets. . . . . 8

Statement of Cash Flows. . . . . 9

Notes to Basic Financial Statements. . . . . 10

OTHER REPORTS

Independent Auditor’s Report on Internal  
Control over Financial Reporting Based and  
on Compliance and Other Matters Based on an  
Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards*. . . . . 23

# Donald R. Reynolds

Certified Public Accountant

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Trinity County Waterworks District No. 1  
Hayfork, California

I have audited the accompanying financial statements of Trinity County Waterworks District No. 1, a component unit of the County of Trinity, California, as of and for the year ended June 30, 2012 and 2011 as listed in the table of contents. These financial statements are the responsibility of the Trinity County Waterworks District No. 1's management. My responsibility is to express an opinion on the financial statements based on my audit.

My audit was conducted 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that the audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the district as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated September 1, 2012 on my consideration of the Trinity County Waterworks District No. 1's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing on internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The District has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Donald R. Reynolds, CPA  
September 1, 2012

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

**TRINITY COUNTY WATERWORKS DISTRICT #1**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2012**

	<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	\$ 16,425	\$ 15,877	\$ 32,302
Accounts Receivable	11,250	48,366	59,616
Due from Other Funds	-	32,195	32,195
Restricted Cash and Investments	-	375,147	375,147
Total Current Assets	<u>27,675</u>	<u>471,585</u>	<u>499,260</u>
<b><u>Noncurrent Assets:</u></b>			
Capital Assets			
Water & Sewer Systems	-	14,778,952	14,778,952
Irrigation System	-	910,490	910,490
General Plant & Equipment	-	414,067	414,067
Accumulated Depreciation	-	(5,365,674)	(5,365,674)
Construction in Progress	-	-	-
Other Assets	-	12,406	12,406
Total Noncurrent Assets	<u>-</u>	<u>10,750,241</u>	<u>10,750,241</u>
Total Assets	<u>\$ 27,675</u>	<u>\$ 11,221,826</u>	<u>\$ 11,249,501</u>
<b><u>LIABILITIES</u></b>			
<b><u>Current Liabilities:</u></b>			
Accounts Payable	\$ -	\$ 13,543	\$ 13,543
Payroll Withholdings and Accrued Liabilities	-	9,806	9,806
Current Portion of Long-term Debt	-	24,016	24,016
Total Current Liabilities	<u>-</u>	<u>47,365</u>	<u>47,365</u>
<b><u>Noncurrent Liabilities:</u></b>			
Long-term Portion of Compensated Basenses	-	9,518	9,518
Customer Deposits	-	15,449	15,449
Other	-	13,007	13,007
Long-term Debt	-	880,874	880,874
Total Noncurrent Liabilities	<u>-</u>	<u>918,848</u>	<u>918,848</u>
Total Liabilities	<u>-</u>	<u>966,213</u>	<u>966,213</u>
<b><u>Net Assets</u></b>			
Non-Spendable Investment in Capital Assets, net of related debt	-	9,832,945	9,832,945
Restricted for:	-	-	-
Debt Service	-	-	-
Levee Maintenance	-	-	-
Unassigned	<u>27,675</u>	<u>422,668</u>	<u>450,343</u>
Total Net Assets	<u>27,675</u>	<u>10,255,613</u>	<u>10,283,288</u>
Total Liabilities and Net Assets	<u>\$ 27,675</u>	<u>\$ 11,221,826</u>	<u>\$ 11,249,501</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, 2012**

<b>FUNCTIONS/PROGRAMS</b>	<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	\$ 6,880	\$ -	\$ -	\$ -	\$ (6,880)
Business-Type Activities					
Water	800,486	264,491	-	-	(535,995)
Sewer	-	146,258	-	-	146,258
Irrigation	-	18,021	-	-	18,021
Total Business-Type Activities	<u>800,486</u>	<u>428,770</u>	<u>-</u>	<u>-</u>	<u>(371,716)</u>
Total	<u>\$ 807,366</u>	<u>\$ 428,770</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (378,596)</u>

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

**CHANGES IN NET ASSETS:**

Net (Expense)/Revenue	\$ (6,880)	\$ (371,716)	\$ (378,596)
General Revenues:			
Taxes			
Sales and Use Taxes	-	-	-
Property Taxes	-	8,207	8,207
Other Taxes	-	-	-
Grants and contributions	-	-	-
Intergovernmental	-	-	-
Investment Income	-	1,220	1,220
Assessments	-	46,437	46,437
Other	-	3,064	3,064
Transfers - Internal Activity	-	-	-
Total General Revenues and Transfers	<u>-</u>	<u>58,928</u>	<u>58,928</u>
Change in Net Assets	(6,880)	(312,788)	(319,668)
Net Assets - Beginning	34,555	10,568,401	10,602,956
Prior period adjustments	-	-	-
Net Assets - Beginning (Restated)	<u>34,555</u>	<u>10,568,401</u>	<u>10,602,956</u>
Net Assets - Ending	<u>\$ 27,675</u>	<u>\$ 10,255,613</u>	<u>\$ 10,283,288</u>

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

**TRINITY COUNTY WATERWORKS DISTRICT #1  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2012**

	<b>Governmental Activities <u>General Fund</u></b>
<b>ASSETS</b>	
<b><u>Current Assets:</u></b>	
Cash	\$ 16,425
Accounts Receivable	11,250
Total Assets	<u>\$ 27,675</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>27,675</u>
Total Liabilities and Net Assets	<u>\$ 27,675</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>\$ 27,675</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, 2012**

	<b>General Fund</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>		
Golf Course Charges	\$ -	\$ -
Other	<u>-</u>	<u>-</u>
Total Revenues	<u>-</u>	<u>-</u>
<b>EXPENDITURES</b>		
<u>Current:</u>		
Other	<u>6,880</u>	<u>6,880</u>
Total Expenditures	<u>6,880</u>	<u>6,880</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(6,880)</u>	<u>(6,880)</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	(6,880)	(6,880)
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<u>34,555</u>	<u>34,555</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 27,675</u>	<u>\$ 27,675</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, 2012**

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	\$ (6,880)
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:	
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:	
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets:	
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:	
Change in Net Assets of Governmental Activities	<u>\$ (6,880)</u>

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



**TRINITY COUNTY WATERWORKS DISTRICT #1**  
**STATEMENT OF NET ASSETS**  
**BUSINESS TYPE ACTIVITIES**  
**JUNE 30, 2012**

**ASSETS**

**Current Assets:**

Cash and Investments	\$ 15,877
Accounts Receivable	48,366
Inventory	32,195
Restricted Assets:	
Cash	81,749
Investments	293,398
Total Current Assets	<u>471,585</u>

**Noncurrent Assets:**

Capital Assets :	
Water & Sewer Systems	14,778,952
Irrigation System	910,490
General Plant & Equipment	414,067
Accumulated Depreciation	(5,365,674)
Construction in Progress	-
Other Assets	12,406
Total Noncurrent Assets	<u>10,750,241</u>
Total Assets	<u>\$ 11,221,826</u>

**LIABILITIES**

**Current Liabilities:**

Accounts Payable	\$ 13,543
Payroll Withholdings & Accrued Liabilities	9,806
Current Portion of Long-term Debt	24,016
Total Current Liabilities	<u>47,365</u>

**Noncurrent Liabilities:**

Long-term portion of Compensated Absences	9,518
Customer Deposits	15,449
Other	13,007
Long-term Debt	880,874
Total Noncurrent Liabilities	<u>918,848</u>
Total Liabilities	<u>966,213</u>

**Net Assets**

Investment in Capital Assets, net of related debt	9,832,945
Restricted for:	
Debt Service	-
Unrestricted	422,668
Total Net Assets	<u>10,255,613</u>
Total Liabilities and Net Assets	<u>\$ 11,221,826</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 ASSETS**  
**BUSINESS TYPE ACTIVITIES**  
**For the Fiscal Year Ended June 30, 2012**

**OPERATING REVENUES**

Water Sales	\$ 281,407
Sewer Service Charges	108,732
Connection, Extension and Other Fees	38,631
Other	-
	<u>428,770</u>

**OPERATING EXPENSES**

Depreciation and Amortization	353,121
Electric Power	28,101
Insurance	17,981
Lab fees	24,866
Office Supplies, Utilities and Maintenance	14,733
Other	14,756
Professional Services	11,021
Salaries and wages and Payroll Taxes	226,128
State Fees	25,507
System Repairs and Maintenance	26,098
Telemetry and Lab Testing	4,304
Travel, Meetings, Memberships and Subscriptions	13,499
Total Operating Expenses	<u>760,115</u>
Operating Income (Loss)	<u>(331,345)</u>

**NONOPERATING REVENUES**

Interest	1,220
Grant Revenue	-
Special assessments	46,437
Taxes	8,207
Other	3,064
Total Nonoperating Revenues	<u>58,928</u>

**NONOPERATING EXPENSES**

Interest	40,371
Other	-
Total Nonoperating Expenses	<u>40,371</u>
Nonoperating Income	<u>18,557</u>

**INCOME BEFORE CONTRIBUTIONS**

Contributed capital	-
	<u>(312,788)</u>

**CHANGE IN NET ASSETS**

(312,788)

**UNRESTRICTED NET ASSETS AT JULY 1,**

10,568,401

**UNRESTRICTED NET ASSETS AT JUNE 30,**

\$ 10,255,613

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, 2012**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Operating Income (Loss)	\$ (331,345)
Adjustments to Reconcile Operating Income to Cash Provided by Operating Activities:	
Depreciation	353,121
(Increase) Decrease in Accounts Receivable	(16,642)
(Increase)Decrease in Inventory	-
(Increase)Decrease in Other Assets	-
Increase(decrease) in Payroll Withholdings and Accrued Liabilities	-
Increase(decrease in Customer Deposits	1,005
Increase (Decrease) in Accounts Payable	<u>13,404</u>
 Net Cash Provided by Operating Activities	 <u>19,543</u>

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

Other Nonoperating Revenues	57,708
Operating Transfers-in	-
Operating Transfers-out	<u>-</u>
 Net Cash Provided (Used) by Noncapital Financing Activities	 <u>57,708</u>

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

Acquisition of Capital Assets	(38,712)
Payments of Long-term Debt	(255)
Interest Paid on Long-term Debt	<u>(40,371)</u>
 Net Cash Provided by Capital and Related Financing Activities	 <u>(79,338)</u>

**CASH FLOWS FROM INVESTMENT ACTIVITIES:**

Interest Received	<u>1,220</u>
-------------------	--------------

**INCREASE (DECREASE) IN CASH AND CASH  
EQUIVALENTS**

(867)

**CASH AND CASH EQUIVALENTS - Beginning**

391,891

**CASH AND CASH EQUIVALENTS - Ending**

\$ 391,024

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

**TRINITY COUNTY WATERWORKS DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**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 service to customers in Hayfork, California. The District is currently constructing a sewer collection and treatment facility to serve the residents of 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, 2012**

**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, 2012**

**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, 2012**

**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 Tax Revenue**

The District assesses tax through the Trinity county Tax rolls. Property taxes attach an enforceable lien on January 1. Taxes are levied on July 1 and payable in two installments, December 10 and April 10. All general property taxes entities per the legislation implementing Proposition 13. The method of allocation used by the County is subject to review by the State of California. The District's property tax revenues are recognized when levied in accordance with the alternative method (Teeter Plan) of recording property taxes.

**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.

Continued on the following page.

**TRINITY COUNTY WATERWORKS DISTRICT NO. 1  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012**

**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, 2012, total District cash and investments at fair value were as follows:

**Government Funds**

	Per Books	Per Bank
<i>Cash:</i>		
Cash on hand	\$ <u>16,425</u>	\$ <u>16,425</u>

**Business-Type Funds**

<i>Cash:</i>		
Cash on hand	<u>15,877</u>	<u>35,399</u>
<i>Restricted cash:</i>		
Cash in bank	51,247	51,247
Cash with safekeeping agent - savings	15,087	15,087
Deposits	<u>15,415</u>	<u>16,593</u>
Total restricted cash	<u>81,749</u>	<u>82,927</u>
<i>Investments:</i>		
County Pooled Treasury	31,154	31,154
With safekeeping agent	16,267	16,852
Local Agency Investment Fund	<u>245,977</u>	<u>245,977</u>
Total investment	<u>293,398</u>	<u>293,983</u>
Total cash and investments	\$ <u>391,024</u>	\$ <u>412,309</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, 2012, the District had the following investments:

	Interest <u>Rates</u>	<u>Maturities</u>	<u>Par</u>	<u>Cost</u>	Fair <u>Value</u>	WAM <u>(Years)</u>
<b>Investments</b>						
Cash in County Pooled Treasury	Variable	On Demand	\$ 31,154	\$ 31,154	\$ 31,154	-
Mutual Fund	Variable	On Demand	16,852	16,852	16,852	-
Local agency Investment Fund	1.67%-2.85%	On Demand	<u>245,977</u>	<u>245,977</u>	<u>245,977</u>	-
<b>Total Investments in investment pool</b>			<u>\$ 293,983</u>	<u>\$ 293,983</u>	<u>\$ 293,983</u>	-

Continued on the following page.



**TRINITY COUNTY WATERWORKS DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

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

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.

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, 2012, 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, 2012.

	<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	<u>87.82%</u>
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.

Continued on the following page.

**TRINITY COUNTY WATERWORKS DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

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

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 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, 2012, the District's investment position in the State of California Local Agency Investment Fund (LAIF) was \$245,977, 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 \$65,643,489,036. 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, 2012 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, 2012**

**NOTE 3 CAPITAL ASSETS**

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

	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers &amp;</u> <u>Adjustments</u>	<u>Balance</u> <u>June 30, 2012</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	402,941	-	-	-	402,941
Structures and Improvements	<u>15,652,256</u>	<u>44,312</u>	<u>-</u>	<u>-</u>	<u>15,696,568</u>
Total capital assets, being depreciated	<u>16,055,197</u>	<u>44,312</u>	<u>-</u>	<u>-</u>	<u>16,099,509</u>
Less accumulated depreciation for:					
Vehicles and Equipment	(362,124)	(13,272)	-	-	(375,396)
Structures and Improvements	<u>(4,650,429)</u>	<u>(339,849)</u>	<u>-</u>	<u>-</u>	<u>(4,990,278)</u>
Total accumulated depreciation	<u>(5,012,553)</u>	<u>(353,121)</u>	<u>-</u>	<u>-</u>	<u>(5,365,674)</u>
Total capital assets, net	<u>\$ 11,046,644</u>	<u>\$ (308,809)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,737,835</u>

**NOTE 4 LONG-TERM DEBT**

===== A summary of long-term debt liabilities transactions for the year ended June 30, 2012 is as follows:

	<u>Long Term Portion</u>				<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2012</u>	
Notes payable	\$ 283,122	\$ -	\$ 10,631	\$ 272,491	\$ 9,828
Special Assessment Debt with Government Obligation	604,566	-	12,500	592,066	13,000
Loan Payable - USDA 2004	<u>17,457</u>	<u>-</u>	<u>1,140</u>	<u>16,317</u>	<u>1,188</u>
Total Long-Term Liabilities	<u>\$ 905,145</u>	<u>\$ -</u>	<u>\$ 24,271</u>	<u>\$ 880,874</u>	<u>\$ 24,016</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, 2012**

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

As of June 30, 2012, annual debt service requirements to maturity are as follows:

Fiscal Year June 30	Special Assessment		Notes Payable		Loan Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 13,000	\$ 26,317	\$ 9,828	\$ 8,853	\$ 1,188	\$ 714
2014	13,500	25,719	10,073	8,605	1,240	662
2015	14,000	25,098	10,325	8,350	1,294	608
2016	15,000	24,416	10,583	8,088	1,351	551
2017	15,500	23,728	10,847	7,820	1,410	492
2018-2020	50,500	66,857	35,396	21,742	4,611	1,094
2021-2025	101,000	94,562	63,097	30,134	5,225	462
2026-2030	126,000	68,948	71,389	20,278	-	-
2031-2035	157,500	36,591	50,953	10,771	-	-
2036-2038	86,066	3,294	-	-	-	-
	<u>\$ 592,066</u>	<u>\$ 395,530</u>	<u>\$ 272,491</u>	<u>\$ 124,641</u>	<u>\$ 16,319</u>	<u>\$ 4,583</u>

Long-term liabilities at June 30,2012, consisted of the following:

	Date of Issue	Date of Maturity	Interest Rate	Annual Principal Installments	Original Issue Amount	Outstanding June 30,2012
Note payable - Davis Grunsky	1999	2037	2.50%	\$7,975 - \$16,329	\$ 482,000	\$ 272,491
Special Assessment Debt Waterworks District #1 sewer system construction	1997-2000	2039	4.5%	\$9,000-\$41,066	1,103,750	592,066
Loan payable - USDA/RDC Total Business - Type Activities	2004	2024	4.375%	\$903 - \$ 1,793	<u>25,000</u>	<u>16,317</u>
					<u>\$ 1,610,750</u>	<u>\$ 880,874</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.

Continued on the following page.

**TRINITY COUNTY WATERWORKS DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

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

Special Assessment Debt and Sewer System Construction (Continued)

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 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.

Loan Payable

On June 28, 2004, the District borrowed \$25,000 from the USDA/RDC in a Board approved action. Annual principal installments are due September 2 of each year. The interest rate is 4.375%.

**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, 2012, 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.

Continued on the following page.

**TRINITY COUNTY WATERWORKS DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**NOTE 6 PENSION PLAN**

**A. Plan Description**

The District contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California.

All full-time employees of the District are eligible to participate in PERS. Benefits provided by the plan are based on three factors; (1) service credit, (2) a percentage factor determined by age at retirement, and (3) final compensation. Normal retirement age is 55. Five years of credited service are required for retirement benefits. Employees who retire at 55 receive two-percent of their final compensation (based on highest three years salary). Unused sick leave can be converted to additional service credit after retirement.

Benefits are payable monthly for life. Cost-of-living adjustments begin the second calendar year of retirement with maximum annual adjustments of two percent. Upon death of the retiree, eligible survivors will receive one half or more continuance of the benefit. These benefit provisions and all other requirements are established by State statute and District policy.

**B. Funding Policy**

The rate of employee contribution is established by statute at 7% of employee compensation. The District is required to contribute the remaining amounts necessary to fund the benefits for its members, using the accrual basis adopted by the PERS Board of Administration. The rate for the District was determined to be 12.938% for the fiscal year ended June 30, 2012. Contract negotiations with employees has resulted in the District paying the employees portion of the contribution as well as increasing the employee rate to 8%.

**C. Annual Pension Cost**

Employer contributions are calculated in conformance with the provisions of GASB Statement No. 27 as a percentage of covered payroll. Therefore, the contributions transmitted to the System are equal to the Annual Required Contribution (ARC), and there is no Net Pension Obligation (NPO) required.

For the fiscal year ended June 30, 2012, the District's annual pension cost of \$14,544 was equal to the required and actual contributions of the District. The required

Continued on the following page.

**TRINITY COUNTY WATERWORKS DISTRICT NO. 1  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 6 PENSION PLAN (Continued)**

**C. Annual Pension Cost (Continued)**

contribution was determined as part of the June 30, 2012, actuarial valuation using the entry age actuarial cost method. Significant actuarial assumptions normally used in the valuation would include (a) a rate of return on the investment of present and future assets compounded annually, (b) projected across-the-board real salary increases, (c) projected merit raises for employees, (d) a projected rate of inflation resulting in rate increases compounded annually, and (e) no post-retirement benefit increases.

Additional funding information is available on the PERS website at [www.calpers.ca.gov](http://www.calpers.ca.gov).

**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 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

Continued on the following page.

**TRINITY COUNTY WATERWORKS DISTRICT NO. 1  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012**

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

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.



**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, 2012, and have issued our report thereon dated September 1, 2012. 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 the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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.

**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.

This report is intended for the information of the audit committee, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Donald R. Reynolds,  
Certified Public Accountant  
September 1, 2012