

**CASPAR SOUTH WATER DISTRICT**

**MENDOCINO, CALIFORNIA**

**BASIC FINANCIAL STATEMENTS**

**JUNE 30, 2019**

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INDEPENDENT AUDITORS' REPORT

Board of Directors  
Caspar South Water District  
Mendocino, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the major fund of Caspar South Water District, as of June 30, 2019 and the related notes to the financial statements, which collectively comprise the Caspar South Water District's basic 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 opinions 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 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 our 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, we consider internal control relevant to Caspar South Water District'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 Caspar South Water District'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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the major fund of Caspar South Water District, as of June 30, 2019 and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America, and the State Controller's Minimum Audit Requirements for California Special Districts.

Other Matters

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-6, as listed in the table of contents, be presented to supplement the basic financial statements.

Such information, although not a part of the basic financial statements, is required by the 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*R.J. Ricciardi, Inc.*

R.J. Ricciardi, Inc.  
Certified Public Accountants

San Rafael, California  
November 6, 2020

Caspar South Water District  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2019

This section of Caspar South Water District's (the District's) annual financial report presents our analysis of the District's financial performance during the fiscal year ended June 30, 2019. Please read it in conjunction with the financial statements which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements consist of two components: Financial Statements and the Notes to the Financial Statements. This report also contains other supplementary information in addition to the basic financial statements.

The District operates as a utility enterprise, which means that it relies mainly on sewer rates and charges to fund its operation. The Financial Statements of the District report information about the District using the full accrual basis of accounting. These statements offer short and long-term financial information about the District's activities.

The Statement of Net Position includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to District's creditors (liabilities). It also provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine the District's credit worthiness and whether the District has successfully recovered all its costs through user fees and other charges.

The final financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the year. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, financing and investments. It also provides answers to questions such as: where did cash come from, what was cash used for, and what was the change in the cash balance during the year.

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

FINANCIAL ANALYSIS OF THE DISTRICT

One of the most important questions asked about an entity's finances is "As a whole, are we better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the District's activities in a way that helps answer this question. These two statements report the net position of the District and changes in net position.

The following condensed financial information provides an overview of the District's financial activities for the fiscal years ended June 30, 2019 and June 30, 2018.

NET POSITION

Net position, (the difference between assets and liabilities) is one way to measure financial health or position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other factors such as desired reserve levels, changes in economic conditions, population growth, housing trends and government legislation.

Caspar South Water District  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
 June 30, 2019

The largest portion of the District's net position reflects its investment in capital assets (e.g. land, buildings, sewer collection system and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted net position represents resources that are subject to external restrictions on how they may be used. The remaining balance: unrestricted net position may be used to meet the District's ongoing obligations to citizens and creditors.

At the end of fiscal years June 30, 2019 and June 30, 2018, the District was able to report positive balances in net position.

The following table summarizes the District's net position as of June 30:

Table 1  
Net Position

	2019	2018
Assets:		
Current and other assets	\$ 326,846	\$ 289,002
Capital assets, net of accumulated depreciation	71,608	81,134
Total assets	398,454	370,136
Net Position:		
Invested in capital assets, net of related debt	71,608	81,134
Unrestricted	326,846	414,620
Total net position	\$ 398,454	\$ 495,754

REVENUES, EXPENSES AND CHANGES IN NET POSITION

While the Statement of Net Position shows the change in financial position from one year to the next, the Statement of Revenues, Expenses and Changes in Net Position provides information concerning the nature and source of these changes.

Revenue

Total revenue decreased by \$5,189 in 2019 as compared to 2018.

Expenses

Operating expenses decreased by \$17,285 mostly due to a decrease in maintenance and repairs expense and not having audit fees in the prior year.

Caspar South Water District  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
 June 30, 2019

The following table summarizes the District's change in net position for the year ended June 30:

Table 2  
Changes in Net Position

	2019	2018	Change
Operating revenues	\$ -	\$ -	\$ -
Operating expenses	37,484	54,769	17,285
Net operating income (loss)	<u>\$ (37,484)</u>	<u>\$ (54,769)</u>	<u>\$ 17,285</u>
Investment and other income	\$ 65,802	\$ 70,991	\$ (5,189)
Interest and other expenses	-	-	-
Non-operating net income	<u>\$ 65,802</u>	<u>\$ 70,991</u>	<u>\$ (5,189)</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Table 3  
Capital Assets at Year End

	2019	2018
Land	\$ 60,175	\$ 60,175
Sewer plant	381,050	381,050
Subtotal	441,225	441,225
Accumulated depreciation	(369,617)	(360,091)
Net capital assets	<u>\$ 71,608</u>	<u>\$ 81,134</u>

Capital Assets

At June 30, 2019, the District had \$71,608 (net of accumulated depreciation) invested in its sewage collection system and land.

Additional information regarding the District's capital assets can be found in Note 2, Section B of the Financial Statements.

Long-Term Debt

The District does not utilize long term debt to fund operations or growth.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The District's Board of Directors and management considered many factors when adopting the fiscal year 2019 budget. The Board assessed the available reserves, the operating and capital needs of the District, potential customer growth, and potential regulatory impacts.

Financial planning is based on specific assumptions from recent trends, State of California economic forecasts and historical growth patterns in the communities served by the District.

The economic condition of the District as it appears on the balance sheet reflects financial stability. The District will continue to maintain a watchful eye over expenditures and remains committed to sound fiscal management practices to deliver the highest quality service to the citizens of the area.

Caspar South Water District  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2019

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact the Secretary of the Board of Directors at Caspar South Water District, PO Box 744, Mendocino, California 95460.



Caspar South Water District  
STATEMENT OF NET POSITION  
For the Year Ended June 30, 2019

ASSETS

Current assets:

Cash and investments	\$ 326,454
Accounts receivable	<u>392</u>
Total current assets	<u>326,846</u>

Capital assets:

Non-depreciable assets	60,175
Depreciable assets (net of depreciation)	<u>11,433</u>

Total assets	<u>398,454</u>
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NET POSITION

Invested in capital assets	71,608
Unrestricted	<u>326,846</u>
Total net position	<u>\$ 398,454</u>

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

Caspar South Water District  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION  
For the Year Ended June 30, 2019

Operating expenses:	
Sewer master	\$ 12,913
Insurance	4,195
Office expense	241
Dues and fees	6,364
Professional fees	2,855
Repairs and maintenance	499
Utilities	891
Depreciation	<u>9,526</u>
Total operating expenses	<u>37,484</u>
Operating income (loss)	<u>(37,484)</u>
Non-operating revenues (expenses):	
Interest revenue	430
Taxes and assessments	<u>65,372</u>
Total non-operating revenues (expenses)	<u>65,802</u>
Changes in net position	<u>28,318</u>
Net position, beginning of period	495,754
Prior period adjustment	<u>(125,618)</u>
Net position, beginning of period, restated	<u>370,136</u>
Net position, end of period	<u><u>\$ 398,454</u></u>

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

Caspar South Water District  
STATEMENT OF CASH FLOWS  
For the Year Ended June 30, 2019

Cash flows from operating activities:	
Receipts from customers	\$ -
Payments to suppliers	<u>(27,333)</u>
Net cash provided (used) by operating activities	<u>(27,333)</u>
Cash flows from non-capital financing activities:	
Taxes and assessments	<u>65,372</u>
Net cash provided (used) by non-capital financing activities	<u>65,372</u>
Cash flows from capital and related financing activities:	
Disposal of capital assets	<u>-</u>
Net cash provided (used) by capital and related financing activities	<u>-</u>
Cash flows from investing activities:	
Interest earned	<u>430</u>
Net cash provided by investing activities	<u>430</u>
Net increase (decrease) in cash and cash equivalents	38,469
Cash and cash equivalents - beginning of period	<u>287,985</u>
Cash and cash equivalents - end of period	<u><u>\$ 326,454</u></u>
Reconciliation of operating income (loss) to net cash provided (used in) operating activities:	
Operating income (loss)	\$ (37,484)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	9,526
Decrease in accounts receivable	<u>625</u>
Net cash provided (used) by operating activities	<u><u>\$ (27,333)</u></u>

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

Caspar South Water District  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Caspar South Water District (the District) passed and Adopted Ordinance No. 1 on December 18, 1982, an ordinance regulating the use of public and private sewers and drains, private sewage disposal and the discharge of waters and wastes into the public sewer system in Caspar South Water District, County of Mendocino, State of California.

Caspar South Water District is located in Mendocino County and serves the homeowners in the Caspar South Subdivision. The District currently bills 76 households for sewer services, which include 70 developed lots and 7 undeveloped lots.

The District has no employees and is governed by a 4-member volunteer Board of Directors that currently has one position vacant.

The major activities include the monitoring and disposal of sewage, maintenance of facilities and equipment for the District.

B. Financial Statements

The basic financial statements (i.e., the statement of net position, the statement of revenues, expenses and changes in fund net position and statement of cash flows) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The District accounts for its sewer activities in one single enterprise fund.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The 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 when a liability is incurred, regardless of the timing of related cash flows. The District does not currently receive any tax revenues. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Wastewater fees and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period.

The District is engaged primarily in business-type activities and the District's basic financial statements consist of only the financial statements required for enterprise funds. These include management's discussion and analysis, a statement of net position, a statement of revenues, expenses, and changes in fund net position, a statement of cash flows, and these notes to the basic financial statements.

Proprietary enterprise funds distinguish *operating* revenues and expenses with *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operation revenues of the District are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Caspar South Water District  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, Liabilities, and Net Position

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

The District's investment policy has been to invest idle cash in demand deposits. Investments are reported at fair value.

Receivables and Property Taxes

All trade receivables are not shown net of an allowance for uncollectibles.

The County of Mendocino collects the taxes and distributes them to taxing jurisdictions on the basis of assessed valuations. The District currently does not receive property tax revenues from the County of Mendocino.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (mainly the existing wastewater collection system), are reported in the financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets and assets constructed by developers 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. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed, net of construction period interest revenues earned during such periods.

Property, plant, and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
General sewer plant	30-40
Vehicles, trucks and equipment	5-10

The District obtains insurance coverage for property and equipment and fidelity bonds insurance through its membership in the Special District Risk Management Authority (the Authority). The risk of loss is transferred from the District to the Authority in exchange for the District's payment of annual premiums. Incurred and unbilled claims, if any, are accrued as a liability when it is probable that an asset has been impaired, the amount of the obligation can be reasonably estimated, and the claim is not covered by insurance.

Caspar South Water District  
NOTES TO BASIC FINANCIAL STATEMENTS  
 For the Year Ended June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

D. Assets, Liabilities, and Net Position (concluded)

Net Position

In the financial statements, fund net position is reported in three categories as follows:

- Invested in capital assets, net of related debt - This category of net position reports the net book value of capital assets used in District operations including construction in progress all net of related accumulated depreciation, and reduced by the carrying value of related long-term debt issued to finance the acquisition of such assets.
- Restricted for debt service and capital projects - This category of net position reports all unspent proceeds from the issuance of long-term debt restricted for capital asset improvement, replacement, or construction net of the related long-term debt. It also includes funds restricted for debt service payment and reserve requirements.
- Unrestricted - Unrestricted net position represents all other assets net of related liabilities available for use by the District.

NOTE 2 - DETAILED NOTES

A. Cash Equivalents and Investments

Cash equivalents and investments consisted of the following at June 30:

	2019	2018
Cash:		
Demand accounts at Savings Bank of Mendocino County	\$ 326,454	\$ 287,985
Total cash	\$ 326,454	\$ 287,985

At June 30, 2019, the District maintained the majority of its cash in the Savings Bank of Mendocino County. Balances in the Savings Bank of Mendocino County are insured by the Federal Deposit Insurance Corporation up to \$250,000, are collateralized by securities at 110% of the balance, and consist of checking and savings accounts.

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the District's cash on deposit or first trust deed mortgage notes with a value of 150% of the deposit as collateral for these deposits. Under California Law this collateral is held in the District's name and places the District ahead of general creditors of the institution. The District has waived collateral requirements for the portion of deposits covered by federal depository insurance.

Caspar South Water District  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2019

NOTE 2 - DETAILED NOTES (concluded)

A. Cash Equivalents and Investments (concluded)

Fair Value Reporting - Investments

The District categorizes the fair value measurements of its investments within the fair value hierarchy established by GAAP. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. These levels are determined by the District's investment manager based on a review of the investment class, structure and what kind of securities are held in the portfolio. The District's holdings are classified in Level 1 of the fair value hierarchy.

B. Capital Assets

Capital asset activity for the year ended June 30, 2019 was as follows:

<u>Governmental Activities</u>	<u>Balance</u> <u>6/30/18</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>6/30/19</u>
Capital assets, not being depreciated:				
Land	\$ 60,175	\$ -	\$ -	\$ 60,175
Total capital assets, not being depreciated	<u>60,175</u>	<u>-</u>	<u>-</u>	<u>60,175</u>
Capital assets, being depreciated:				
General sewer plant	<u>381,050</u>	<u>-</u>	<u>-</u>	<u>381,050</u>
Total capital assets, being depreciated	<u>381,050</u>	<u>-</u>	<u>-</u>	<u>381,050</u>
Total accumulated depreciation	<u>(360,091)</u>	<u>(9,526)</u>	<u>-</u>	<u>(369,617)</u>
Total capital assets being depreciated – net	<u>20,959</u>	<u>(9,526)</u>	<u>-</u>	<u>11,433</u>
Capital assets – net	<u>\$ 81,134</u>	<u>\$ (9,526)</u>	<u>\$ -</u>	<u>\$ 71,608</u>

NOTE 3 - OTHER INFORMATION

A. Risk Management

The District obtains general liability through the Special District Risk Management Authority (the Authority). The Authority is responsible for the first \$2 million per claim under its liability coverage program, and members are covered up to \$50 million for liability claims under the Authority's purchased excess insurance policies with a \$60 million aggregate limit on \$20 million excess layer, and \$30 million aggregate on each of the next \$5 million excess layers. Members are covered for \$100 million in regard to property and equipment through the Authority's purchased excess coverage. There were no significant changes in coverage in fiscal year 2019 as regards the aggregate limits on excess coverage.

The District paid no material uninsured losses during the last three fiscal years.

Caspar South Water District  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2019

NOTE 3 - OTHER INFORMATION (concluded)

A. Risk Management (concluded)

Liabilities of the District are reported when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and number of pay-outs), and other economic and social factors. There were no material uninsured claim liabilities at June 30, 2019.

B. Contingencies and Commitments

Litigation: In the opinion of the District's Secretary of the Board of Directors, there is no pending or threatened litigation which would have a material adverse impact on the accompanying financial statements.

NOTE 4 - PRIOR PERIOD ADJUSTMENT

The prior period adjustment is to record the prior year's depreciation expense and changes in capital assets not recorded by the District in the amount of \$125,618.

NOTE 5 - SUBSEQUENT EVENTS

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through the date the financial statements were issued.

Coronavirus Pandemic

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) began to spread among various countries, including the United States. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, multiple jurisdictions in the U.S., including California, have declared a state of emergency and issued shelter-in-place orders in response to the outbreak. Only the District Manager and Facilities Director positions are considered "essential" employees. The immediate impact to the District's operations includes new restrictions on employees' work location and planning heightened sanitation awareness requirements on office staff. It is anticipated that the impacts from this pandemic will continue for some time. As of the report date, the financial impact of the coronavirus outbreak cannot be measured.