

RESORT IMPROVEMENT DISTRICT NO. 1

FINANCIAL STATEMENTS

June 30, 2014

RESORT IMPROVEMENT DISTRICT NO. 1

FINANCIAL STATEMENTS

June 30, 2014

INTRODUCTORY SECTION

Principal Officials	1
---------------------	---

FINANCIAL SECTION

Independent Auditors' Report	2
-------------------------------------	---

Basic Financial Statements

Government-Wide Financial Statements

Statement of Net Position	5
---------------------------	---

Statement of Activities and Changes in Net Position	6
---	---

Fund Financial Statements

Balance Sheet - Governmental Funds	7
------------------------------------	---

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	8
---	---

Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	9
---	---

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	10
---	----

Statement of Net Position - Proprietary Funds	11
---	----

Statement of Revenues, Expenses, and Changes in Fund Net Position- Proprietary Funds	12
---	----

Statement of Cash Flows - Proprietary Funds	13
---	----

Notes to Financial Statements	15
--------------------------------------	----

RESORT IMPROVEMENT DISTRICT NO. 1

FINANCIAL STATEMENTS

June 30, 2014

District Representations Required by the United States Department of Agriculture	28
Required Supplementary Information	
Budgetary Comparison Schedule	
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Governmental Funds	29
Other Supplementary Information	
Combining Statement of Net Position - Proprietary Funds	30
Combining Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds	31
Combining Statement of Cash Flows - Proprietary Funds	32

INTRODUCTORY SECTION

RESORT IMPROVEMENT DISTRICT

PRINCIPAL OFFICIALS

JUNE 30, 2014

BOARD OF DIRECTORS

<u>Name</u>	<u>Office</u>
Michael Caldwell	President
Susan Fox	Vice-President
Dennis Harper	Member
Nanette Corley	Member
Sharon Fiedler	Member

GENERAL MANAGER

Philip W. Young



ANDERSON, LUCAS, SOMERVILLE & BORGES, LLP

CERTIFIED PUBLIC ACCOUNTANTS

ART STEWART (1945-1964)
RICHARD RODRIGUE (1950-1985)
DAVID J. SOMERVILLE (1971-1982)
DONALD J. HARRIS (1962-1994)
EUGENE B. LUCAS (1950-2013)

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DAVID A. SOMERVILLE, II
KEITH D. BORGES
BARBARA J. GUEST

RITA CHISM
VANESSA ANDERSON, E.A.

JAMES M. ANDERSON, *Inactive*

INDEPENDENT AUDITORS' REPORT

Board of Directors
Resort Improvement District No. 1
Shelter Cove, California

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Resort Improvement District No.1, as of and for the year ended June 30, 2014, 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 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 opinions 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 and the minimum audit requirements for California Special Districts issued by the State Controller's Office. Those standards require that we 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 auditors' 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 presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Resort Improvement District No. 1, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, if provided, and budgetary comparison schedules on page 29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Resort Improvement District No. 1's financial statements as a whole. The introductory section, and combining and individual financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Anderson, Lucas, Somerville, & Borges

December 4, 2014
Fortuna, California

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

RESORT IMPROVEMENT DISTRICT NO. 1
Statement of Net Position
June 30, 2014

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
ASSETS			
Cash and Cash Equivalents	\$ 42,466	\$ 2,293,704	\$ 2,336,170
Grants Receivable	8,617	-	8,617
Accounts Receivable, Net of Allowance For Doubtful Accounts of \$2,198	-	211,913	211,913
Assessment Receivable	-	420,633	420,633
Inventory of Materials and Supplies	-	181,218	181,218
Fixed Assets			
Land	136,949	120,973	257,922
Utility Systems and Golf Course	-	22,258,475	22,258,475
General Plant and Equipment	3,285,571	-	3,285,571
Accumulated Depreciation	(964,698)	(11,363,657)	(12,328,355)
	<u>2,508,905</u>	<u>14,123,259</u>	<u>16,632,164</u>
Total Assets			
LIABILITIES			
Accounts Payable	34,066	74,339	108,405
Customer Deposits	-	26,123	26,123
Payroll and Accrued Liabilities	17,017	49,765	66,782
Due To Other Funds	-	-	-
Current Portion of Long-Term Debt	-	75,785	75,785
State Loans	-	237,505	237,505
	<u>51,083</u>	<u>463,517</u>	<u>514,600</u>
Total Liabilities			
NET POSITION			
Invested in Capital Assets, Net of Related Debt	2,457,822	-	2,457,822
Restricted	-	10,702,501	10,702,501
Unrestricted	-	-	-
	<u>2,457,822</u>	<u>2,957,241</u>	<u>2,957,241</u>
Total Net Position	<u>\$ 2,457,822</u>	<u>\$ 13,659,742</u>	<u>\$ 16,117,564</u>

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

RESORT IMPROVEMENT DISTRICT NO. 1
Statement of Activities and Changes in Net Position
For the Year Ended June 30, 2014

Functions/Programs	Program Revenues					Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Payments in Lieu of Services	Other Program Revenues	Total	Governmental Activities	Business-Type Activities	Total
Primary Government									
Governmental Activities									
General Government	\$ 15,479	\$ 32,510	\$ -	\$ -	\$ -	\$ 32,510	\$ 17,031	\$ -	\$ 17,031
Public Safety - Fire	159,749	-	12,348	-	-	12,348	(147,401)	-	(147,401)
Airport	48,005	-	10,000	-	-	10,000	(38,005)	-	(38,005)
Community Development	126,077	-	5,000	-	-	5,000	(121,077)	-	(121,077)
Total Governmental Activities	349,310	32,510	27,348	-	-	59,858	(289,452)	-	(289,452)
Business-type Activities									
Water	367,273	211,076	-	-	-	211,076	-	(156,197)	(156,197)
Sewer	692,042	197,440	-	-	-	197,440	-	(494,602)	(494,602)
Electric	1,698,754	1,345,725	-	-	-	1,345,725	-	(353,029)	(353,029)
Total Business-type Activities	2,758,070	1,754,241	-	-	-	1,754,241	-	(1,003,828)	(1,003,828)
Total Primary Government	\$ 3,107,380	\$ 1,786,751	\$ 27,348	\$ -	\$ -	\$ 1,814,099	(289,452)	(1,003,828)	(1,293,280)
General Revenues									
Taxes									
Property Taxes							337,521	485,853	823,374
Special Assessments							113,260	114,773	228,033
Capital Grants							-	-	-
Grants and Contributions not Restricted to Specific Programs							-	-	-
Investment Earnings							4,033	36,748	40,781
Miscellaneous							19	96,782	96,801
Transfers							(110,430)	110,430	-
Total General Revenues, Special Items and Transfers							344,403	844,586	1,188,989
Change in Net Position							54,951	(159,242)	(104,291)
Net Position - Beginning of Year							2,402,871	13,818,984	16,221,855
Prior Period Adjustment							-	-	-
Net Position - End of Year							\$ 2,457,822	\$ 13,659,742	\$ 16,117,564

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

FUND FINANCIAL STATEMENTS

RESORT IMPROVEMENT DISTRICT NO. 1
Balance Sheet - Governmental Funds
June 30, 2014

ASSETS

Cash and Cash Equivalents	\$ 42,466
Accounts Receivable, Net of Allowance for Doubtful Accounts of \$0	-
Grant Receivable	8,617
Fixed Assets	<u>3,422,520</u>
 Total Assets	 <u><u>\$ 3,473,603</u></u>

LIABILITIES

Accounts Payable	34,066
Payroll and Accrued Liabilities	<u>17,017</u>
 Total Liabilities	 <u>51,083</u>

FUND BALANCE

Invested in Capital Assets, Net of Related Debt	3,422,520
Fund Balance - Unassigned	<u>-</u>
 Total Fund Balance	 <u>3,422,520</u>
 Total Liabilities and Fund Balance	 <u><u>\$ 3,473,603</u></u>

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

RESORT IMPROVEMENT DISTRICT NO. 1
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
June 30, 2014

TOTAL FUND BALANCES - Governmental Funds \$ 3,422,520

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

Accumulated depreciation on general fixed assets (964,698)

Net Position of Governmental Activities \$ 2,457,822

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

RESORT IMPROVEMENT DISTRICT NO. 1
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
For the Year Ended June 30, 2014

REVENUES

Property Taxes	\$ 337,521
Harbor District Revenue	0
Special Assessments	113,260
Interest Income	4,033
Rent	32,510
Grants	27,348
Other	19
	514,691
Total Revenues	514,691

EXPENDITURES

General and Administrative	-
Fire Protection: Human Resources	42,901
Fire Protection: Other Expenditures	44,710
Community Center: Human Resources	74,119
Community Center: Other Expenditures	31,398
Capital Outlay	211,133
	404,261
Total Expenditures	404,261

Excess of Revenues Over Expenditures	110,430
Allocated to Proprietary Funds	(110,430)

Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	-
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FUND BALANCES - Beginning of Year	-
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FUND BALANCES - End of Year	\$ -
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The accompanying notes are an integral part of these financial statements.

RESORT IMPROVEMENT DISTRICT NO. 1
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2014

NET CHANGE IN FUND BALANCES - Total Governmental Funds \$ -

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

Purchases of Fixed Assets 211,133

Depreciation expense has not been included in the Governmental
Fund Financial Statements. (156,182)

Change in Net Position of Governmental Activities \$ 54,951

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

RESORT IMPROVEMENT DISTRICT NO. 1
Statement of Net Position - Proprietary Funds
June 30, 2014

ASSETS

Current Assets

Cash and Cash Equivalents	\$	2,293,704
Accounts Receivable, Net of Allowance For Doubtful Accounts of \$2,198		211,913
Assessment Receivable		420,633
Inventory of Materials and Supplies		181,218
Total Current Assets		3,107,468

Noncurrent Assets

Fixed Assets		22,258,475
Accumulated Depreciation		(11,363,657)
Land		120,973
Total Noncurrent Assets		11,015,791

Total Assets		14,123,259
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LIABILITIES

Current Liabilities

Accounts Payable		74,339
Customer Deposits		26,123
Payroll and Accrued Liabilities		49,765
Due To Other Funds		-
Current Portion of Long-Term Debt		75,785
Total Current Liabilities		226,012

Noncurrent Liabilities

State Loans		237,505
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Total Liabilities		463,517
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NET POSITION

Invested in Capital Assets		
Net of Related Debt		10,702,501
Restricted		-
Unrestricted		2,957,241
Total Net Position	\$	13,659,742

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

RESORT IMPROVEMENT DISTRICT NO. 1
Statement of Revenues, Expenses, and
Changes in Fund Net Position - Proprietary Funds
For the Year Ended June 30, 2014

OPERATING REVENUES	
Utility Service Charges	\$ 1,754,241
Capital Facility Charges	114,773
Special Assessments	211,458
Connection, Extension and Other Fees	83,386
Other	<u>13,396</u>
Total Operating Revenue	<u>2,177,254</u>
OPERATING EXPENSES	
Human Resources	1,039,326
Materials, Supplies and Services	306,533
Power	542,494
Insurance	36,126
Depreciation	731,831
Allocated Administrative Costs	<u>101,759</u>
Total Operating Expenses	<u>2,758,069</u>
Operating Income (Loss)	<u>(580,815)</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest	36,748
Property Taxes	274,395
Interest Expense	-
Grant Revenue	-
Transfers In	110,430
Transfers Out	<u>-</u>
Total Non-Operating Revenues (Expenses)	<u>421,573</u>
Net Income	(159,242)
TOTAL NET POSITION - Beginning of Year	<u>13,818,984</u>
TOTAL NET POSITION - End of Year	<u><u>\$ 13,659,742</u></u>

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

RESORT IMPROVEMENT DISTRICT NO. 1
Statement of Cash Flows - Proprietary Funds
For the Year Ended June 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers and Users	\$ 2,186,080
Receipts from Interfund Services Provided	-
Payments to Suppliers	(961,970)
Payments to Employees	(1,047,304)
	<u>176,806</u>
Net Cash Provided (Used) by Operating Activities	<u>176,806</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Other Non-Operating Revenues	274,395
Other Non-Operating Expenses	-
Assessment Principal Collected	95,968
Operating Transfers In	110,430
Operating Transfers Out	-
	<u>480,793</u>
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>480,793</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of Fixed Assets	(390,240)
Capital Grants	-
Payment of Long Term Debt	-
Interest Paid on Long Term Debt	-
Change in Amounts Payable from Restricted Assets	-
	<u>(390,240)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(390,240)</u>
CASH FLOWS FROM INVESTMENT ACTIVITIES	
Interest Received	36,748
	<u>36,748</u>
Net Cash Provided by Investing Activities	<u>36,748</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	304,107
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>1,989,597</u>
CASH AND CASH EQUIVALENTS - End of Year	<u>\$ 2,293,704</u>

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

RESORT IMPROVEMENT DISTRICT NO. 1
Statement of Cash Flows - Proprietary Funds
For the Year Ended June 30, 2014

RECONCILIATION OF OPERATING INCOME (LOSS)
TO NET CASH PROVIDED (USED) BY
OPERATING ACTIVITIES

Operating Income (Loss)	\$ (580,815)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Depreciation	731,831
Changes in Assets and Liabilities:	
Receivables	9,216
Materials	(390)
Accounts Payable	24,942
Deposits	3,100
Accrued Liabilities	<u>(11,078)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 176,806</u></u>

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

NOTES TO THE FINANCIAL STATEMENTS

RESORT IMPROVEMENT DISTRICT NO. 1
Notes to the Financial Statements
June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Resort Improvement District No. 1 (District) was formed April 29, 1965 under the provisions of the Public Resources Code of the State of California. The District is governed by an elected board of directors and provides fire, recreation and utility services to the unincorporated area in Humboldt County generally known as Shelter Cove.

The financial statements of the Resort Improvement District No. 1 have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board 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.

Reporting Entity

There are no significant activities or Districts on which the District exercises oversight responsibility which require inclusion in the financial statements for the year ended June 30, 2014. The following criteria regarding manifestation of oversight were considered by the District in its evaluation of Districts and activities to include or exclude:

Financial Interdependency - The District is responsible for its debts and is entitled to surpluses. No separate agency receives a financial benefit, nor imposes a financial burden on the District.

Election of Governing District - The locally elected governing board is exclusively responsible for all public decisions and is accountable for the decisions it makes.

Designation of Management - The governing board appoints District management. All activities under the purview of management are within the scope of the reporting entity and management is accountable to the governing board for the activities being managed.

Significant Influence on Operations - The governing board has the legal authority to significantly influence operations. This authority includes, but is not limited to, adoption of the budget, control over all assets, including facilities and properties, short-term borrowing, long term borrowing as limited by state law, signing contracts, and developing the programs to be provided.

Accountability of Fiscal Matters - The responsibility and accountability over all funds is vested in the District management.

Basic Financial Statements – Government-wide Statements

The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major

RESORT IMPROVEMENT DISTRICT NO. 1
Notes to the Financial Statements
June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basic Financial Statements – Government-wide Statements (Continued)

funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The District's fire department, parks and recreation, airport and general administrative services are classified as governmental activities. The District's water, sewer services, and electric activities are classified as business-type activities.

In the Government-wide Statement of Net Position, both the governmental and business type activities columns are presented on a consolidated basis and are reported on a full accrual, economic resource basis. The District's net position is reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. At the end of each fiscal year, all current year activities of the general government fund is allocated and transferred to the business type activities. The District does not keep a separate general fund bank account.

Fund Accounting

The District uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category is divided into separate "fund types."

Governmental funds are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds), the acquisition or construction of general fixed assets (capital projects funds), and the servicing of general long term debt (debt service funds). The general fund is used to account for all activities not accounted for in some other fund.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies primarily within the District (internal service funds). The District maintains enterprise funds for its electric utility, water utility, sewer utility and golf recreation activities.

RESORT IMPROVEMENT DISTRICT NO. 1
Notes to the Financial Statements
June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Accounting (Continued)

Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the District. When these assets are held under the terms of a formal trust agreement, either a pension trust fund, a nonexpendable trust fund or an expendable trust fund is used. The terms "nonexpendable" and "expendable" refer to whether or not the government is under an obligation to maintain the trust principal. Agency funds generally are used to account for assets that the District holds on behalf of others as their agent.

Fund Balances, Reserves and Designations

In the Fund financial statements, fund balances represent the net current assets of each fund. The District's fund balances are classified based on spending constraints imposed on use of resources. For programs with multiple funding sources, the District prioritizes and expends funds in this order: Restricted, Committed, Assigned, and Unassigned. These are defined as follows:

Nonspendable represents balances set aside to indicate items that do not represent available or spendable resources, even though they are a component of assets. Fund balances required to be maintained intact, such as Permanent Funds, and assets not expected to be converted to cash such as prepaids, are included.

Restricted fund balances have external restrictions imposed by creditors, grantors, contributors, laws, regulations, or legislation which require the resources be used only for specific purposes.

Committed fund balances have constraints imposed by formal action of the District Board, such as an Ordinance, which may be altered only by the same formal action of the District Board.

Assigned fund balances are amounts constrained by the District Boards intent to be used for a specific purpose, but are neither restricted nor committed.

Unassigned fund balances represent residual amounts that have not been restricted, committed, or assigned. This includes the residual general fund balance.

RESORT IMPROVEMENT DISTRICT NO. 1
Notes to the Financial Statements
June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements

In June 2011, the GASB issued Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which changed the structure of a government balance sheet.

Deferred Outflow – represents the consumption of a government's net assets that is applicable to a future period.

Deferred Inflow – represents the acquisition of net assets that is applicable to a future reporting period.

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which amends the classification of certain items to be included as deferred inflows and outflows.

Management has determined that the implementation of GASB 63 and 65 will have no effect on the financial statements. The District currently has no items that qualify to be reported under the classification of Deferred Outflows or Inflows of resources.

Basis of Accounting

The accounting and financial reporting applied to a fund is determined by its measurement focus. All governmental funds and expendable trusts funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included in the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The modified accrual basis of accounting is used by governmental fund types, expendable trust funds, and agency funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

RESORT IMPROVEMENT DISTRICT NO. 1

Notes to the Financial Statements

June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

The District considers property taxes within governmental funds as available if they are collected within 60 days after year end. A one-year availability period is used for revenue recognition for all other governmental fund revenues. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.

The accrual basis of accounting is utilized by proprietary fund types, pension trust funds and nonexpendable trust funds. Under this method revenues are record when earned and expenses are recorded at the time liabilities are incurred. Water and sewer services charges are recognized as monthly utility bills are prepared.

Budgets

A budget is adopted for the general fund on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year-end. The board has given the District Manager authority to make subsequent budget adjustments. It is this final adjusted budget which is reported in these financial statements.

Cash and Cash Equivalents

Cash includes amounts in demand deposits, as well as short-term investments with a maturity date within three months of the date acquired by the District.

Short-term Interfund Receivables/Payables

During the course of operations, transactions occur between individual funds for goods or services rendered. These receivables and payables are classified as "Due from Other Funds" or "Due to Other Funds" on the balance sheet. Short-term interfund loans are reported as "Cash Advances to/from Other Funds."

Supplies Inventory

Materials and supplies inventory is priced at cost using the first-in, first-out method.

GAAP Election

Proprietary funds have selected consistently not to follow Financial Accounting Standards Board pronouncements issued subsequent to November 30, 1989 as permitted under Government Accounting Standards Board Statement No. 20.

RESORT IMPROVEMENT DISTRICT NO. 1

Notes to the Financial Statements

June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences

The District allows employees to accumulate vacation time limited to one year, which is paid in cash upon termination. Sick leave may be accumulated without limit. Unused sick leave is credited to PERS upon retirement. The liability for compensated absences is accrued during the fiscal period in which it is earned.

Fixed Assets

All fixed assets are valued at historical cost. Donated assets are valued at their estimated fair market value on the date received. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. Depreciation is taken on these assets using the straight-line method over their useful lives, ranging from 10 to 40 years.

Building and equipment of the enterprise funds are depreciated using the straight-line method over useful lives ranging over 20 to 100 years for buildings and improvements, 15 to 50 years for pipe, poles and appurtenances and 3 to 15 years for equipment.

Property Taxes and Assessments

Secured property taxes are levied March 1 on all secured real property and are due and payable November 1 and February 1 of the following fiscal year. Unsecured property taxes are payable in one installment on or before August 31. The County of Humboldt is responsible for assessing, collecting and distributing property taxes and assessments in accordance with California statutory law.

A tax rate of \$1.00 per \$100.00 of assessed valuation is levied on all property within the County. The District's share of the taxes collected is determined by state law. The County distributes to the District its full share of the taxes whether actually collected or not. All delinquent taxes along with interest and penalties belong to the County.

Assessments are levied against property located within the District and consist of water standby fees assessed at \$8.00 per parcel for each uninhabited parcel for which service could be made available. A special utility tax is \$80.00 per parcel for every parcel within the District.

A one-time special assessment was made during the 1997-98 fiscal year to fund improvements to the sewer treatment facility. An assessment district was formed under the Municipal Improvement Act of 1913 (California Streets and Highways Code section 10000 et. Seq.). Bonds were issued in July of 1998 for assessments remaining unpaid by the payment due date. A special tax rate applies to each parcel against which such bonds were issued and will be levied each year until the entire principal and interest amounts are paid.

RESORT IMPROVEMENT DISTRICT NO. 1
Notes to the Financial Statements
June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-term Obligations

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable, available financial resources is reported as a fund liability of a governmental fund. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

Fund Equity

Contributed capital is recorded in proprietary funds that have received capital contributions from developers, customers, and other sources. Reserves represent those portions of fund equity not available for appropriation for expenditure or legally segregated for a specific future use.

Debt Discounts/Issuance Costs

In governmental fund types, debt discounts and issuance costs are recognized in the current period. Debt discounts and issuance costs for proprietary fund types are deferred and amortized over the term of the debt using the bonds-outstanding method, which approximates the effective interest method. Debt discounts are presented as a reduction of the face amount of debt payable, whereas issuance costs are recorded as deferred charges and are presented in the financial statements under "Other Assets".

Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

RESORT IMPROVEMENT DISTRICT NO. 1
Notes to the Financial Statements
June 30, 2014

NOTE 2 - STATE LOANS

State Revolving Fund

On January 27, 1999, the District signed a loan contract with the State Water Resources Control Board. Under the contract, the State loaned the District \$1,316,665 from the State Revolving Fund (SRF). The State Revolving Fund was created by a grant from the United States Environmental Protection Agency under the Capitalization Grants for State Revolving Funds program.

The loan bears interest at 2.2 percent per annum. The repayment schedule calls for annual payments of \$82,677, commencing September 1, 2000 with the final payment due September 1, 2019. Total interest to maturity is \$335,053.

The contract provides that all future debt incurred by the District shall be on parity with, or subordinate to, the SRF loan. The contract also provides that the District shall maintain a dedicated source of revenue sufficient to provide reasonable assurance of repayment. The revenue source contemplated, and so dedicated, is the repayment by the Assessment District of interest and principal of the Series A bonds.

The proceeds of the loan are to benefit the Shelter Cove sewer system improvement project. The loan proceeds were used to acquire the Assessment District Series A bonds. Those funds were then paid over to the District by the Assessment District and utilized to fund the project.

NOTE 3 - PROPERTY TAX REVENUES

During the 1996/97 fiscal year, the County apportioned the District its share of the general tax rate under the "Teeter Plan". Under this plan, the full amount of the levy is paid to the District, whether collected or not. All interest and penalties for late payment of taxes are retained by the County.

NOTE 4 - COMMITMENTS

As a condition of an agreement between the Shelter Cove Resort Improvement District and the National Oceanic & Atmospheric Administration (NOAA) addressing the creation of a permanent fish passage solution at the dam site on Telegraph Creek, the District is required to design and construct a suitable "Project" at the dam site that meets certain minimum criteria of NOAA Fisheries pursuant to the Endangered Species Act (ESA) for upstream and downstream passage of adult juvenile steelhead. The Project may include, but is not limited to, complete removal of the dam. The deadline for substantial complete installation and construction of the Project is December 31, 2014. Failure to meet this deadline could trigger a penalty assessment of up to \$20,000. The total project cost is estimated at between \$150,000 to \$708,000 expense to the District, depending on final actual grant revenues awarded for the Project.

RESORT IMPROVEMENT DISTRICT NO. 1
Notes to the Financial Statements
June 30, 2014

NOTE 5 - FIXED ASSETS

The following is a summary of the changes in the general fund fixed assets during the fiscal year.

	<u>June 30, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2014</u>
Land and Land Rights	\$ 104,522	\$ 32,427	\$ -	\$136,949
Buildings	575,525	-	-	575,525
Airport Improvements	1,045,076	-	-	1,045,076
Airport Equipment	18,629	-	-	18,629
Fire Equipment	1,191,439	119,079	-	1,310,518
Office Equipment	32,964	-	-	32,964
Parks	240,538	9,686	-	250,224
Road Repairs	-	49,941	-	49,941
Intangibles	2,694	-	-	2,694
	<u>\$ 3,211,387</u>	<u>\$211,133</u>	<u>\$ -</u>	<u>\$3,422,520</u>

The following is a summary of proprietary fund type (enterprise funds) fixed assets:

Electrical System	6,905,175
Land	120,973
Allowance for Depreciation	<u>(3,956,931)</u>
	<u>3,069,217</u>
Water System	6,987,581
Allowance for Depreciation	<u>(2,977,932)</u>
	<u>4,009,649</u>
Sewer System	8,365,719
Allowance for Depreciation	<u>(4,428,794)</u>
	<u>3,936,925</u>
Total	<u><u>11,015,791</u></u>

RESORT IMPROVEMENT DISTRICT NO. 1
Notes to the Financial Statements
June 30, 2014

NOTE 6 - CASH AND CASH EQUIVALENTS

The District's temporary investments are all deposits in federally insured banks or in investment pools maintained by the Humboldt County Treasurer and the State of California. The carrying amount is the account balance which includes interest. At times such investments may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limits of \$250,000.

The following summarizes cash and cash equivalents at June 30, 2013:

	Total
Governmental Funds:	
Insured by FDIC	\$ 42,466
Imprest Cash	-
	\$ 42,466
Proprietary Funds:	
Pooled with County	\$1,649,628
Pooled with State	367,132
Insured by FDIC	276,233
Imprest Cash	711
	\$2,293,704
Total	\$2,336,170

NOTE 7 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District maintains commercial and risk pool coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the District. Settled claims have not exceeded this coverage in any of the past three years.

RESORT IMPROVEMENT DISTRICT NO. 1
Notes to the Financial Statements
June 30, 2014

NOTE 8 - RETIREMENT PLAN

- A. **Plan Description:** The District's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Plan is part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements is established by State statutes within the Public Employees' Retirement Law. The District selects optional benefits provisions from the benefit menu by contract with CalPERS and adopts those benefits through Board action. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.
- B. **Funding Policy:** Active plan members in the Plan are required to contribute 7% of their annual covered salary. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution is an actuarially determined rate. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS. The District's contributions to CalPERS for the fiscal years ended June 30, 2014 and 2013 were \$77,881 and \$95,968, respectively, and equal the total required contributions for each year. Beginning in FY 2015-2016 CalPERS will collect additional employer contributions toward the unfunded liability.

NOTE 9 - BUDGETS

The District adopts an annual budget for the General Fund after conducting public hearings. Planning budgets are prepared for the enterprise funds. No budget comparison has been presented in these financial statements for the enterprise funds since the demand for goods and services primarily determines the revenue available and the expenses incurred.

RESORT IMPROVEMENT DISTRICT NO. 1
Notes to the Financial Statements
June 30, 2014

NOTE 10 - LOAN PAYABLE

The interest rate on the State Water Resources Control Board Loan is 2.2% per annum and payments are due in September. Principal and interest requirements to maturity for the next four years are as follows:

Year(s) Ending June 30,	Principal	Interest	Total
2014	75,785	6,892	82,677
2015	77,454	5,225	82,679
2016	79,157	3,521	82,678
2017	80,895	1,780	82,675
Totals	<u>\$ 313,291</u>	<u>\$ 17,418</u>	<u>\$ 330,709</u>

NOTE 11 – FINANCIAL STATEMENT PRESENTATION

Certain amounts from the prior year financial statements have been reclassified to conform to the current year presentation.

NOTE 12 – SUBSEQUENT EVENTS

Management has evaluated all known events that have occurred after June 30, 2014, and through December 4, 2014, the date when this financial statement was available to be issued, for inclusion in the financial statements and footnotes.

RESORT IMPROVEMENT DISTRICT NO. 1
Notes to the Financial Statements
June 30, 2014

NOTE 13 – HUMAN RESOURCES RECONCILIATION

The District allocates total human resources expense, including payroll and wages, payroll taxes, worker's comp, health insurance and all other related benefits to numerous funds and accounts. A reconciliation of these amounts is provided below for the year ended June 30, 2014:

Total Labor Expenses (Wages, Benefits, Other)	<u>1,235,434</u>
Reported in Financial Statements as follows:	
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	
Community Center	74,119
Fire Protection	42,901
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds	1,039,326
Transferred to Capital Labor and Capitalized as part of Fixed Assets on Balance Sheets	<u>79,088</u>
	<u>1,235,434</u>

REQUIRED SUPPLEMENTARY INFORMATION

RESORT IMPROVEMENT DISTRICT NO. 1
District Representations Required by the United States
Department of Agriculture
June 30, 2014

1. The District has complied with requirements of the Sewer Revenue Bond Resolution, including the maintenance of cash reserves.
2. All audit adjustments have been recorded in the District's books of account.
3. All funds of the District are on deposit with institutions insured by the Federal government, with the County of Humboldt or with the State of California.
4. The district is exempt from Federal and California income taxes under Internal Revenue Code Section 115 and the constitution of the State of California.
5. The District's accounting records are adequate to provide an audit trail sufficient to support an opinion by an independent auditor.
6. The District's primary assets in terms of cost are the above ground and underground systems of electrical, water and sewer lines. These require very little physical control. The materials and supplies inventory is controlled by a general ledger account. A physical inventory is taken periodically to verify this record.

Trucks and autos are controlled by the State Licensing Agency.

Other assets are minimal. The District directors and management are involved with the operations closely enough to provide a good informal control over these items.

7. The District has implemented all prior year audit recommendations.
8. Enterprise fund accounts receivable were aged as follows at June 30, 2014:

0-30 Days	\$171,262
31-60 Days	31,121
Over 60 Days	11,727
	\$214,110

BUDGETARY COMPARISON SCHEDULE

RESORT IMPROVEMENT DISTRICT NO. 1
Statement of Revenues, Expenses, and
Changes in Fund Balances
Budget and Actual - Governmental Funds
For the Year Ended June 30, 2014

	General Fund		
	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Property Taxes	\$ 462,527	\$ 337,521	\$ (125,006)
Grants	35,000	27,348	(7,652)
Special Assessments	114,410	113,260	(1,150)
Interest Income	2,000	4,033	2,033
Rent	31,154	32,510	1,356
Fire Protection Reimbursement	-	-	-
Other	400	19	(381)
	-	-	-
Total Revenues	645,491	514,691	(130,800)
EXPENDITURES			
Current:			
General and Administrative	440,200	-	440,200
Fire Protection	101,529	87,611	13,918
Community Center	113,938	105,517	8,421
Noncurrent:			
Capital Outlay	254,670	211,133	43,537
	910,337	404,261	506,076
Total Expenditures	910,337	404,261	506,076
Total Expenditures Allocated to Proprietary Funds	(397,257)	-	(397,257)
Net Total Expenditures	513,080	404,261	108,819
Excess of Revenues Over Expenditures	132,411	110,430	21,981
Allocated to Proprietary Funds	(132,411)	(110,430)	(21,981)
Excess (Deficiency) of Revenue and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	\$ -	-	\$ -
FUND BALANCE - Beginning	-	-	-
FUND BALANCE - Ending	\$ -	-	-

OTHER SUPPLEMENTARY INFORMATION

RESORT IMPROVEMENT DISTRICT NO. 1
Combining Statement of Revenues, Expenses,
and Changes in Fund Net Position- Proprietary Funds
For the Year Ended June 30, 2014

	<u>Electric Utility</u>	<u>Water Utility</u>	<u>Sewer Utility</u>	<u>Total</u>
OPERATING REVENUES				
Utility Service Charges	\$ 1,345,725	\$ 211,076	\$ 197,440	\$ 1,754,241
Capital Facility Charges	58,176	56,597	-	114,773
Special Assessments	-	211,458	-	211,458
Connection, Extension and Other Fees	45,349	20,604	17,433	83,386
Other Operational Income	-	-	13,396	13,396
	<hr/>	<hr/>	<hr/>	<hr/>
Total Operating Income	1,449,250	499,735	228,269	2,177,254
OPERATING EXPENSES				
Human Resources	664,218	96,514	278,594	1,039,326
Materials, Supplies and Services	148,200	66,867	91,466	306,533
Power	542,494			542,494
Insurance	12,684	9,455	13,987	36,126
Depreciation	258,799	182,661	290,371	731,831
Allocated Administrative Costs	72,359	11,777	17,623	101,759
	<hr/>	<hr/>	<hr/>	<hr/>
Total Operating Expenses	1,698,754	367,274	692,041	2,758,069
Operating Income (Loss)	<hr/> (249,504)	<hr/> 132,461	<hr/> (463,772)	<hr/> (580,815)
NON-OPERATING REVENUES (EXPENSES)				
Interest	-	993	35,755	36,748
Property Taxes	7,612	79,894	186,889	274,395
Interest Expense	-	-	-	-
Grant Revenue	-	-	-	-
Transfers In	64,218	26,061	20,151	110,430
Transfers Out	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total Non-Operating Revenues	71,830	106,948	242,795	421,573
Net Income (Loss)	<hr/> (177,674)	<hr/> 239,409	<hr/> (220,977)	<hr/> (159,242)
TOTAL NET POSITION - Beginning	<hr/> 3,830,413	<hr/> 5,242,149	<hr/> 4,746,422	<hr/> 13,818,984
TOTAL NET POSITION - Ending	<hr/> <u>\$ 3,652,739</u>	<hr/> <u>\$ 5,481,558</u>	<hr/> <u>\$ 4,525,445</u>	<hr/> <u>\$ 13,659,742</u>

RESORT IMPROVEMENT DISTRICT NO. 1
Combining Statement of Cash Flows - Proprietary Funds
For the Year Ended June 30, 2014

	<u>Electric Utility</u>	<u>Water Utility</u>	<u>Sewer Utility</u>	<u>Total</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating Income (Loss)	\$ (249,504)	\$ 132,461	\$ (463,772)	\$ (580,815)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) By Operating Activities:				
Depreciation	258,799	182,661	290,371	731,831
Changes in Assets and Liabilities:				
Receivables	10,660	(1,583)	139	9,216
Materials	5,695	(6,085)	-	(390)
Accounts Payable	18,621	1,635	4,686	24,942
Deposits	2,167	66	867	3,100
Accrued Liabilities	<u>(3,307)</u>	<u>(6,933)</u>	<u>(838)</u>	<u>(11,078)</u>
Net Cash Provided (Used) By Operating Activities	<u>\$ 43,131</u>	<u>\$ 302,222</u>	<u>\$ (168,547)</u>	<u>\$ 176,806</u>