

CHIRIACO SUMMIT WATER DISTRICT

FINANCIAL STATEMENTS

JUNE 30, 2002 and 2001

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CRABTREE & ASSOCIATES, CPAs

PARTNERSHIP INCLUDING CORPORATIONS

ROLAND H. CRABTREE (1917-1990)



The CPA. Never Underestimate The Value. SM

J. MICHAEL TWEEDLIE, C.P.A.*
GREGORY A. SEIGLER, C.P.A.*
SANDEE M. TWEEDLIE, C.P.A.*
VINCENT P. AMATULLI, C.P.A.*
STEVEN J. TWEEDLIE, C.P.A.*

*SHAREHOLDERS OF PROFESSIONAL
CORPORATIONS

September 18, 2002

Independent Auditors' Report

To the Board of Directors
Chiriaco Summit Water District

We have audited the financial statements of Chiriaco Summit Water District for the years ended June 30, 2002 and 2001 listed in the foregoing table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Chiriaco Summit Water District at June 30, 2002 and 2001 and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.


Certified Public Accountants

BALANCE SHEETS
June 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
<u>ASSETS</u>		
Current assets:		
Cash and equivalents - Exhibit C	\$ 17,181	\$ --
Accounts receivable	735	2,790
	<u>17,916</u>	<u>2,790</u>
Total current assets	17,916	2,790
Property, plant and equipment, net (Note 2)	153,386	157,727
Other assets:		
Organizational costs (Note 4)	131,283	95,391
Other assets	1,525	1,500
	<u>132,808</u>	<u>96,891</u>
Total assets	<u>\$ 304,110</u>	<u>\$ 257,408</u>
<u>LIABILITIES AND FUND EQUITY</u>		
Current liabilities:		
Bank overdraft - Exhibit C	\$ --	\$ 147
Accounts payable (Note 5)	138,158	93,284
Accounts payable - related (Note 5)	6,163	6,163
Note payable (Note 3)	3,772	--
Customer deposits	1,750	--
	<u>149,843</u>	<u>99,594</u>
Total current liabilities	149,843	99,594
Long-term liabilities:		
Note payable (Note 3)	16,228	--
	<u>16,228</u>	<u>--</u>
Total long-term liabilities	16,228	--
Total liabilities	<u>166,071</u>	<u>99,594</u>
Fund equity:		
Contributed capital (Note 5)	159,073	159,073
Retained earnings - Exhibit B	(21,034)	(1,259)
	<u>138,039</u>	<u>157,814</u>
Total fund equity	138,039	157,814
Total liabilities and fund equity	<u>\$ 304,110</u>	<u>\$ 257,408</u>

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

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN FUND EQUITY

For the Years Ended June 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
<u>Operating revenue:</u>		
Water sales	\$ 15,533	\$ 5,170
Other revenue	50	--
	<u>15,583</u>	<u>5,170</u>
<u>Operating expenses:</u>		
Source of supply	10,474	2,329
Pumping	1,401	--
Trans and distribution	135	--
	<u>12,010</u>	<u>2,329</u>
Operating income / (loss), before general and administrative expenses	<u>3,573</u>	<u>2,841</u>
<u>General and administrative expenses:</u>		
Advertising	--	217
Bad debt	105	--
Bank service charges	190	34
Amortization expense - Note 4	9,492	1,617
Depreciation expense - Note 2	5,385	1,346
Professional fees	2,337	112
Licenses and permits	2,162	210
Office supplies	173	--
Postage	22	--
Payroll	3,153	507
Payroll taxes	329	57
	<u>23,348</u>	<u>4,100</u>
Net income / (loss) - Exhibit C	(19,775)	(1,259)
Beginning retained earnings	<u>(1,259)</u>	<u>--</u>
Ending retained earnings - Exhibit A	<u>\$ (21,034)</u>	<u>\$ (1,259)</u>

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

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
<u>Cash Flows From Operating Activities:</u>		
Net income / (loss) - Exhibit B	\$ (19,775)	\$ (1,259)
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation / amortization	14,877	2,963
Decrease (increase) in operating assets:		
Accounts receivable	2,055	(2,790)
Other assets	(25)	(1,500)
Increase (decrease) in operating liabilities:		
Accounts payable	(511)	2,439
Customer deposits	1,750	--
Net cash provided by (used for) operating activities	<u>(1,629)</u>	<u>(147)</u>
<u>Cash Flows From Capital and Related Financing Activities:</u>		
Purchase of fixed assets	(1,043)	--
Note payable borrowings	<u>20,000</u>	<u>--</u>
Net cash provided by / (used for) capital and related financing activities	<u>18,957</u>	<u>--</u>
Net increase (decrease) in cash	17,328	(147)
Cash and equivalents at beginning of year	<u>(147)</u>	<u>--</u>
Cash and equivalents at end of year - Exhibit A	<u>\$ 17,181</u>	<u>\$ (147)</u>
<u>Supplemental Schedule of Non-Cash Capital and Related Financing Activities:</u>		
Organizational costs incurred by accounts payable financing	<u>\$ 45,385</u>	<u>\$ 97,008</u>

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

CHIRIACO SUMMIT WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2002 and 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The District was formed on May 9, 2000 for the purpose of providing water service to the customers of Chiriaco Summit, California. Operational activities for the District began on April 1, 2001.

The accounting policies of Chiriaco Summit Water District conform to accounting principles generally accepted in the United States of America as they relate to governmental units (Special Districts). The following is a summary of significant accounting policies of the District.

Fund Accounting - The accounts of the Water District are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for using a separate set of self-balancing accounts that comprise the assets, liabilities, fund equity, revenue and expenses of each fund. The Water District's resources are allocated to and accounted for in one individual fund based upon the purpose for which the funds are spent and the means by which spending activity is controlled.

Property, Equipment and Improvements - Property, equipment and improvements are stated at cost. Maintenance and repairs are charged to the current period. Operating expenses and improvements along with all costs associated with construction of water collector lines are capitalized. Upon retirement or other disposition of property and equipment, the cost and the related accumulated depreciation are removed from the respective accounts and any gains or losses are included in operations.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. The useful lives of the property and equipment are summarized below:

Equipment and Utility Plant	5 to 40 years
-----------------------------	---------------

Inventory - Inventory consisting of materials and supplies, if any, is stated at the lower of cost or market. Obsolete parts are not included in inventory.

Cash Equivalents - For purposes of the statements of cash flows, the District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Cash equivalents include both restricted and non-restricted cash balances.

Cash Balances - The District may maintain bank accounts at various financial institutions with balances in excess of FDIC (Federal Deposit Insurance Corporation) insurable levels of \$100,000.

Credit/Market Risk - The District provides water services to local residential and commercial customers. As part of normal operating practices, credit is granted to local customers, on an unsecured basis.

Deposits and Investments - The carrying amounts of deposits and investments reflects a reasonable approximation of their fair market value.

Use of Estimates - Accounting principles generally accepted in the United States of America require management to make assumptions in estimates that affect the amount reported in the financial statements for assets, liabilities, revenues and expenses. In addition, assumptions and estimates are used to determine disclosure for contingencies, commitments and other matters discussed in the notes to the financial statements. Actual results could differ from those estimates.

CHIRIACO SUMMIT WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2002 and 2001

NOTE 2 - PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment are comprised of the following at June 30:

	<u>2002</u>	<u>2001</u>
Equipment and utility plant	\$ 160,117	\$ 159,073
Less: accumulated depreciation	<u>(6,731)</u>	<u>(1,346)</u>
Property, plant and equipment, net - Exhibit A	<u>\$ 153,386</u>	<u>\$ 157,727</u>

NOTE 3 - NOTE PAYABLE:

	<u>Current</u>	<u>Long-term</u>	<u>Total</u>
<u>Desert Communities Empowerment Zone:</u>			
Promissory note dated June 19, 2002, bearing interest at 3.00% per annum, monthly payments of \$359 commencing July 15, 2002, maturing July 15, 2007. - Exhibit A	<u>\$ 3,772</u>	<u>\$ 16,228</u>	<u>\$ 20,000</u>

A schedule of debt service requirements is presented below:

Fiscal Year Ended <u>June 30,</u>	<u>Interest</u>	<u>Principle</u>	<u>Total</u>
2003	\$ 541	\$ 3,772	\$ 4,313
2004	434	3,879	4,313
2005	316	3,997	4,313
2006	194	4,118	4,312
2007	<u>69</u>	<u>4,234</u>	<u>4,303</u>
Total	<u>\$ 1,554</u>	<u>\$ 20,000</u>	<u>\$ 21,554</u>

CHIRIACO SUMMIT WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2002 and 2001

NOTE 4 - ORGANIZATIONAL COSTS:

Costs related to the District's formation, including engineering studies and related services, are amortized over a fifteen-year period.

	<u>2002</u>	<u>2001</u>
Organizational costs	\$ 142,393	\$ 97,008
Accumulated amortization	<u>(11,110)</u>	<u>(1,617)</u>
Organizational costs - Exhibit A	<u>\$ 131,283</u>	<u>\$ 95,391</u>
Current amortization - Exhibit B	<u>\$ 9,492</u>	<u>\$ 1,617</u>

NOTE 5 - PAYABLES, ORGANIZATION, GRANTS, PROPERTY:

The District was formed May 9, 2000, and the infrastructure consisting of pipelines, related tanks and equipment was donated to the District from Joseph Chiriaco, Inc. Joseph Chiriaco, Inc. previously operated the facility as a private venture. This donated infrastructure and equipment was recorded as contributed capital based on fair market value at the date of donation.

In conjunction therewith, engineering studies and pre-formation activities were performed to provide for the organizational foundation of the District. Organizational costs totaled \$142,393, of which \$136,229 is owed to the engineering firm of Krieger and Stewart and \$6,164 is owed to Joseph Chiriaco, Inc.

The officers of Joseph Chiriaco, Inc. are considered related parties to the Board of Directors of Chiriaco Summit Water District.

In addition to the formation costs and infrastructure donation, the District is in the process of attempting to obtain grant or loan funds from the Riverside Economic Development Agency to be used to payoff the organizational debt and to fund additional infrastructure capitalization needs. The application is being drafted and the District expects to request substantial funds of several hundred thousand dollars.

CRABTREE & ASSOCIATES, CPAs
PARTNERSHIP INCLUDING CORPORATIONS

ROLAND H. CRABTREE (1917-1990)



The CPA. Not just a certificate. The Value.

J. MICHAEL TWEEDLIE, C.P.A.[®]
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STEVEN J. TWEEDLIE, C.P.A.[®]
SHAREHOLDERS OF PROFESSIONAL
CORPORATIONS

December 18, 2002

Marget F. Chiriaco-Rusche
Chiriaco Summit Water District
One Chiriaco Road
Chiriaco Summit, CA 92201

Dear Marget:

Enclosed are six (6) copies of the audited financial statements and management letter for Chiriaco Summit Water District for the years ended June 30, 2002 and 2001.

If you have any questions, or need additional information please don't hesitate to contact me.

Yours very truly,

CRABTREE, KARLEN & ARZOO

A handwritten signature in black ink, appearing to read "J. Michael Tweedlie".

J. Michael Tweedlie, CPA

JMT/mo

Enclosures

CRABTREE & ASSOCIATES, CPAs

PARTNERSHIP INCLUDING CORPORATIONS

FOUNDED BY CRABTREE (1917-1990)



J. MICHAEL TWEEDLIE, C.P.A.[®]
GREGORY A. SEIGLER, C.P.A.[®]
SANDEE M. TWEEDLIE, C.P.A.[®]
VINCENT P. AMATULLI, C.P.A.[®]
STEVEN J. TWEEDLIE, C.P.A.[®]

MEMBERS OF PROFESSIONAL
CORPORATIONS

December 5, 2002

State Controller
Division of Local Government
Fiscal Affairs
P. O. Box 942850
Sacramento, CA 94250-5876

Enclosed is one (1) copy of the audited financial statements for Chiriaco Summit Water District for the years ended June 30, 2002 and 2001.

If you have any questions, please contact us.

Yours very truly,

CRABTREE & ASSOCIATES, CPAs

A handwritten signature in cursive script, appearing to read "J. Michael Tweedlie".

J. Michael Tweedlie, CPA

JMT/mo

Enclosure

cc: Marget F. Chiriaco-Rusche
Chiriaco Summit Water District

CRABTREE & ASSOCIATES, CPAs

PARTNERSHIP INCLUDING CORPORATIONS

ROLAND H. CRABTREE (1917-1990)



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VINCENT P. AMATULLI, C.P.A.²
STEVEN J. TWEEDLIE, C.P.A.²
SHAREHOLDERS OF PROFESSIONAL
CORPORATIONS

December 5, 2002

Anthony J. Bellanca, CPA
Auditor-Controller
Office of County Auditor-Controller
County Administrative Center
4080 Lemon St., 11th Floor
Riverside, CA 92501-3562

Enclosed is one (1) copy of the audited financial statements for Chiriaco Summit Water District for the years ended June 30, 2002 and 2001.

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Yours very truly,

CRABTREE & ASSOCIATES, CPAs

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J. Michael Tweedlie, CPA

JMT/mo

Enclosures

cc: Marget F. Chiriaco-Rusche
Chiriaco Summit Water District