

**CHIRIACO SUMMIT
WATER DISTRICT**

**Financial Statements
with
Independent Auditors' Report**

**For the Years Ended
June 30, 2020 and 2019**

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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 years ended June 30, 2020 and 2019, 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 audits. We conducted our audits 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 opinions.

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, 2020 and 2019, and the respective changes in financial position and, cash flows thereof for the years 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.

Spafford & Landry, Inc.

September 8, 2020

FINANCIAL STATEMENTS

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CHIRIACO SUMMIT WATER DISTRICT

Statements of Net Position

June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 23,986	\$ 4,817
Accounts receivable	16,114	14,224
Grant receivable	142,596	126,266
Inventory	17,580	16,333
Prepaid expenses	10,572	10,383
Total current assets	<u>210,848</u>	<u>172,023</u>
Non-current assets:		
Capital assets, net of accumulated depreciation	<u>828,100</u>	<u>722,459</u>
Total assets	<u>\$ 1,038,948</u>	<u>\$ 894,482</u>
Liabilities and net position		
Current liabilities:		
Accounts payable	\$ 133,194	\$ 145,939
Accrued expenses	321	3,024
Customer deposits	11,624	8,689
Total current liabilities	<u>145,139</u>	<u>157,652</u>
Total liabilities	<u>145,139</u>	<u>157,652</u>
Net position		
Net investment in capital assets	828,100	722,459
Unrestricted	<u>65,709</u>	<u>14,371</u>
Net position	<u>\$ 893,809</u>	<u>\$ 736,830</u>

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

CHIRIACO SUMMIT WATER DISTRICT

Statements of Revenues, Expenses, and Changes in Net Position

For the Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating revenues		
Water sales	\$ 203,717	\$ 130,191
Operating expenses		
General and administrative	16,725	19,061
Water services	134,648	131,145
Depreciation and amortization	<u>23,001</u>	<u>24,596</u>
	<u>174,374</u>	<u>174,802</u>
Operating income (loss)	<u>29,343</u>	<u>(44,611)</u>
Non-operating revenues (expenses)		
Capital grant	126,295	249,084
Loss on disposal of equipment	(1,343)	-
Late charge fees and other interest	<u>2,684</u>	<u>1,059</u>
	<u>127,636</u>	<u>250,143</u>
Change in net position	156,979	205,532
Net position, beginning of year	<u>736,830</u>	<u>531,298</u>
Net position, end of year	<u>\$ 893,809</u>	<u>\$ 736,830</u>

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

CHIRIACO SUMMIT WATER DISTRICT

Statements of Cash Flows

For the Year Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Cash received from customers	\$ 204,762	\$ 128,266
Cash payments to employees	(70,586)	(60,718)
Cash payments to suppliers for goods and services	<u>(98,112)</u>	<u>(85,607)</u>
Net cash provided by (used in) operating activities	<u>36,064</u>	<u>(18,059)</u>
 Cash flows from noncapital and related financing activities		
Service fees and other interest	<u>2,684</u>	<u>1,059</u>
Net cash provided by (used in) noncapital and related financing activities	<u>2,684</u>	<u>1,059</u>
 Cash flows from capital and related financing activities		
Capital grant	109,965	122,818
Acquisition and construction of capital assets	<u>(129,544)</u>	<u>(121,885)</u>
Net cash provided (used in) by capital and related financing activities	<u>(19,579)</u>	<u>933</u>
 Net change in cash and cash equivalents	19,169	(16,067)
 Cash and cash equivalents		
Balance, beginning of year	<u>4,817</u>	<u>20,884</u>
Balance, end of year	<u>\$ 23,986</u>	<u>\$ 4,817</u>
 Reconciliation of operating income to net cash provided by operating activities		
Operating income (loss)	\$ 29,343	\$ (44,611)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation and amortization	23,001	24,596
(Increase) decrease in assets:		
Receivables	(1,890)	(1,875)
Inventory	(1,247)	(5,550)
Prepaid expenses	(189)	85
Increase (decrease) in liabilities:		
Accounts payable	(13,186)	8,148
Accrued expenses	(2,703)	1,198
Customer deposits	<u>2,935</u>	<u>(50)</u>
Net cash provided by (used in) operating activities	<u>\$ 36,064</u>	<u>\$ (18,059)</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 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)

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

Beginning March 2019, the Board formally adopted a rate system to change from a tiered system to a single price per unit rate. The tiered system was used for nine out of twelve months of the June 30, 2019 fiscal year, but customers are now billed on a uniform block rate system, based on the size of the meter and usage.

2. Cash and Cash Equivalents

The carrying amount of the District's deposits with a financial institution was \$23,986 and \$4,817 at June 30, 2020 and 2019, respectively and the bank balance was \$27,660 and \$56,937 at June 30, 2020 and 2019, respectively, 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, 2020 and 2019, 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:

	Balance <u>7/1/19</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>6/30/20</u>
Capital assets being depreciated:				
Pipeline	\$ 294,898	\$ -	\$ -	\$ 294,898
Plant equipment	249,030	1,843	1,763	249,110
Engineering costs	158,018	-	-	158,018
Office equipment	<u>1,549</u>	<u>-</u>	<u>-</u>	<u>1,549</u>
	703,495	1,843	1,763	703,575
Less: accumulated depreciation	<u>338,297</u>	<u>23,001</u>	<u>420</u>	<u>360,878</u>
	<u>\$ 365,198</u>	<u>\$ (21,158)</u>	<u>\$ 1,343</u>	<u>\$ 342,697</u>
 Construction in progress	 <u>\$ 357,261</u>	 <u>\$ 128,142</u>	 <u>\$ -</u>	 <u>\$ 485,403</u>
	Balance <u>7/1/18</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>6/30/19</u>
Capital assets being depreciated:				
Pipeline	\$ 294,898	\$ -	\$ -	\$ 294,898
Plant equipment	246,899	2,131	-	249,030
Engineering costs	158,018	-	-	158,018
Office equipment	<u>1,549</u>	<u>-</u>	<u>-</u>	<u>1,549</u>
	701,364	2,131	-	703,495
Less: accumulated depreciation	<u>313,701</u>	<u>24,596</u>	<u>-</u>	<u>338,297</u>
	<u>\$ 387,663</u>	<u>\$ (22,465)</u>	<u>\$ -</u>	<u>\$ 365,198</u>
 Construction in progress	 <u>\$ 138,990</u>	 <u>\$ 218,271</u>	 <u>\$ -</u>	 <u>\$ 357,261</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 \$304,715.

4. Line of Credit

The District has an unsecured \$10,000 business line of credit with Wells Fargo bank with no set expiration date. The effective interest rate at June 30, 2020 was 10% and there was no outstanding balance at the end of the year.

CHIRIACO SUMMIT WATER DISTRICT

Notes to Financial Statements

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 45% and 26% of total water revenue to the District for the year ended June 30, 2020 and 2019, respectively. Accounts receivable balance for these business was \$9,085 and \$8,987 as of June 30, 2020 and 2019, respectively. The Company also has a lease agreement with the District for rent on the administrative office for \$2,400 per year expiring June 30, 2022. Future minimum payments are \$2,400 per year through June 2022.

6. Subsequent Events

Subsequent to June 30, 2020, as COVID-19 spreads globally, local, U.S., and world governments have encouraged self-isolation to curtail the spread of the global pandemic, by mandating temporary work stoppage in various sectors, limiting travel, size and duration of group meetings. Most industries will be experiencing disruptions to their business and operations. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and any government actions to mitigate them. While management cannot quantify the financial and other impact to the District as of September 8, 2020, management believes that a material impact on the District's financial position and results of future changes in net position is reasonably possible.

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