



Cobb Area County Water District
Financial Statements
INDEPENDENT AUDITOR'S REPORT
December 31, 2019

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Cobb Area County Water District
Management's Discussion and Analysis
For the Year Ending December 31, 2019

The intent of management's discussion and analysis is to provide highlights of the Cobb Area County Water District's financial activities for the year ended December 31, 2019.

OVERVIEW

The Cobb Area County Water District is an independent, special district in Lake County, California, that provides water services to customers of the Cobb area. The District operates under the authority of the California Health and Safety Code. The government-wide financial statements report on the function of the District that is supported by income from water services and assessments.

The District uses governmental fund accounting. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with financial-related legal requirements. The District maintains one general enterprise fund.

The District financial statements reports information, about the District as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Financial Position includes all of the District's assets and liabilities. All of the current year's revenue and expenses are accounted for in the Statement of Activities. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

FINANCIAL HIGHLIGHTS

Net Income

The revenues for the 2019 year totaled \$1,305,824. The expenses totaled \$893,873, leaving a net income of \$411,951 for 2109.

Capital Expenditures

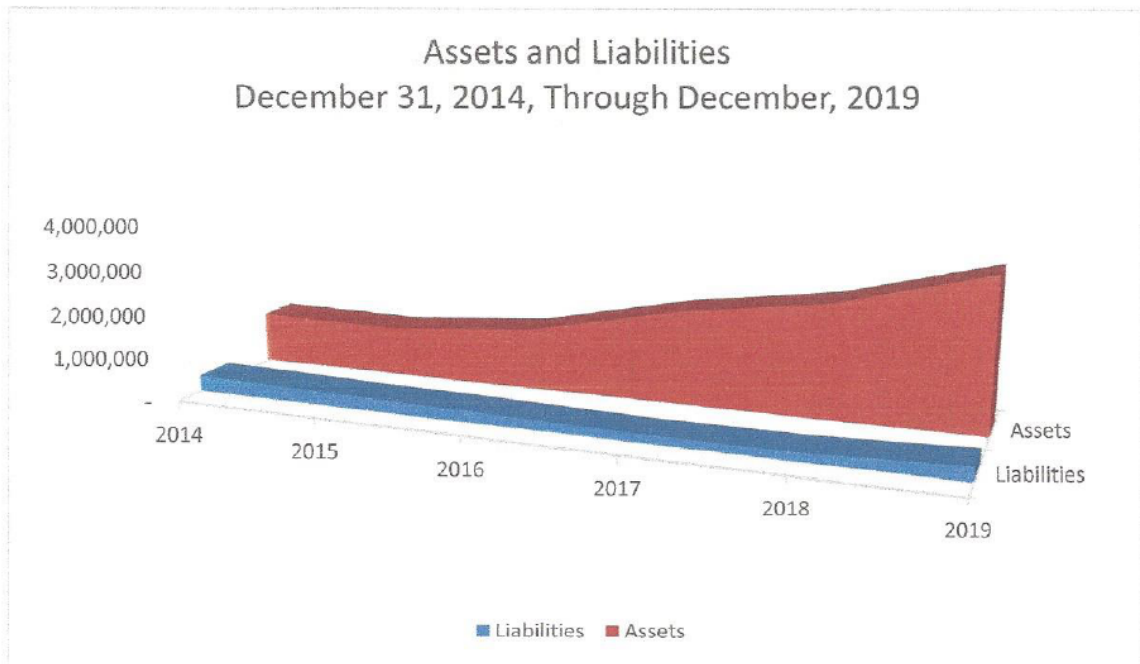
The District spent \$ 555,609 on capital improvements in 2019

Cobb Area County Water District
Management's Discussion and Analysis
For the Year Ended December 31, 2019

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Statement of Financial Position:

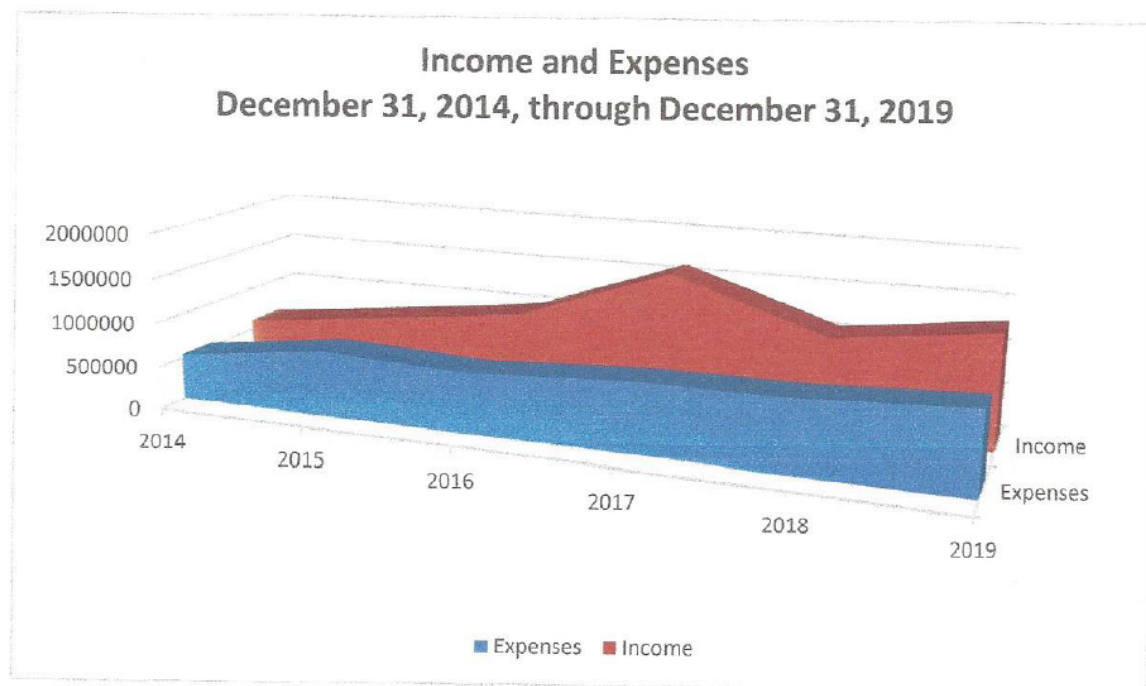
The statement of financial position presents information on all of the District's assets and liabilities. The difference between assets over liabilities can be a useful indicator of whether the financial position of the District is improving or deteriorating. The financial position of the District is improving as the following graph represents:



Cobb Area County Water District
Management's Discussion and Analysis
For the Year Ended December 31, 2019

Statement of Activities:

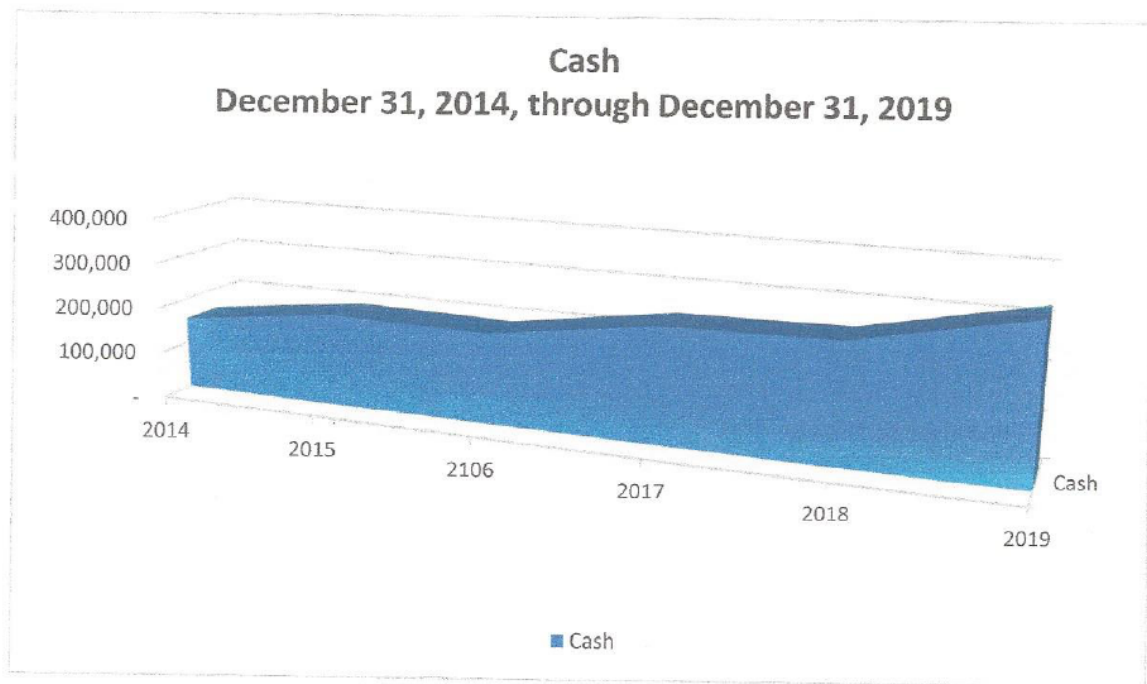
The statement of activities presents information showing how the District's net assets changed during the most recent year. A change in the net assets is reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, income and expenses are reported in this statement for some items that will only result in cash flows in the future period (e.g., uncollected taxes and earned but unused vacation leave). The income and expenses of the District have fluctuated in past years as the following graphs represents.



Cobb Area County Water District
Management's Discussion and Analysis
For the Year Ended December 31, 2019

Statement of Cash Flow:

The statement of cash flows presents information showing how the District's cash changed during the most recent year. Observing the cash balance at the District's year-end shows the funds available to meet current operating needs, pay current liabilities, and fund the amount of capital improvements required to carry on the District's activities and objectives. Cash held by the district as of December 31, 2019, is \$329,892 compared to the previous four years is depicted in the following graph:



Notes to the Basic Financial Statements:

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide financial statement.

Cobb Area County Water District
Management's Discussion and Analysis
For the Year Ended December 31, 2019

Budgetary Comparison:

The District adopts an annual budget for their general enterprise fund. Following the basic financial statement in the supplemental information is a budgetary comparison statement to demonstrate compliance. The budget is adopted after considering the factors of the economy, rates, water usage, assessments, capital improvements, loan payments, and the prior year's actual expenditures.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all citizens, taxpayers, customers, investors, and creditors. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Cobb Area County Water District, P.O. Box 284, Cobb, California 95426.



August 12, 2020

To the Board of Directors of
Cobb Area County Water District
Cobb, CA

INDEPENDENT AUDITOR'S REPORT

I have audited the accompanying financial statements of Cobb Area County Water District (a local California Special District), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities 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 financial statements in accordance with accounting principles generally accepted in the United States of America and the State Controller's minimum audit requirements for California Special Districts; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the 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 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 State Controller's minimum audit requirements for California Special Districts. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Cobb Area County Water District
Independent Auditor's Report, continued
August 12, 2020

Auditor's Responsibility, continued

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 Cobb Area County Water District as of December 31, 2019, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America and the State Controller's minimum audit requirements for California Special Districts.

Sincerely,

Joan Sturges
Certified Public Accountant
Certified Fraud Examiner
Certified Valuation Analyst
Private Investigator

Cobb Area County Water District
Statement of Financial Position
December 31, 2019

ASSETS

Current Assets:

Cash in Banks and County Treasury	\$ 329,892
Accounts Receivable	111,032
Prepaid Expenses	4,930
Total Current Assets	445,854

Capital Assets:

Land	531,821
Machinery and Equipment	537,822
Pipelines	1,303,829
Office Equipment and Furniture	4,429
Tank and Treatment Systems	1,361,513
Less: Accumulated Depreciation	(697,156)
Total Capital Assets:	3,042,258

<u>TOTAL ASSETS</u>	3,488,112
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LIABILITIES AND FUND BALANCE

Current Liabilities:

Accrued Liabilities	4,335
Accounts Payable	147,368
Notes Payable - Current Portion	76,773
Total Current Liabilities:	228,476

Long Term Liabilities:

Notes Payable, Net of Current Portion	103,265
Total Long Term Liabilities:	103,265

<u>TOTAL LIABILITIES</u>	331,741
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<u>NET ASSETS</u>	\$ 3,156,371
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"The accompanying notes are an integral part of these financial statements."

Cobb Area County Water District
Statement of Activities
For the Year Ended December 31, 2019

INCOME

Water Sales	\$ 602,549
Assessments	163,361
Contract Labor and Materials	43,344
Other Income	41,690
District Consolidation	367,098
State Water Resources Grant	87,709
Interest Income	73
TOTAL INCOME	<u>1,305,824</u>

EXPENSES

Contract Services	13,965
Depreciation Expense	107,687
Directors Fees	6,100
Fuel and Travel Expense	29,003
Insurance	80,786
Interest Expense	9,918
Legal and Accounting	8,969
Materials	26,982
Office Expense	21,248
Payroll Expense	364,311
Rent	9,997
Repairs and Maintenance	53,392
Small Tools and Equipment	16,756
Testing and Treatment	31,642
Utilities	102,147
Water Purchases	10,970
TOTAL EXPENSES	<u>893,873</u>

NET INCOME 411,951

NET ASSETS - BEGINNING 2,747,420

NET ASSETS - ENDING \$ 3,159,371

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

Cobb Area County Water District
Statement of Cash Flows
For the Year Ended December 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES

Revenues Received	\$ 1,283,531
Expenses Paid	<u>(651,768)</u>

NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>631,763</u>
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CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of Capital Assets	<u>(555,609)</u>
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NET CASH FLOWS FROM INVESTING ACTIVITIES	<u>(555,609)</u>
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CASH FLOWS FROM FINANCING ACTIVITIES

Payment of Principal on Loans	(93,648)
Acquisition of Note Payable	<u>94,276</u>

NET CASH FLOWS FROM FINANCING ACTIVITIES	<u>628</u>
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<u>NET INCREASE (DECREASE) IN CASH</u>	76,782
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<u>CASH BALANCE, BEGINNING OF YEAR</u>	<u>253,110</u>
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<u>CASH BALANCE, END OF YEAR</u>	<u><u>\$ 329,892</u></u>
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Reconciliation of Net Income to Total

Cash Flows from Operating Activities

Net Income	\$ 411,951
Adjustments to reconcile Net Income to Net Cash Flows from Operating Activities:	
Depreciation Expense	107,687
Net Change in Accounts Receivable	(22,293)
Net Change in Prepaid Expenses	(441)
Net Change in Accrued Liabilities:	(3,441)
Net Change in Accounts Payable	<u>138,300</u>

NET CASH FLOWS FROM OPERATING ACTIVITIES	<u><u>\$ 631,763</u></u>
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"The accompanying notes are an integral part of these financial statements."

Cobb Area County Water District
Notes to Financial Statements
December 31, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Cobb Area County Water District (the District) have been prepared in conformity with generally accepted accounting principles and the State Controller's minimum audit requirements for California Special Districts. The more significant of the District's accounting policies are described below.

A. Description of the Reporting Entity

The Cobb Area County Water District is a water district in Lake County, California. It began operations as a county water district January 1, 1992, from a reorganization of Cobb Mutual Water Company, established in 1953 to provide water services to the Cobb area.

The District is a governed entity administered by a Board of Directors (the Board) that acts as the authoritative and legislative body for the District that provides water services to households in the Cobb area on Cobb Mountain, CA. The Board is comprised of five board members. The Board's responsibilities are to attend all meetings of the Board; be the chief officers of the district; perform all duties commonly incident to the position of a board, commission, or business organization; and exercise supervision over the business of the District and its employees. The Board of Directors consisted of the following members as of December 31, 2019; Steve Barnes, Joel Pyska, Josh Dixon, Jim Agur, and Kees Winkleman. Ben Murphy is the general manager and California Howland is the secretary.

The District administers and maintains the Cobb Area County Water District. As of August 12, 2018, per Cobb Area County Water District Reorg. #1 (LAFCO FILE 2017-000), Cobb Area County Water District completed annexation of the following water systems: Adam Springs, Alpine Springs, Pine Grove Water County service areas 18,7,22, Branding Iron Water, and Hill 9 and 10 Mutual Water Association. Cobb Area Water District now maintains full control and responsibilities for these service areas and now operates as one entity. Dissolution of County Service Area 7,18,22 and Adam Springs have been complete as per (LAFCO FILE 2017-000).

Cobb Area County Water District
Notes to Financial Statements
December 31, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

B. Basis of Accounting/Governmental Fund Financial Statements

The accrual basis of accounting is used by the District. The accounts of the District are organized on the basis of funds. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The general fund is used to account for all financial resources of the District. The general fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of California and the bylaws of the District.

C. Budgets and Budgetary Accounting

The District operates under the general laws of the State of California and annually adopts a budget to be effective January 1 for the ensuing fiscal year. Formal budgetary integration is employed as a management control device during the year for the general fund. Unused appropriations for the annually budgeted funds lapse at the end of the fiscal year. Budgeted amounts are the final authorized amount as revised during the year. Actual revenues and expenditures can be compared with related budgeted amounts without any significant reconciling items to the general fund.

D. Cash

The District maintains its cash in a private banking institution for operating and investing activities. Deposits with financial institutions include checking and savings accounts. All deposits are insured by the FDIC, therefore risk of loss minimal. Also, there are funds invested in the County of Lake Treasury resulting from the collection of tax liens from nonpayment of the property's water service. The funds collected by the county are periodically forwarded to the District. This cash of the District is invested in the State of California Treasurer's investment pools through the County of Lake for collection of past due accounts receivable. It represents a proportionate interest in the pool's portfolio; however, the District's position is not identified with specific investments and is not subject to custodial credit risk and satisfies their policies regarding interest rate, risk, credit risk, and concentration of credit risk. Each fund may liquidate its equity in the pool on demand. Investments are recorded at fair value based on quoted market prices. The amount of cash invested at December 31, 2019, is \$329,892.

Cobb Area County Water District
Notes to Financial Statements
December 31, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

E. Accounts Receivable

Accounts receivable are recorded at their gross value, and where appropriate, are reduced by the portion that is considered uncollectable and placed as a lien on the property through the Lake County assessor's office. Accounts receivable consists primarily of service fees that have been billed but not paid as of year-end. Management believes its receivables to be fully collectable due to the ability to place a lien against the property for unpaid balances, that are adjusted off their accounts receivable and placed on the county property tax rolls, and, accordingly, no allowance for doubtful accounts is necessary. The amount of accounts receivable at year end was \$111,032.

F. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods (such as insurance) and are recorded as prepaid items in the balance sheet as a current asset. The amount of prepaid expenses at year end is \$4,930.

G. Capital Assets

Capital assets are defined by the District as assets with an estimated useful life in excess of one year. Land, pipelines, machinery, equipment, and improvements, as well as water plants purchased or acquired are carried at historical cost or estimated historical cost. Donated or contributed capital assets are recorded at their estimated fair value on the date received. The cost of normal maintenance and repairs are charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. The District spent \$555,609 on capital improvements and accumulated \$107,687 in depreciation expense in the current 2019 fiscal year. The assets are depreciated over their estimated useful life ranging from 3 to 60 years using the straight line method.

H. Accrued Liabilities, Accounts Payable

In accrual basis of accounting, expenses are recognized at the time they are incurred, regardless of the timing of the related cash flow. Accrued liabilities are expenses incurred by the District and not yet paid by the year end. The accrued liabilities at year end were \$1,335. The account payable at year end were \$147,369.

Cobb Area County Water District
Notes to Financial Statements
December 31, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

I. Notes Payable:

Cobb Area County Water District, as of December 30, 2005, is committed with a promissory note at 4.35% interest to Westamerica Bank in the original amount of \$561,348 to finance the 2005 Schwartz pipelines and tank projects. This note is due January 15, 2021, with semi-yearly payments of \$23,414, starting July 15, 2012. The interest paid in 2019 was \$4,295 on this loan.

Balance at December 31, 2019

<u>Short-Term</u>	<u>Long-Term</u>	<u>Total</u>
<u>\$ 45,344</u>	<u>\$ 0</u>	<u>\$45,344</u>

Cobb Area County Water District, as of July 21, 2008, is committed with a promissory note at 4.95% interest to Westamerica Bank in the original amount of \$80,000 to finance the 2008 Estates project. This note is due July 11, 2023, with semi-yearly payments of \$3,809 starting January 11, 2009. The interest paid in 2019 was \$1,578 on this loan.

Balance at December 31, 2019

<u>Short-Term</u>	<u>Long-Term</u>	<u>Total</u>
<u>\$6,343</u>	<u>\$17,868</u>	<u>\$24,211</u>

Cobb Area County Water District, as of May 10, 2018, is committed with a promissory note at 3.782% interest to Westamerica Bank in the original amount of \$39,963.70 to finance the 2017 GMC vehicle purchase which is the security of this loan. This note is due March 10, 2020, with 20 quarterly payments of \$2,202 starting May 10, 2018. The interest paid in 2019 was \$1,261 on this loan.

Balance at December 31, 2019

<u>Short-Term</u>	<u>Long-Term</u>	<u>Total</u>
<u>\$7,508</u>	<u>\$21,241</u>	<u>\$28,749</u>

Cobb Area County Water District
Notes to Financial Statements
December 31, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

I. Notes Payable continued:

Cobb Area County Water District, as of May 2, 2019, is committed with a promissory at 3.5% interest to Star Capital in the original amount of \$53,625 to finance generators purchased, which is the security of this loan. This note is due March 1, 2024, with 60 monthly payments of \$1,063 starting May 2, 2019. The interest paid in 2019 was \$2,064 on this loan.

<u>Balance at December 31, 2019</u>		
<u>Short-Term</u>	<u>Long-Term</u>	<u>Total</u>
<u>\$9,442</u>	<u>\$37,743</u>	<u>\$47,185</u>

Cobb Area County Water District, as of February 7, 2019, is committed with a promissory note at 3.5% interest to Kubota Leasing in the original amount of \$40,651 to finance an excavator purchased, which is the security of this loan. This note is due February 7, 2024, with 60 monthly payments of \$758 starting April 7, 2019. The interest paid in 2019 was \$720 on this loan.

<u>Balance at December 31, 2019</u>		
<u>Short-Term</u>	<u>Long-Term</u>	<u>Total</u>
<u>\$8,136</u>	<u>\$26,413</u>	<u>\$34,549</u>

<u>Total Notes Payable at December 31, 2019</u>		
<u>Short-Term</u>	<u>Long-Term</u>	<u>Total</u>
<u>\$76,773</u>	<u>\$103,265</u>	<u>\$180,038</u>

J. Net Assets

The District's net assets represents the difference between its assets and liabilities in the statement of financial.. The net assets is reported as restricted where there are legal limitations imposed on their use by their source. Portions of the unassigned net assets may be designated to indicate tentative plans for financial resources utilization in a future period, such as for payment of debt or purchase of capital assets. Such plans or intent are subject to change and may never be legally authorized or result in expenditures. The District had no restriction on their net assets of \$3,156,371 at December 31, 2019.

Cobb Area County Water District
Notes to Financial Statements
December 31, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

K. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results may differ from those estimates.

NOTE 2: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, damage to or theft or destruction of assets, errors, omissions, injuries to employees, and natural disasters. During 2019, the District contracted with private insurance agencies for liability, property, crime damage, and employee and director insurances.

NOTE 3: CONTINGENCIES AND SUBSEQUENT EVENTS

Events subsequent to December 31, 2019, have been evaluated through August 12, 2020, the date these statements were available to be issued, to determine whether they should be disclosed to keep the financial statements from being misleading. Management found no subsequent events to be disclosed. The District did not have any pending litigation, or potential non-disclosed liabilities, or subsequent events that management believes would have a material effect on the financial statements.



Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

August 12, 2020

Cobb Area County Water District

P.O. Box 284

Cobb, CA 95426

Dear Board Members

I have audited, in accordance with the 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, the basic financial statements of the Cobb Area County Water District as of and for the year ended December 31, 2019, and the related notes to the basic financial statements and have issued report thereon dated August 12, 2020.

Internal Control Over Financial Reporting

In planning and performing my audit of the basic financial statements, I considered the internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cobb Water Area County Water District's internal controls. Accordingly, I do not express an opinion on the effectiveness of the Cobb Water Area County Water District's internal controls.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's basic financial statement will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material.

Independent Auditor's Report on Internal Control, continued

weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cobb Area County Water District basic financial statements are free from material misstatements, 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 our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Response to Findings

The Cobb Area County Water District's preliminary response to the findings identified in my audit are included in the body of my report. The Cobb Area County Water District's preliminary responses were not subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, I express no opinion on them.

Purpose of This Report

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

Sincerely,

Joan Sturges
Certified Public Accountant
Certified Fraud Examiner
Certified Valuation Analyst
Private Investigator