

**CHIRIACO SUMMIT  
WATER DISTRICT**

**Financial Statements  
with  
Independent Auditors' Report**

**For the Year Ended  
June 30, 2015**

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## Independent Auditors' Report

To the Board of Trustees  
Chiriaco Summit Water District

### Report on the Financial Statements

We have audited the accompanying financial statements of Chiriaco Summit Water District (the District) as of and for the year ended June 30, 2015, and the related notes to 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.

### *Auditor's Responsibility*

Our responsibility is to express our 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 and the State Controller's Minimum Audit Requirements for California Special Districts. 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, 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 opinion.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Chiriaco Summit Water District, as of June 30, 2015, and the respective changes in financial position and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Required Supplementary Information***

The District has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by 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 the missing information.

*Howell & Spafford*

September 24, 2015

## **FINANCIAL STATEMENTS**

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CHIRIACO SUMMIT WATER DISTRICT

Statement of Net Position

June 30, 2015

**Assets**

Current assets:

Cash and cash equivalents	\$ 13,124
Accounts receivable, net	5,928
Other receivables	477
Prepaid expenses	<u>5,950</u>
Total current assets	<u>25,479</u>

Non-current assets:

Capital assets, net of accumulated depreciation	<u>446,479</u>
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Total assets	<u>\$ 471,958</u>
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**Liabilities and net position**

Current liabilities:

Current portion of notes payable	\$ 374,734
Accounts payable	4,938
Accrued expenses	<u>787</u>
Total current liabilities	<u>380,459</u>

Long-term liabilities:

Notes payable due in more than one year	<u>29,900</u>
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Total liabilities	<u>410,359</u>
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**Net position**

Net investment in capital assets	446,479
Unrestricted deficit	<u>(384,880)</u>

Net position	<u>\$ 61,599</u>
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*The accompanying notes are an integral part of these financial statements.*

**CHIRIACO SUMMIT WATER DISTRICT**

**Statement of Revenues, Expenses, and Changes in Net Position**

For the Year Ended June 30, 2015

<b>Operating revenues</b>	
Water sales	<u>\$ 202,004</u>
<b>Operating expenses</b>	
General and administrative	18,237
Water services	99,601
Depreciation and amortization	<u>23,924</u>
	<u>141,762</u>
Operating income	<u>60,242</u>
<b>Non-operating revenues (expenses)</b>	
Late charge fees and other interest	800
Noncash rent received	2,400
Forgiveness of debt	24,961
Loss on disposal of fixed assets	<u>(383)</u>
	<u>27,778</u>
Change in net position	88,020
Net position, beginning of year	<u>(26,421)</u>
Net position, end of year	<u>\$ 61,599</u>

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

# CHIRIACO SUMMIT WATER DISTRICT

## Statement of Cash Flows

For the Year Ended June 30, 2015

### Cash flows from operating activities

Cash received from customers	\$ 230,853
Cash payments to employees	(22,358)
Cash payments to suppliers for goods and services	<u>(107,932)</u>
Net cash provided by operating activities	<u>100,563</u>

### Cash flows from noncapital and related financing activities

Payments on long-term debt	(87,045)
Service fees and other interest	<u>800</u>
Net cash used in noncapital and related financing activities	<u>(86,245)</u>

### Cash flows from capital and related financing activities

Acquisition and construction of capital assets	<u>(7,085)</u>
Net cash used in capital and related financing activities	<u>(7,085)</u>
Net change in cash and cash equivalents	7,233

### Cash and cash equivalents

Balance, beginning of year	<u>5,891</u>
Balance, end of year	<u>\$ 13,124</u>

### Reconciliation of operating income to net cash used in operating activities

Operating income	\$ 60,242
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	23,924
Noncash rent received	2,400
(Increase) decrease in assets:	
Receivables	33,780
Prepaid expenses	(3,995)
Increase (decrease) in liabilities:	
Accounts payable	(11,587)
Accrued expenses	254
Customer deposits	<u>(4,455)</u>
Net cash used in operating activities	<u>\$ 100,563</u>

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

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# CHIRIACO SUMMIT WATER DISTRICT

## Notes to Financial Statements

### 1. Summary of Significant Accounting Policies

#### Reporting Entity

Chiriaco Summit Water District (the District) was formed on May 9, 2000 under the provisions of the Municipal Water District Act of 1911 for the purpose of developing a domestic water supply for the area of Chiriaco Summit, California. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governments and to general practice within California Special Districts. The District accounts for its financial transactions in accordance with the policies and procedures of the State Controller's Office Division of Local Government Fiscal Affairs Minimum Audit Requirements and Reporting Guidelines for California Special Districts.

The preparation of these financial statements requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets, liabilities, revenues, and expenditures, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates. Management also determines the accounting principles to be used in the preparation of the financial statements. A description of the significant accounting policies employed in the preparation of these financial statements follows:

Accounting principles generally accepted in the United States of America require that these financial statements present the accounts of the District and any of its component units. Component units are legally separate entities of which the District is considered to be financially accountable or otherwise has a relationship, which is such that the exclusion of the entity would cause the financial statements to be misleading. Blended component units are considered, in substance, part of the District's operations, so the accounts of these entities are to be combined with the data of the District. Component units, which do not meet these requirements, are reported in the financial statements as discrete units to emphasize their separate legal status. However, the District has determined that it is not financially accountable for, nor has any other relationship with, any other organization, which would require its inclusion in these financial statements.

#### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The District accounts for its activities as a proprietary fund. The financial statements are accounted for on a flow of economic resources measurement focus, using the accrual basis of accounting. Under this method all assets and liabilities associated with operations are included on the balance sheet, revenues are recorded as earned and expenses are recorded at the time liabilities are incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements are met. The accounting for fiduciary funds is much like that used for proprietary funds.

The intent of the District is to establish water usage rates sufficient to provide for payment of general operations and maintenance expenses as well as required debt service. When both restricted and unrestricted resources are available for use, restricted resources are generally assumed to have been used first.

# CHIRIACO SUMMIT WATER DISTRICT

## Notes to Financial Statements

### 1. Summary of Significant Accounting Policies (Continued)

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues include revenues derived from water sales and water related activities; operating expenses include all expenses applicable to the furnishing of these services. Nonoperating revenue and expenses include revenue and expenses not associated with the District's normal business of supplying water. Non-operating revenues and expenses include interest income and expense, gain and loss on disposition of property and equipment, grants, and other peripheral activities.

#### Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand and demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Although state statutes mandate the District maintain substantially all of its cash in the Riverside County Treasury, the District has obtained independent status and therefore maintains all of its cash in a local bank.

#### *Custodial Credit Risk – Deposits*

Custodial credit risk for deposits is the risk that in the event of a bank failure, the District will not be able to recover its deposits. Cash balances are secured up to \$250,000 by the Federal Depository Insurance Corporation. As of June 30, 2015 had no deposits exposed to custodial credit risk.

#### Accounts Receivable - Water Users

The balance shown as a receivable represents the amount of water usage and service charges that have been earned but not yet collected at yearend. The amount of uncollectible water sales that is written off is determined by direct write-off of individual accounts that have been outstanding for more than one year. The items are usually final bills that are not paid after the user moves from the District. The amount of bad debts each year, if any, is not significant to the District.

#### Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets are defined by the District as assets with an initial, individual cost of more than \$500 and an estimated useful life of five years or more.

Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets are depreciated using the straight-line method over the estimated useful lives varying from 40 years for pipelines, 5 to 40 years for plant equipment and 5 to 10 years for office equipment.

# CHIRIACO SUMMIT WATER DISTRICT

## Notes to Financial Statements

### 1. Summary of Significant Accounting Policies (Continued)

#### Compensated Absences

The District's employees are employed, for the most part, on a part-time basis, and therefore are not entitled to vacation or sick leave.

#### Property Taxes

The District does not currently receive property taxes through the County of Riverside.

#### Net Assets

The financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted as follows:

- *Net Investment in Capital Assets* – This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets as well as any premium or discount paid on debt reduce the balance in this category.
- *Restricted Net Position* – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulation of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Position* – This category represents the net position of the District, not restricted for any project or other purpose.

#### Water Sales

Generally, customers are billed a flat monthly rate, based on customer size and number of persons in a household. Contractors are charged based upon per unit use.

### 2. Capital Assets

The following is a summary of the changes in capital assets for each year:

	Balance <u>7/1/14</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>6/30/15</u>
Capital assets being depreciated:				
Pipeline	\$ 294,898	\$ -	\$ -	\$ 294,898
Plant equipment	236,818	7,085	7,667	236,236
Engineering costs	158,018	-	-	158,018
Office equipment	5,094	-	-	5,094
	<u>694,828</u>	<u>7,085</u>	<u>7,667</u>	<u>694,246</u>
Less: accumulated depreciation	<u>231,127</u>	<u>23,924</u>	<u>7,284</u>	<u>247,767</u>
	<u>\$ 463,701</u>	<u>\$ (16,839)</u>	<u>\$ 383</u>	<u>\$ 446,479</u>

**CHIRIACO SUMMIT WATER DISTRICT**

**Notes to Financial Statements**

**3. Notes Payable**

The following is the changes in notes payable for the year ended June 30, 2015:

	<u>7/1/2014</u>	<u>Additions</u>	<u>Retirements</u>	<u>6/30/2015</u>	<u>Due in One Year</u>
<b>Desert Alliance for Community Empowerment (related party)</b>					
<u>Empowerment Zone #2</u>					
Interest rate: 3.00%					
Repayment provision: Monthly interest payments, with balance originally due August 1, 2006					
Security: Unsecured, Balance	\$ 3,428	\$ -	\$ -	\$ 3,428	\$ 3,428
<u>Empowerment Zone #3</u>					
Interest rate: 6.00%					
Repayment provision: Monthly interest payments, with balance originally due July 1, 2008					
Security: Unsecured, Balance	94,306	-	-	94,306	94,306
<b>Promissory Note due Kreiger &amp; Stewart, Inc.</b>					
Interest rate: 4.75% - waived for 2014/2015					
Repayment provision: Monthly interest payments with a \$10,000 principal payment due each year through July 31, 2020					
Security: Unsecured, Balance	-	126,945	87,045	39,900	10,000
<b>Debt due Joseph L. Chiriaco Inc. (related party)</b>					
Interest rate: none-stated					
Repayment provision: none-stated					
Security: Unsecured, Balance	<u>267,000</u>	<u>-</u>	<u>-</u>	<u>267,000</u>	<u>267,000</u>
	<u>\$ 364,734</u>	<u>\$ 126,945</u>	<u>\$ 87,045</u>	<u>\$ 404,634</u>	<u>\$ 374,734</u>



# CHIRIACO SUMMIT WATER DISTRICT

## Notes to Financial Statements

### 3. Notes Payable (Continued)

Maturities of Notes Payable for the years subsequent to June 30, 2015 are as follows:

Years ending June 30,

2016	\$ 374,734
2017	10,000
2018	10,000
2019	<u>9,900</u>
	<u>\$ 404,634</u>

### 4. Related Party Transactions

All of the Trustees are also customers of the District. Two trustees of the District own a company that has various business entities that represent approximately 36% of total water revenue to the District for the year ended June 30, 2015. The company was also reimbursed by the District for rent, operating expenses and general and administrative expenses. Amounts reimbursed to the company by the District were \$7,745 in 2015.

The District is also indebted to the company, see Note 3. One trustee of the District is also on the Board of Directors of Desert Alliance for Community Empowerment, which the District is indebted to, see Note 3. Interest forgiven on the indebtedness to Desert Alliance for Community Empowerment was \$5,753 for the year ended June 30, 2015.

### 5. Subsequent Events

Events or transactions that occurred after June 30, 2015 up through September 24, 2015, the date the District's financial statements were available for issuance, were reviewed for subsequent event accounting and disclosure. During this period the District does not believe it had any material subsequent events.

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