

**PINE GROVE COMMUNITY SERVICES DISTRICT**  
**FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

**PINE GROVE COMMUNITY SERVICES DISTRICT**

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## **INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Pine Grove Community Services District  
Pine Grove, CA

We have audited the accompanying financial statements of the business-type activities and each major fund of the Pine Grove Community Services District as of and for the fiscal year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our Responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes 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 District'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 District's internal control. Accordingly, we 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 financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects the financial position of the business-type activity and each major fund of the Pine Grove Community Services District as of June 30, 2020, and the changes in financial position and the results of its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

The Pine Grove Community Services District has not presented the Management Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements. Such information is required by the Governmental Accounting Standards Board (GASB), 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.

*Larry Bain, CPA*  
*An Accounting Corporation*  
September 7, 2020

**PINE GROVE COMMUNITY SERVICES DISTRICT**

**STATEMENT OF NET POSITION  
JUNE 30, 2020**

	Major Funds		Total Business- Type Activities
	Water	Park	
<b>Assets</b>			
Current Assets			
Cash and investments	\$ 418,171	\$ 71,948	\$ 490,119
Accounts receivable	77,116		77,116
Grants receivable	154,887		154,887
Prepaid expense	5,956		5,956
Due from other fund	14,698		14,698
Total current assets	<u>670,828</u>	<u>71,948</u>	<u>742,776</u>
Noncurrent Assets			
Nondepreciable capital assets			
Construction in progress	235,052		235,052
Depreciable capital assets			
Transmission and distribution	2,687,609		2,687,609
Building and building improvements	101,480		101,480
Site improvements		183,285	183,285
Equipment and vehicles	57,404		57,404
Less accumulated depreciation	(2,017,721)	(107,400)	(2,125,121)
Total depreciable capital assets-net	<u>828,772</u>	<u>75,885</u>	<u>904,657</u>
Total capital assets (net of accumulated depreciation)	<u>1,063,824</u>	<u>75,885</u>	<u>1,139,709</u>
Total noncurrent assets	<u>1,063,824</u>	<u>75,885</u>	<u>1,139,709</u>
Total assets	<u>1,734,652</u>	<u>147,833</u>	<u>1,882,485</u>
Current Liabilities			
Accounts payable	34,140	-	34,140
Due to other fund		14,698	14,698
Total liabilities	<u>34,140</u>	<u>14,698</u>	<u>48,838</u>
Net Position			
Net investment in capital assets	1,063,824	75,885	1,139,709
Unrestricted	636,688	57,250	693,938
Total net position	<u>\$ 1,700,512</u>	<u>\$ 133,135</u>	<u>\$ 1,833,647</u>

The notes to the financial statements are an integral part of this statement

**PINE GROVE COMMUNITY SERVICES DISTRICT**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

	Major Funds		Total Business- Type Activities
	Water	Park	
Operating revenues			
Water sales	\$ 421,441	\$ -	\$ 421,441
Facility rentals and donations		18,053	18,053
Total operating revenues	<u>421,441</u>	<u>18,053</u>	<u>439,494</u>
Operating expenses			
Source of supply:			
Water purchases	64,875		64,875
Water treatment	5,129		5,129
Transmission and distribution	168,360		168,360
Administration and general	128,390	7,439	135,829
Depreciation	33,082	12,434	45,516
Total operating expenses	<u>399,836</u>	<u>19,873</u>	<u>419,709</u>
Operating income (loss)	<u>21,605</u>	<u>(1,820)</u>	<u>19,785</u>
Nonoperating revenue (expenses)			
Assessments	43,165		43,165
Participation fees	31,500		31,500
Interest on investments	7,323	20	7,343
Reimbursements and other	9,095		9,095
Grants	154,887		154,887
Sale of property		18,900	18,900
Nonoperating revenues (expenses)	<u>245,970</u>	<u>18,920</u>	<u>264,890</u>
Increase (decrease) in net position	267,575	17,100	284,675
Net position, Beginning of Fiscal Year	<u>1,432,937</u>	<u>116,035</u>	<u>1,548,972</u>
Net position, End of Fiscal Year	<u>\$ 1,700,512</u>	<u>\$ 133,135</u>	<u>\$ 1,833,647</u>

The notes to the financial statements are an integral part of this statement

**PINE GROVE COMMUNITY SERVICES DISTRICT**

**STATEMENT OF CASH FLOWS  
JUNE 30, 2020**

	Major Funds		Total Business- Type Activities
	Water	Park	
Cash flows from operating activities:			
Cash receipts from customers	\$ 412,990	\$ 18,053	\$ 431,043
Cash payments to suppliers for goods and services	(308,512)	(7,439)	(315,951)
Cash payments for employee services	(52,144)		(52,144)
Net cash provided by (used) in operating activities	<u>52,334</u>	<u>10,614</u>	<u>62,948</u>
Cash flows from noncapital financing activities:			
Reimbursements	9,095		9,095
Interfund lending	(4,885)	4,885	-
Annexations	31,500		31,500
Net cash provided by (used) in noncapital financing activities:	<u>35,710</u>	<u>4,885</u>	<u>40,595</u>
Cash flows from capital and related financing activities:			
Additions to capital assets	(53,311)	(11,670)	(64,981)
Sale of property		18,900	18,900
Assessments	43,165		43,165
Net cash provided by (used) in capital and related financing activities:	<u>(10,146)</u>	<u>7,230</u>	<u>(2,916)</u>
Cash flows from investing activities:			
Interest received	7,324	20	7,344
Net cash flows from investing activities:	<u>7,324</u>	<u>20</u>	<u>7,344</u>
Net increase (decrease) in cash and cash equivalents	85,222	22,749	107,971
Cash and cash equivalents, beginning of year	332,949	49,199	382,148
Cash and cash equivalents, end of year	<u>\$ 418,171</u>	<u>\$ 71,948</u>	<u>\$ 490,119</u>
<b>Reconciliation of cash and cash equivalents to the balance sheet:</b>			
Cash and investments	<u>\$ 418,171</u>	<u>\$ 71,948</u>	<u>\$ 490,119</u>
<b>Cash and cash equivalents, June 30</b>	<u>\$ 418,171</u>	<u>\$ 71,948</u>	<u>\$ 490,119</u>
Reconciliation of operating income (loss) to net cash provided by operating activities			
Operating Income (Loss)	\$ 21,605	\$ (1,820)	\$ 19,785
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	33,082	12,434	45,516
Changes in assets and liabilities:			
Accounts receivable	(8,451)		(8,451)
Prepaid expenses	(413)		(413)
Accounts payable	6,511		6,511
Net Cash Provided By (Used) In Operating Activities	<u>\$ 52,334</u>	<u>\$ 10,614</u>	<u>\$ 62,948</u>

The notes to the financial statements are an integral part of this statement

**PINE GROVE COMMUNITY SERVICES DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2020**

Note 1: Summary of Significant Accounting Policies

The Pine Grove Community Services District was formed by election and commenced operations in 1965. The District provides water and park services to a group of users within the District. The District is governed by an elected Board of Directors.

The District's financial statements include the operations of all organizations for which the District Board of Directors exercises oversight responsibility. Oversight responsibility is demonstrated by financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

No operations of other entities met the aforementioned oversight criteria for inclusion or exclusion from the accompanying financial statements in accordance with Governmental Accounting Standards Board Statement No. 61.

A. Fund Accounting

The accounting records of the District are organized on the generally accepted basis of accounting for an enterprise fund.

Enterprise Fund - Enterprise funds are used to account for the District's operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the Board of Directors is that the costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

B. Basis of Accounting

The District uses an economic resources based cost of service or capital maintenance concept. Under this concept, revenues and expenses are matched using the accrual basis of accounting.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operation of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

C. Accounts Receivable

Billings for water services are sent bi-monthly and are reflected on the accrual basis of accounting. Such billings may become a lien on the property should no payments be made.

D. Fixed Assets

Fixed assets are stated at historical costs. When assets are retired or otherwise disposed of, the net book value, which is the difference between historical costs and related accumulated depreciation, is removed from the financial statements. Any gain or loss from the retirement or disposal of an asset is reflected in net income for the period. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets which range from 5 to 50 years. Maintenance and repairs are charged to expense as incurred. Additions or improvements are capitalized and depreciated over the estimated useful lives. Costs incurred for major improvements or construction of assets are carried in construction in progress until the project is completed at which time costs related to the project are capitalized in the appropriate asset account.



**PINE GROVE COMMUNITY SERVICES DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2020**

Note 1: Summary of Significant Accounting Policies (Continued)

E. Cash Equivalents

For purpose of the statement of cash flows, the District considers cash and cash equivalents as short term, highly liquid investments that are both readily convertible to known amounts of cash and so near maturity that they present insignificant risk of changes in value because of changes in interest rates.

F. Budgetary Reporting

The District prepares an annual operating and capital budget, which is approved and adopted by the Board of Directors. The budget serves as an approved plan to facilitate financial control and operational evaluation. California State law does not require formal adoption of appropriated budgets for enterprise funds.

G. Use of Estimates in the Preparation of Financial Statements

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

H. Risk Management

The District maintains a commercial package policy for general liability, auto liability and wrongful acts coverage that provides limits of liability of \$1,000,000 per occurrence and \$3,000,000 aggregate annually.

I. Restricted Assets

Restricted assets are financial resources generated for a specific purpose such as construction of improvements and financing of debt obligations. These assets are for the benefit of a distinct group and as such are legally or contractually restricted.

J. Accrued Unbilled Revenue

During the year, metered water connections are read and bills rendered after the period of usage. Revenue for metered water, used but not yet billed, is accrued at fiscal year-end to match revenues with related expenses.

**PINE GROVE COMMUNITY SERVICES DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2020**

Note 1: Summary of Significant Accounting Policies (Continued)

K. Net Position:

Net position comprises the various net earnings from operating income, non-operating revenues and expenses and capital contributions. Net position is classified in the following three components:

*Net investment in capital assets*-This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

*Restricted*-This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net position*-This component of net position consists of net position that do not meet the definition of “restricted” or “net investment in capital assets.”

Note 2: Cash and Investments

Cash and investments are classified in the financial statements as follows:

Cash and investments	\$	490,119
Total cash and investments	\$	490,119
Checking	\$	172,387
Cash on hand		150
Investments		317,582
Total cash and investments	\$	490,119

**PINE GROVE COMMUNITY SERVICES DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2020**

Note 2: Cash and Investments (Continued)

A. Investments Authorized by the California Government Code and the Entity's Investment Policy

The table below identifies the **investment types** that are authorized for the Pine Grove Community Services District (District) by the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address **interest rate risk, credit risk and concentration of credit risk**. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local agency bonds	5 years	None	None
U.S. treasury obligations	5 years	None	None
State of California obligations	5 years	None	None
U.S. agency securities	5 years	None	None
Banker's acceptances	180 days	40%	30%
Commercial paper	270 days	40%	10%
Negotiable CDs	5 years	30%	None
Repurchase agreements	1 years	None	None
Reverse repurchase agreements	92 days	20%	None
Medium term notes	5 years	30%	None
Mutual/money market funds	5 years *	20%	10%
Collateralized bank deposits	5 years	None	None
Mortgage pass-through securities	5 years	20%	15%
Time deposits	5 Years	None	None
Local Agency Investment Fund (LAIF)	5 years *	None	None

\* The five year maximum maturity can be extended by the Board of Directors. Also, the maximum maturity can be extended if the funds are reserved for bond, COP or note payments to coincide with the required repayments.

B. Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of and investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investment by maturity:

	Totals	Remaining Maturity (in Months)	
		12 Months or Less	13-48 Months
State Investment Fund	\$ 317,582	\$ 317,582	\$ -
Totals	<u>\$ 317,582</u>	<u>\$ 317,582</u>	<u>\$ -</u>

\*Not subject to categorization

**PINE GROVE COMMUNITY SERVICES DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2020**

Note 2: Cash and Investments (Continued)

C. Concentrations of Credit Risk

The investment policy of the District contains limitations on the amount that can be invested in any one issuer. There are no investments to one issuer exceeding those limits.

D. Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposit or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment of collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits; The California Government Code requires that a financial institution secured deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the government unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the District's deposits by pledging first deed mortgage notes having a value of 150% of the secured public deposits.

At June 30, 2020, the District's deposits balance was \$158,008 and the carrying amount was \$172,387. The difference between the bank balance and the carrying amount was due to normal outstanding checks and deposits in transit. Of the bank balance, all was covered by the Federal Depository Insurance or by collateral secured by the financial institution.

E. Investment in State Investment Pool

LAIF is included in the State's Pooled Money Investment Account. The total amount invested by all public agencies in the State's Pooled Money Investment Account approximates \$106.05 billion. Of the \$106.05 billion managed by the State Treasurer, 100% is invested in non-derivative financial products and 3.54% is invested in structured notes and asset-backed securities. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by state statute.

Investments are accounted for in accordance with the provisions of GASB Statement No. 31, which requires governmental entities to report certain investments at fair value in the balance sheet and recognize the corresponding change in fair value of investments in the year in which the change occurred. The District reports its investments at fair value based on quoted market information obtained from fiscal agents or other sources if the change is material to the financial statements.

**PINE GROVE COMMUNITY SERVICES DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2020**

Note 3: Property, Plant and Equipment

Property, plant and equipment at June 30, 2020, consisted of the following:

<b>Water Fund</b>	Balance 7/1/2019	Additions	Retirements/ Adjustments	Balance 6/30/2020
Capital assets, not being depreciated				
Construction in progress	\$ 181,741	\$ 53,311	\$ -	\$ 235,052
Capital assets, being depreciated:				
Transmission and distribution	2,687,609			2,687,609
Buildings and improvements	101,480			101,480
Equipment and vehicles	57,404			57,404
Total capital assets, being depreciated	2,846,493			2,846,493
Less accumulated depreciation	(1,984,639)	(33,082)		(2,017,721)
Total capital assets being depreciated	861,854	(33,082)		828,772
Water fund capital assets, net	<u>\$ 1,043,595</u>	<u>\$ 20,229</u>	<u>\$ -</u>	<u>\$ 1,063,824</u>
 <b>Park Fund</b>				
Capital assets, not being depreciated				
Construction in progress	\$ -	\$ -	\$ -	\$ -
Capital assets, being depreciated:				
Site improvements	171,615	11,670		183,285
Total capital assets, being depreciated	171,615	11,670		183,285
Less accumulated depreciation	(94,966)	(12,434)		(107,400)
Total capital assets being depreciated	76,649	(764)		75,885
Park Fund capital assets, net	<u>\$ 76,649</u>	<u>\$ (764)</u>	<u>\$ -</u>	<u>\$ 75,885</u>

Note 4: Lease Income

The District derives a portion of its revenue from the rental of real property based on a fixed lease amount. The lease of the District is treated as an operating lease for accounting purposes. The lease term is for a period of five years, with an option to renew four additional five year terms and can be terminated by lessor at any time and without cause by giving the District thirty days written notice of termination. The original rent was \$1,039 per month and increases by the consumer price index to a maximum of 3% annually. Because this is a cancelable lease we do not present the operating revenue over the term of the lease.

**PINE GROVE COMMUNITY SERVICES DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2020**

Note 5: Revenue Limitations Imposed by California Proposition 218

Proposition 218, which was approved by the voters in November 1996, regulates the District's ability to impose, increase, and extend taxes and assessments. Any new increase or extended taxes and assessments subject to the provisions of Proposition 218, requires voter approval before they can be implemented. Additionally, Proposition 218 provides that these taxes and assessments are subject to voter initiative and may be rescinded in the future years by the voters.

Note 6: Financial Services Agreement

The District uses the services of an outside financial service provider, who performs the water billing, customer account maintenance, deposits to the bank, preparation of payroll, preparation of disbursements, general ledger accounting and preparation of monthly financial reports for the Board of Directors.

Note 7: Commitments and Contingencies

Water Service Contract

On April 12, 2001 the district entered into an amended water service contract with Amador Water Agency (Agency). Under the terms of the contract the District will reimburse the Agency their pro rata share of capital and operation and maintenance costs for water transportation, storage, treatment and delivery. The agreement shall remain in effect as long as the Agency has the use of facilities of PG&E or any successor of PG&E or comparable substitute facilities for the storage and conversion of North Fork Mokelumne River water, or until all reimbursable capital costs have been repaid, whichever is later. The District does not have the responsibility for operation and maintenance of the facilities. On July 1, 2015 the District entered into a wholesale treated water service agreement under an Agency-wide wholesale contract and rate basis. This agreement supersedes the April 12, 2001 agreement.

Litigation

In the normal course of business, the District is subject to various lawsuits. Defense of lawsuits is typically handled by the District's insurance carrier and losses, if any, are expected to be covered by insurance. The District is unaware of any pending litigation or other contingencies which would have a material effect on the financial condition or liquidity of the District.

COVID 19

In December 2019, a novel strain of coronavirus has spread around the world resulting in business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The operations and business results of Pine Grove Community Services District could potentially be adversely affected by this global pandemic. The extent to which the coronavirus may impact business activity or investment results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions required to contain the coronavirus. The District has not included any contingencies in the financial statements specific to this issue.

**PINE GROVE COMMUNITY SERVICES DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2020**

Note 8: Subsequent Events

Water Rates

The District Board of Directors approved a rate increase that went into effect as of the beginning of the 2018/19 fiscal year. The water rates were increased 3% for the 2019/20 fiscal year and will be adjusted by an additional 3% each year through the 2022/23 fiscal year.

Contract Award

Subsequent to fiscal year end the District awarded the water tank replacement project to Canyon Springs Enterprises in the amount of \$1,700,850. The cost of the project is expected to be funded with a State Water Resource Control Board (SWRCB) grant awarded on June 22, 2020.

Amador County Line of Credit

Subsequent to fiscal year end the District entered into a loan and repayment agreement with Amador County, whereby the County will loan the District up to \$2,500,000. The loan carries an interest rate of 1.5% and has a maturity date to borrow the funds of April 30, 2021, and a repayment date no later than January 31, 2025. The purpose of the loan is to act as interim financing for the tank project while the District waits for grant reimbursements from the State Water Resource Control Board.