

**CHIRIACO SUMMIT
WATER DISTRICT**

**Financial Statements
with
Independent Auditors' Report**

**For the Years Ended
June 30, 2022 and 2021**

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Independent Auditors' Report

To the Board of Trustees
Chiriaco Summit Water District

We have audited the accompanying financial statements of Chiriaco Summit Water (the District) as of and for the years ended June 30, 2022 and 2021 and the related notes to the financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Chiriaco Summit Water District (the District), as of June 30, 2022 and 2021, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Auditors' Responsibilities for the Audit of the Financial Statements (Continued)

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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.



February 1, 2023

FINANCIAL STATEMENTS

CHIRIACO SUMMIT WATER DISTRICT

Statements of Net Position

June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 54,024	\$ 67,113
Accounts receivable	13,566	40,318
Grant receivable	166,706	119,831
Inventory	20,312	21,718
Prepaid expenses	<u>11,721</u>	<u>5,596</u>
Total current assets	<u>266,329</u>	<u>254,576</u>
Non-current assets:		
Capital assets, net of accumulated depreciation	<u>1,064,955</u>	<u>977,428</u>
Total assets	<u>\$ 1,331,284</u>	<u>\$ 1,232,004</u>
Liabilities and net position		
Current liabilities:		
Accounts payable	\$ 148,480	\$ 108,143
Accrued expenses	-	4,516
Line of credit	-	5,000
Customer deposits	<u>12,339</u>	<u>18,649</u>
Total current liabilities	<u>160,819</u>	<u>136,308</u>
Total liabilities	<u>160,819</u>	<u>136,308</u>
Net position		
Net investment in capital assets	1,064,955	977,428
Unrestricted	<u>105,510</u>	<u>118,268</u>
Net position	<u>\$ 1,170,465</u>	<u>\$ 1,095,696</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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Operating revenues		
Water sales	\$ 192,152	\$ 217,876
Operating expenses		
General and administrative	19,297	22,998
Water services	151,746	166,241
Depreciation and amortization	<u>18,233</u>	<u>19,380</u>
	<u>189,276</u>	<u>208,619</u>
Operating income	<u>2,876</u>	<u>9,257</u>
Non-operating revenues (expenses)		
Capital grant	70,101	176,479
Loss on disposal of equipment	(3,502)	-
Billed material and other income	<u>5,294</u>	<u>16,151</u>
	<u>71,893</u>	<u>192,630</u>
Change in net position	74,769	201,887
Net position, beginning of year	<u>1,095,696</u>	<u>893,809</u>
Net position, end of year	<u>\$ 1,170,465</u>	<u>\$ 1,095,696</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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities		
Cash received from customers	\$ 212,594	\$ 200,697
Cash payments to employees	(84,820)	(86,638)
Cash payments to suppliers for goods and services	<u>(83,527)</u>	<u>(86,309)</u>
Net cash provided by (used in) operating activities	<u>44,247</u>	<u>27,750</u>
 Cash flows from noncapital and related financing activities		
Service fees and other income	<u>5,294</u>	<u>16,151</u>
Net cash provided by (used in) noncapital and related financing activities	<u>5,294</u>	<u>16,151</u>
 Cash flows from capital and related financing activities		
Capital grant	23,226	199,244
Net increase (decrease) in line of credit	(5,000)	5,000
Acquisition and construction of capital assets	<u>(80,856)</u>	<u>(205,018)</u>
Net cash provided (used in) by capital and related financing activities	<u>(62,630)</u>	<u>(774)</u>
 Net change in cash and cash equivalents	(13,089)	43,127
 Cash and cash equivalents		
Balance, beginning of year	<u>67,113</u>	<u>23,986</u>
Balance, end of year	<u>\$ 54,024</u>	<u>\$ 67,113</u>
 Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 2,876	\$ 9,257
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	18,233	19,380
(Increase) decrease in assets:		
Receivables	26,752	(24,204)
Inventory	1,406	(4,138)
Prepaid expenses	(6,125)	4,976
Increase (decrease) in liabilities:		
Accounts payable	11,931	11,259
Accrued expenses	(4,516)	4,195
Customer deposits	<u>(6,310)</u>	<u>7,025</u>
Net cash provided by (used in) operating activities	<u>\$ 44,247</u>	<u>\$ 27,750</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)

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.

Inventories

Inventories are stated at the lower of cost or net realizable value and consist primarily of parts and materials. Cost is determined using the first-in, first-out method.

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

Water sales are based on a single price per unit rate. Customers are billed on a uniform block rate system, based on the size of the meter and usage.

New Accounting Pronouncement

During the year ended June 30, 2022 the District implemented the Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases* (GASB 87), which establishes a single approach for local and state governments in all lease accounting. It also accounts for certain lease liabilities that may not be currently reported in the financial statements. The stated objective of this new standard "is to better meet the information needs of financial statements users by improving accounting and financial reporting of leases by governments." The implementation of this standard did not have a material impact on the District's net position or changes in net position.

CHIRIACO SUMMIT WATER DISTRICT

Notes to Financial Statements

2. Cash and Cash Equivalents

The carrying amount of the District's deposits with a financial institution was \$54,024 and \$67,113 at June 30, 2022 and 2021, respectively and the bank balance was \$58,464 and \$67,542 at June 30, 2022 and 2021, 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, 2022 and 2021, the District had no deposits exposed to custodial credit risk.

3. Capital Assets

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

	Balance <u>7/1/21</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>6/30/22</u>
Capital assets being depreciated:				
Pipeline	\$ 294,898	\$ -	\$ -	\$ 294,898
Plant equipment	252,448	7,168	7,168	252,448
Engineering costs	158,018	-	-	158,018
Office equipment	<u>1,549</u>	<u>636</u>	<u>1,549</u>	<u>636</u>
	706,913	7,804	8,717	706,000
Less: accumulated depreciation	<u>380,258</u>	<u>18,233</u>	<u>4,480</u>	<u>394,011</u>
	<u>\$ 326,655</u>	<u>\$ (10,429)</u>	<u>\$ 4,237</u>	<u>\$ 311,989</u>
 Construction in progress	 <u>\$ 650,773</u>	 <u>\$ 102,193</u>	 <u>\$ -</u>	 <u>\$ 752,966</u>

CHIRIACO SUMMIT WATER DISTRICT

Notes to Financial Statements

3. Capital Assets (Continued)

	Balance <u>7/1/20</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>6/30/21</u>
Capital assets being depreciated:				
Pipeline	\$ 294,898	\$ -	\$ -	\$ 294,898
Plant equipment	249,110	3,338	-	252,448
Engineering costs	158,018	-	-	158,018
Office equipment	<u>1,549</u>	<u>-</u>	<u>-</u>	<u>1,549</u>
	703,575	3,338	-	706,913
Less: accumulated depreciation	<u>360,878</u>	<u>19,380</u>	<u>-</u>	<u>380,258</u>
	<u>\$ 342,697</u>	<u>\$ (16,042)</u>	<u>\$ -</u>	<u>\$ 326,655</u>
 Construction in progress	 <u>\$ 485,403</u>	 <u>\$ 165,370</u>	 <u>\$ -</u>	 <u>\$ 650,773</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 \$646,593.

4. Line of Credit and RCAC Loan Commitment.

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, 2022 and 2021 was 10% and 11%, respectively. The balance outstanding as of June 30, 2022 and 2021 was \$0 and \$5,000, respectively.

The District has a commitment to borrow up to \$2,500,000 from Rural Community Assistance Corporation (RCAC) for the water system improvement project. The commitment was through November 2022 and was extended to May 2023.

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 46% and 38% of total water revenue to the District for the year ended June 30, 2022 and 2021, respectively. Revenues from one contractor for both 2022 and 2021 amounted to 28% and 46% of total water revenue, respectively. Accounts receivable balance for this business was \$8,093 and \$37,946 as of June 30, 2022 and 2021, 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, 2023. Future minimum payments are \$2,400 per year through June 2023.