

CHIRIACO SUMMIT WATER DISTRICT

FINANCIAL STATEMENTS

JUNE 30, 2004 and 2003

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CHIRIACO SUMMIT WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2004 and 2003

Our discussion and analysis of Chiriaco Summit Water District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS:

- The District's net assets increased 210% to \$347 thousand (from \$112 thousand) as a result of this year's operations and non-operating activities. This is primarily due to receipts of \$285,000 of grant revenue.
- As a result, the District, as a whole, is better off by 210% over the prior fiscal year.
- The District's net asset increase is illustrated as follows:

	2004	
	\$(thousands)	%
Operating activity	\$ (49)	-84%
Non-operating activity	284	294%
Other non-operating activity		
Total	\$ 235	210%

During the year, the District's total sources of revenues exceeded expenses by \$235 thousand.

- Total revenues from all sources amounted to \$341 thousand.
- The cost of all District activities amounted to \$106 thousand.
- Of the total net assets, none are restricted.

USING THIS ANNUAL REPORT:

This annual report consists of a series of financial statements. The Statement of Net Assets, the Statement of Revenue, Expenses and Changes in Net Assets and the Statement of Cash Flows provide information about the activities of the District as a whole and present a longer-term view of the District's finances. Fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the District's operations and segregate the most significant funds.

CHIRIACO SUMMIT WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

June 30, 2004 and 2003

Reporting the District as a whole:

The Statement of Net Assets and the Statement of Revenue, Expenses and Changes in Net Assets:

One of the most important questions asked about the District's finances is, "Is the District as a whole better off or worse off as a result of this year's activities?" The Statement of Net Assets and the Statement of Revenue, Expenses and Changes in Net Assets report information about the District as a whole and about its activities in a way that help answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues, capital contributions and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in them. You can think of the District's net assets – the difference between assets and liabilities – as one way to measure the District's financial health or *financial position*. Over time, *increases or decreases* in the District's net assets are one indicator of whether its *financial health* is improving or deteriorating.

The Statement of Net Assets, the Statement of Revenue, Expenses and Changes in Net Assets and the Statement of Cash Flows, present information about the following:

- Enterprise activities – All of the District's basic services are considered to be enterprise activities. In this regard, the District operates much like a normal business in the private-sector world.

Reporting the District's Most Significant Funds:

Fund Financial Statements:

The District solely operates as a Special – Purpose Government which means it is only engaged in business – type activities. As such, government-wide and fiduciary funds are not applicable and only proprietary (enterprise) funds are used.

- *Proprietary Funds* – When the District charges for services it provides, these services are reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Revenue, Expenses and Changes in Net Assets.

CHIRIACO SUMMIT WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

June 30, 2004 and 2003

THE DISTRICT AS A WHOLE:

Our analysis focuses on the assets, liabilities and net assets (Table 1) and changes in net assets (Table 2) of the District's enterprise activities.

Table 1
Net Assets
(in Thousands)

Current and other assets	\$ 253
Capital assets	<u>280</u>
Total assets	<u>533</u>
Long - term debt outstanding	7
Other liabilities	<u>178</u>
Total liabilities	<u>185</u>
Net assets:	
Invested in capital assets, net of debt	268
Unrestricted	<u>79</u>
Total net assets	<u>\$ 347</u>

The District's net assets from enterprise activities increased 210% from \$112 thousand to \$347 Thousand. This increase of \$235 thousand comes from the change in net assets as recorded in the Statement of Revenue, Expenses and Changes in Net Assets and flows through the Statement of Net Assets.

Capital assets increased \$244 thousand (net of depreciation) as follows:

<u>Assets Type</u>	<u>(in Thousands)</u>
Reservoir Pipeline	\$ 250
Equipment and Utility plant	<u>-</u>
Total additions	250
Less depreciation change	(6)
Capital asset increase	<u>\$ 244</u>

CHIRIACO SUMMIT WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

June 30, 2004 and 2003

- Long – term debt decreased \$4 thousand due to principal payments on debt.
- Other liabilities increased \$28 thousand primarily due to the timing of payments and ongoing fees incurred for Krieger and Stewart.
- Invested in capital assets net of debt increased \$248 thousand from capital asset additions net of depreciation and for reduction of principal on debt paid during the year ended June 30, 2004.
- Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements, amounted to a deficit of \$33 thousand.

Table 2
Changes in Net Assets
(in Thousands)

Revenue:

Operating revenue:

Changes for services

\$ 56

Grants

285

Total revenue

341

Expenses:

Operating

72

General and Administrative

34

Total expenses

106

Increase (decrease) in net assets

\$ 235

CHIRIACO SUMMIT WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

June 30, 2004 and 2003

FINANCIAL ANALYSIS OF THE DISTRICT'S UNRESTRICTED CASH / INVESTMENTS:

At year-end the District reported combined unrestricted cash balances of \$17 thousand, which is an increase of \$16 thousand or 1600% from last year.

CAPITAL ASSET AND DEBT ADMINISTRATION:

Capital Assets

At the end of June 30, 2004, the District had \$392 thousand invested in a broad range of capital assets for infrastructure and facilities. (See Table 3 below.) This amount represents a net increase (including additions and deductions) of \$244 thousand, or 165%, over last year.

Table 3
Capital Assets at Year-End
(Net of Depreciation, in Thousands)

Resevior Pipeline	\$	250
Equipment and Utility Plant		160
Accumulated depreciation		<u>(18)</u>
Total	\$	<u><u>392</u></u>

Debt

At year-end, the District had \$11 thousand in Notes payable outstanding versus \$15 thousand last year – a decrease of 27% - as shown in Table 4.

Table 4
Outstanding Debt, at Year-End
(in Thousands)

Notes payable	\$	<u>11</u>
Total	\$	<u><u>11</u></u>

CHIRIACO SUMMIT WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

June 30, 2004 and 2003

ECONOMIC FACTORS AND NEXT YEAR'S COMMENTS:

The economy of the District is influenced by local growth and weather conditions. Although weather conditions generally remain consistent over the long-term, fluctuations can and do occur on an annual basis which will affect demand levels.

The district is still in the development stage for its infrastructure and continues to monitor its operating activity. Future emphasis will be placed on analyzing revenue and cost data to ensure profitability levels meet managements' objectives.

Management anticipates future stability and will continue in its endeavors to help provide for the financial strength to carry it through the years to come.

CONTRACTING THE DISTRICT'S FINANCIAL MANAGEMENT:

This financial report is designed to provide our citizens, customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the District's Accounting Department, at Chiriaco Summit County Water District, One Chiriaco Road, Chiriaco Summit, CA. 92201.

CRABTREE & ASSOCIATES, CPAs

PARTNERSHIP INCLUDING CORPORATIONS

ROLAND H. CRABTREE (1917-1990)



The CPA Never Underestimate The Value. SM

August 24, 2004

Independent Auditors' Report

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

To the Board of Directors
Chiriaco Summit Water District

We have audited the accompanying financial statements of the business-type activities of Chiriaco Summit Water District as of June 30, 2004 and 2003 as listed in the 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 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 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. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above presents fairly, in all material respects, the financial position of the business-type activities of Chiriaco Summit Water District at June 30, 2004 and 2003, and the respective changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages three through eight are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information presented in Schedule 2, as listed on the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 1 to the financial statements, as of June 30, 2003 the District changed its method of financial reporting and financial statement presentation.


Certified Public Accountants

STATEMENT OF NET ASSETS – PROPRIETARY FUNDS
June 30, 2004 and 2003

	2004	2003
<u>ASSETS</u>		
Current assets:		
Cash and equivalents - Exhibit C	\$ 17,112	\$ 579
Accounts receivable	9,986	1,600
Total current assets	27,098	2,179
Property, plant and equipment, net (Note 2)	391,808	147,792
Other assets:		
Organizational costs (Note 4)	112,297	121,790
Other assets	1,500	1,500
Total assets	532,703	273,261
<u>LIABILITIES AND FUND EQUITY</u>		
Current liabilities:		
Accounts payable (Note 5)	165,980	138,160
Accounts payable - related (Note 6)	6,163	6,163
Note payable - current (Note 3)	4,027	3,793
Customer deposits	1,750	1,750
Total current liabilities	177,920	149,866
Long-term liabilities:		
Note payable (Note 3)	7,342	11,484
Total long-term liabilities	7,342	11,484
Total liabilities	185,262	161,350
Net assets:		
Invested in Capital assets, net of related debt	159,073	159,073
Unrestricted	188,368	(47,162)
Total net assets - Exhibit B	347,441	111,911
Total liabilities and net assets	\$ 532,703	\$ 273,261

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

STATEMENT OF REVENUE, EXPENSES AND CHANGES
IN NET ASSETS – PROPRIETARY FUNDS
For the Years Ended June 30, 2004 and 2003

	2004	2003
<u>Operating revenue:</u>		
Water sales	\$ 56,132	\$ 47,212
Other revenue	--	861
Total operating revenue	56,132	48,073
<u>Operating expenses:</u>		
Depreciation expense	5,594	5,594
Insurance	12,824	8,921
Operating lease	3,565	--
Pumping	56	9,608
Repairs and maintenance	12,957	775
Salaries and payroll taxes	8,356	6,392
Source of supply	16,848	23,826
Utilities	10,944	3,657
Total operating expenses	71,144	58,773
Operating income / (loss), before general and administrative expenses	(15,012)	(10,700)
<u>General and administrative expenses:</u>		
Amortization expense - Note 4	9,493	9,493
Bank service charges	124	244
Consulting	20,150	--
Professional fees	3,049	3,455
Licenses and permits	682	472
Miscellaneous	138	1,202
Office supplies	--	151
Postage	53	97
Travel and entertainment	65	313
Total general and administrative expenses	33,754	15,427
Operating income / (loss) - Exhibit C	(48,766)	(26,127)
<u>Non-operating revenue (expenses):</u>		
Interest expense	(404)	--
Grants Federal and County	284,700	--
Total non-operating (expenses)	284,296	--
Change in net assets	235,530	(26,127)
Beginning net assets	111,911	(21,035)
Invested in capital assets	--	159,073
Ending net assets - Exhibit A	\$ 347,441	\$ 111,911

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

STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS

For the Years Ended June 30, 2004 and 2003

	2004	2003
<u>Cash Flows From Operating Activities:</u>		
Receipts from customers	\$ 48,036	\$ 47,208
Payments to suppliers / other	(54,537)	(53,596)
Payments to employees	(7,624)	(5,901)
Net cash provided by operating activities	(14,125)	(12,289)
<u>Cash Flows From Capital and Related Financing Activities:</u>		
Notes payable principal payments	(4,027)	(3,793)
Purchase of fixed assets	(249,610)	--
Interest paid on capital debt	(405)	(520)
Federal Funding Grants - other	284,700	--
Net cash provided by / (used for) investing activities	30,658	(4,313)
Net increase / (decrease) in cash and cash equivalents	16,533	(16,602)
Cash and cash equivalents at beginning of year	579	17,181
Cash and cash equivalents at end of year - Exhibit A, (Note2)	\$ 17,112	\$ 579
<u>Reconciliation of Operating Income / (Loss) to Net Cash</u>		
<u>(Used For) / Provided By Operating Activities:</u>		
Operating income / (loss) - Exhibit B	(48,766)	(26,127)
Adjustments to reconcile operating income to net cash		
(used for) / provided by operating activities:		
Depreciation	5,594	5,594
Amortization	9,493	9,493
Change in assets and liabilities:		
Accounts receivable	(8,386)	(865)
Accounts payable	24,662	(384)
Net cash provided by operating activities	\$ (17,403)	\$ (12,289)
<u>Supplemental Schedule of Non-Cash Capital and</u>		
<u>Related Financing Activities:</u>		
Organizational costs incurred by accounts		
payable financing	\$ 24,662	\$ --

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

CHIRIACO SUMMIT WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004 and 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Reporting Entity:

Chiriaco Summit Water District (the "District") is a special-purpose government district providing water distribution for consumers within its service area. The financial statements of the District have been prepared in conformity with Accounting Principles Generally Accepted in the United States of America (GAAP) as applied to enterprise funds of governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also follows the Uniform System of Accounts as prescribed by the Controller of the State of California.

The accompanying financial statements present the activities of the District and its component units, entities for which the District is financially accountable.

In evaluating how to define the District, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the District's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of a governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financial relationships, regardless of whether the District is able to exercise oversight responsibilities.

Change in Accounting Principle:

During the year ended June 30, 2003, the District changed its method of accounting to conform to GASB #34 and all subsequently released pronouncements relative to reporting by governmental units. The change in the method of accounting had no impact on the financial reporting of the District – only on the financial statement presentation and format.

Basis of Presentation and Basis of Accounting:

Basis of Presentation:

Fund Financial Statements – The District solely operates as a Special-Purpose Government which means it is only engaged in business-type activities. As such, government-wide and fiduciary funds are not applicable and only proprietary (enterprise) funds are used.

CHIRIACO SUMMIT WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004 and 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Basis of Presentation and Basis of Accounting (Continued):

Proprietary Funds – When the District charges for services it provides, these services are reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Revenue, Expenses and Changes in Net Assets.

Proprietary fund operating revenues and expenses are related to providing water and wastewater services to the residents and businesses of the District. Revenue and expenses arising from capital and non-capital financing activities are presented as non-operating revenues or expenses.

The District has the following major proprietary funds:

- Water fund. This fund accounts for the activities of the District's water supply and distribution system and related infrastructure.

Basis of Accounting:

Government-wide, proprietary and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes apply. Property taxes are collected for the District by the County of San Bernardino. Revenue from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

All business-type activities and enterprise funds of the District follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

Utility Plant – Utility plant purchased or constructed is carried at cost. Constructed costs include labor, materials and construction period interest expense (net of interest income). Contributed assets are stated at estimated fair market value at the time received by the District. Depreciation is calculated on the straight-line method over the estimated useful lives of the properties, ranging from five to fifty years, as follows:

Equipment and Utility, Plant	5 to 40 years
Reservoir Pipeline	50 years

CHIRIACO SUMMIT WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004 and 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Basis of Presentation and Basis of Accounting (Continued):

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.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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

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

NOTE 2 - PROPERTY, PLANT AND EQUIPMENT:

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

	<u>2004</u>	<u>2003</u>
Equipment and utility plant	\$ 160,117	\$ 160,117
Reservoir pipeline	249,610	-
Less: Accumulated depreciation	<u>(17,919)</u>	<u>(12,325)</u>
Property, plant and equipment, net - Exhibit A	<u><u>\$ 391,808</u></u>	<u><u>\$ 147,792</u></u>

CHIRIACO SUMMIT WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2004 and 2003

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	\$ 4,027	\$ 7,342	\$ 11,369

A schedule of debt service requirements is presented below:

<u>Fiscal Year Ended June 30,</u>	<u>Interest</u>	<u>Principle</u>	<u>Total</u>
2005	286	4,027	4,313
2006	164	4,149	4,313
2007	40	3,193	3,233
Total	\$ 490	\$ 11,369	\$ 11,859

NOTE 4 – ORGANIZATIONAL COSTS:

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

	<u>2004</u>	<u>2003</u>
Organizational costs	\$ 142,393	\$ 142,393
Accumulated amortization	(30,096)	(20,603)
Organizational costs - Exhibit A	\$ 112,297	\$ 121,790
Current amortization - Exhibit B	\$ 9,493	\$ 9,493

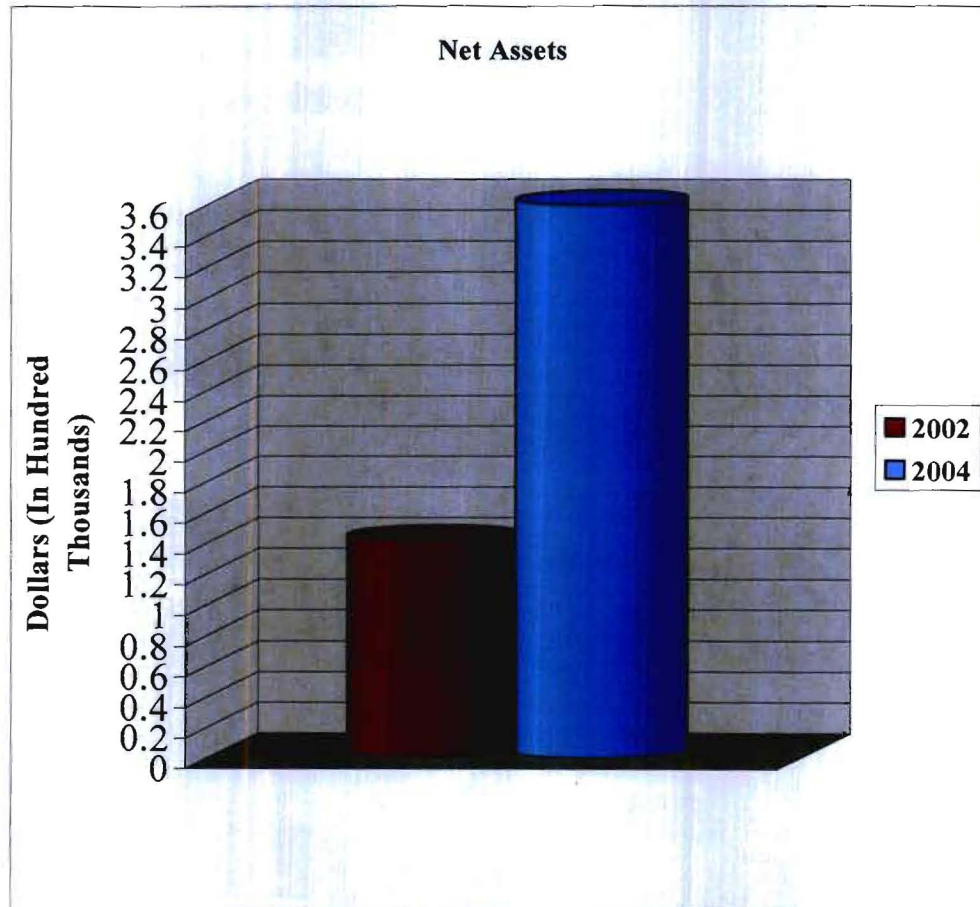
NOTE 5 – ACCOUNTS PAYABLE:

At June 30, 2004 and 2003, accounts payable totaled \$162,702 and \$138,159 respectively. The balance is mostly due to the engineering firm Krieger and Stewart for engineering studies performed. Additionally, all amounts are being paid according to terms.

NOTE 6 – ACCOUNTS PAYABLE (RELATED PARTY):

At June 30, 2004 and 2003, related party accounts payable were \$6,164. The amount is due to Joseph Chiriaco, Inc. The District was initially formed on May 9, 2000 and infrastructure consisting of pipelines, related tanks and equipment was donated to the District from Joseph Chiriaco, Inc. The donated infrastructure and equipment was recorded as contributed capital based on fair market values at the date of donation.

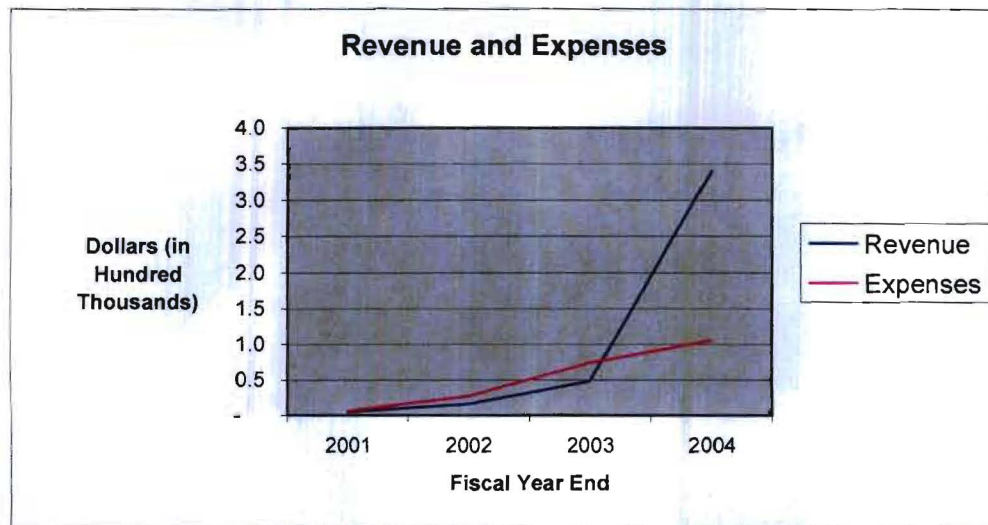
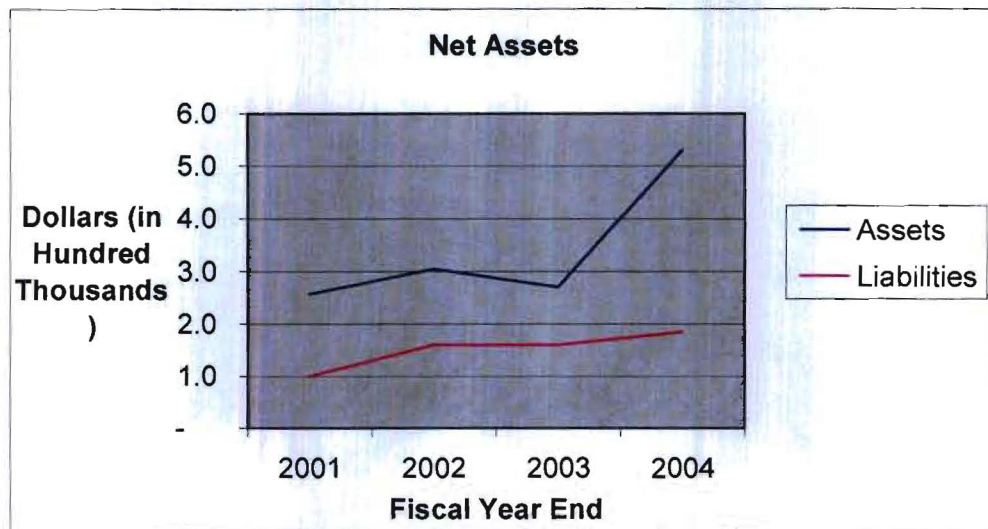
SUPPLEMENTAL INFORMATION – GRAPHIC FINANCIAL COMPARISONS
June 30, 2004 and 2003



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

SUPPLEMENTAL INFORMATION – GRAPHIC FINANCIAL COMPARISONS

As of and for the Years Ended June 30, 2004 and 2003



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