

**CHIRIACO SUMMIT
WATER DISTRICT**

**Financial Statements
with
Independent Auditors' Report**

**For the Year Ended
June 30, 2017**

(THIS PAGE INTENTIONALLY LEFT BLANK)

TABLE OF CONTENTS

	Page
Independent Auditors' Report	1
Financial Statements	
Statement of Net Position	3
Statement of Revenues, Expenses and Changes in Net Position	4
Statement of Cash Flows	5
Notes to Financial Statements	6

(THIS PAGE INTENTIONALLY LEFT BLANK)



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, 2017, 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, 2017, 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.

Lowell & Spafford

November 14, 2017

FINANCIAL STATEMENTS

CHIRIACO SUMMIT WATER DISTRICT

Statement of Net Position

June 30, 2017

Assets

Current assets:

Cash and cash equivalents	\$ 10,478
Accounts receivable	35,277
Prepaid expenses	<u>8,408</u>
Total current assets	<u>54,163</u>

Non-current assets:

Capital assets, net of accumulated depreciation	<u>472,908</u>
---	----------------

Total assets	<u>\$ 527,071</u>
--------------	-------------------

Liabilities and net position

Current liabilities:

Current portion of notes payable	\$ 17,106
Accounts payable	12,740
Accrued expenses	4,094
Customer deposits	<u>7,500</u>
Total current liabilities	<u>41,440</u>

Long-term liabilities:

Notes payable due in more than one year	<u>45,617</u>
---	---------------

Total liabilities	<u>87,057</u>
-------------------	---------------

Net position

Net investment in capital assets	472,908
Unrestricted	<u>(32,894)</u>

Net position	<u>\$ 440,014</u>
--------------	-------------------

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, 2017

Operating revenues	
Water sales	<u>\$ 181,263</u>
Operating expenses	
General and administrative	20,147
Water services	111,915
Depreciation and amortization	<u>23,041</u>
	<u>155,103</u>
Operating income	<u>26,160</u>
Non-operating revenues (expenses)	
Loss on disposal of equipment	(1,332)
Late charge fees and other interest	346
Noncash rent received	<u>2,400</u>
	<u>1,414</u>
Change in net position	27,574
Net position, beginning of year	<u>412,440</u>
Net position, end of year	<u>\$ 440,014</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, 2017

Cash flows from operating activities

Cash received from customers	\$ 156,397
Cash payments to employees	(43,234)
Cash payments to suppliers for goods and services	<u>(81,012)</u>
Net cash provided by operating activities	<u>32,151</u>

Cash flows from noncapital and related financing activities

Payments on long-term debt	(33,123)
Service fees and other interest	<u>346</u>
Net cash used in noncapital and related financing activities	<u>(32,777)</u>

Cash flows from capital and related financing activities

Acquisition and construction of capital assets	<u>(5,461)</u>
Net cash used in capital and related financing activities	<u>(5,461)</u>

Net change in cash and cash equivalents (6,087)

Cash and cash equivalents

Balance, beginning of year	<u>16,565</u>
Balance, end of year	<u>\$ 10,478</u>

Reconciliation of operating income to net cash used in operating activities

Operating income	\$ 26,160
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	23,041
Noncash rent received	2,400
(Increase) decrease in assets:	
Receivables	(24,866)
Prepaid expenses	(2,541)
Increase (decrease) in liabilities:	
Accounts payable	4,366
Accrued expenses	<u>3,591</u>
Net cash provided by operating activities	<u>\$ 32,151</u>

Non cash investing and financing activities

Engineering fees reclassified as note payable	<u>\$ 68,761</u>
---	------------------

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

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 expenses, 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 in 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 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, non-operating 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.

Accounts Receivable - Water Users

Accounts receivable for the most part represent the amount of water usage and service charges that have been earned but not yet collected at yearend. The District has determined that it does not have any receivables that are uncollectable as of yearend and therefore has not recorded an allowance for doubtful accounts. The amount of uncollectible receivables related to water usage may be written off from time to time if individual accounts have been outstanding for more than one year and are generally related to 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 on a tiered system, based on the size of the meter and usage. Contractors are charged based upon per unit use.

2. Cash and Cash Equivalents

The carrying amount of the District's deposits with a financial institution was \$10,478 and the bank balance was \$12,277, before reconciling items.

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. The California Government Code (Code) requires California banks and savings and loan associates to secure the District's cash deposit by pledging securities as collateral. The Code states that the collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the District's name. As of June 30, 2017, the District had no deposits exposed to custodial credit risk.

CHIRIACO SUMMIT WATER DISTRICT

Notes to Financial Statements

3. Capital Assets

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

	<u>Balance</u> <u>7/1/16</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>6/30/17</u>
Capital assets being depreciated:				
Pipeline	\$ 294,898	\$ -	\$ -	\$ 294,898
Plant equipment	236,235	5,461	3,503	238,193
Engineering costs	158,018	-	-	158,018
Office equipment	5,094	-	-	5,094
	<u>694,245</u>	<u>5,461</u>	<u>3,503</u>	<u>696,203</u>
Less: accumulated depreciation	<u>271,186</u>	<u>23,041</u>	<u>2,171</u>	<u>292,056</u>
	<u>\$ 423,059</u>	<u>\$ (17,580)</u>	<u>\$ 1,332</u>	<u>\$ 404,147</u>
 Construction in progress	 <u>\$ -</u>	 <u>\$ 68,761</u>	 <u>\$ -</u>	 <u>\$ 68,761</u>

Construction in progress consisted of funds spent towards engineering fees for the District's Water System Improvement Project. Balance on the engineering portion of the project is \$554,739.

4. Notes Payable

The following is the changes in notes payable for the year ended June 30, 2017:

	<u>7/1/2016</u>	<u>Additions</u>	<u>Retirement</u>	<u>6/30/2017</u>	<u>Due in</u> <u>One Year</u>
Promissory Note					
due Kreiger & Stewart, Inc.					
Interest rate: 4.75% - waived for 2016/2017					
Repayment provision: Monthly interest payments with a \$10,000 principal payment due each year through July 2020					
Security: Unsecured, Balance	\$ 27,085	\$ -	\$ 27,085	\$ -	\$ -
 Interest rate: 0.00%					
Repayment provision: Monthly payments of \$1,426 through February 2021					
Security: Unsecured, Balance	<u>-</u>	<u>68,761</u>	<u>6,038</u>	<u>62,723</u>	<u>17,106</u>
	<u>\$ 27,085</u>	<u>\$ 68,761</u>	<u>\$ 33,123</u>	<u>\$ 62,723</u>	<u>\$ 17,106</u>

CHIRIACO SUMMIT WATER DISTRICT

Notes to Financial Statements

4. Notes Payable (Continued)

Maturities of Notes Payable for the years subsequent to June 30, 2017 are as follows:

Years ending June 30,

2018	\$ 17,106
2019	17,106
2020	17,106
2021	<u>11,405</u>
	<u>\$ 62,723</u>

5. Related Party Transactions

All of the Trustees are also customers of the District. Three trustees of the District own a private company (the Company) that has various business entities that represent approximately 65% of total water revenue to the District for the year ended June 30, 2017. The Company also has a lease agreement with the District for rent on the administrative office for \$2,400 per year expiring June 30, 2020. For the year ended June 30, 2017 the rent was forgiven.

6. Subsequent Events

The District was notified during October 2017 that its Drinking Water State Revolving Fund Financial Assistance Project had been approved by the California State Water Board. Total project costs for this project are estimated at \$2,962,900.

(THIS PAGE INTENTIONALLY LEFT BLANK)