

**Home Gardens Sanitary District**  
(A California Special District)

**Financial Statements  
and  
Independent Auditors' Report**

**For the Year Ended June 30, 2023**



**smithmarion**

# Home Gardens Sanitary District

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For the Year Ended June 30, 2023

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**Home Gardens Sanitary District**

List of Elected and Appointed Officials  
For the Year Ended June 30, 2023

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**Elected Officials**

**Board of Directors**

| <b><u>Title</u></b> | <b><u>Director</u></b> | <b><u>Term Expires</u></b> |
|---------------------|------------------------|----------------------------|
| President           | Salvador Cacho         | December 2, 2028           |
| Secretary/Treasurer | Efrain Barajas         | December 1, 2028           |
| Director            | Miguel Serrato         | December 1, 2026           |
| Director            | Grady Garrison         | December 2, 2026           |
| Director            | Karen Samson Runion    | December 2, 2026           |

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• redlands, ca 92374



**Board of Directors**  
**Home Gardens Sanitary District**  
Corona, CA

## **Independent Auditors' Report**

### **Report on the Financial Statements**

#### ***Opinion***

We have audited the financial statements of the business type activities of Home Gardens Sanitary District, as of and for the year ended June 30, 2023, and the related notes to financial statements, which collectively comprise Home Gardens Sanitary District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the business type activities of Home Gardens Sanitary District as of June 30, 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the State Controller's Minimum Audit Requirements and Reporting guidelines for California Special Districts. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Home Gardens Sanitary District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***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 Home Gardens Sanitary 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.

#### ***Auditor's 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 auditor's report that includes our opinion. 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 GAAS 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. 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 GAAS, we:

- ξ Exercise professional judgment and maintain professional skepticism throughout the audit.
- ξ 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.
- ξ 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 Home Gardens Sanitary District's internal control. Accordingly, no such opinion is expressed.
- ξ 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.
- ξ Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Home Gardens Sanitary 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***

Accounting principles generally accepted in the United States of America require that the Management's Discussion & Analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

*Smith, Marion & Co.*

November 21, 2023  
Redlands, CA

## MANAGEMENT'S DISCUSSION & ANALYSIS

The purpose of this MD&A is to provide a narrative overview, financial highlights, and analyses of the audited annual financial statements of the Home Gardens Sanitary District (HGSD). This MD&A Section is being presented as required by the provisions of the Governmental Standards Board (GASB) Statement 34, supplementary information.

The financial statements are reported on the basis of a twelve-month fiscal year, which starts on July 1 of one calendar year and ends on June 30 of the next calendar year; the fiscal year is named by the calendar year in which the fiscal year ends. Therefore, the basic annual financial statements presented in this report are for fiscal year 2023, which started July 1, 2022 and ended June 30, 2023.

Please read this overview in conjunction with your reading of the accompanying Basic Financial Statements.

### **THE PURPOSE OF THE SANITARY DISTRICT**

The Home Gardens Sanitary District (HGSD) formed July 1, 1957, as a State of California Special District for the purpose of collection and disposal of sewage under Section 6400 et seq., of the Health and Safety Code. The area of jurisdiction of the HGSD is the Home Gardens area of the County of Riverside. Permanent operational office facilities are maintained in Home Gardens to facilitate the provision of services.

### **FINANCIAL HIGHLIGHTS**

Financial highlights of the year include the following:

- ξ The assets of the Sanitary District exceeded its liabilities at June 30, 2023 and 2022 by \$7,648,724 and \$7,969,246 (net position), respectively. Of this amount, \$3,438,038 and \$3,824,189 is identified as investment in operating plant (net of related debt) at June 30, 2023 and 2022, respectively, and is not available for operations.
- ξ As of the close of June 30, 2023 and 2022, the Sanitary District reported a decrease of (\$318,065) and an increase in net position of \$113,160, respectively.

## OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

HGSD is a special purpose government agency. As a special purpose government agency, the Sanitary District maintains its financial operations in a business-type approach and is defined as a governmental enterprise fund by the Government Accounting Standards Board (GASB). Accordingly, the Sanitary District is required to present its financial statements in the format of enterprise fund financial statements.

The Sanitary District is not a component unit of a larger governmental body. The Sanitary District issues its own financial statements.

The *enterprise fund financial statements* consist of four elements:

- 1) Statement of Net Position
- 2) Statement of Revenues, Expenses, and Changes in Net Position
- 3) Statement of Cash Flows
- 4) Notes to Financial Statements

The *Statement of Net Position* - presents information on all of the Sanitary District's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Over time, increases and decreases in net position can serve as a useful indicator of whether the financial position of the Sanitary District is improving or deteriorating. Nonfinancial factors should also be considered to assess the overall financial position of the Sanitary District.

The *Statement of Revenues, Expenses, and Changes in Net Position* - reports the changes that have occurred during the year to the Sanitary District's net position. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Revenues and expenses are reported for some items that will result in cash flows in the subsequent years.

The *Statement of Cash Flows* - as the name implies, is concerned solely with flows of cash and cash equivalents. Only transactions that affect the Sanitary District's cash position are reflected in this statement. Transactions are segregated into four sections on the statement: 1) cash flows from operating activities, 2) cash flows from noncapital financing activities, 3) cash flows from capital and related financing activities, and 4) cash flows from investing activities.

The *Notes to Financial Statements* - provide additional information that is essential to a full understanding of the data provided by this agency in the enterprise fund financial statements.

**PRESENTATION OF CONDENSED FINANCIAL INFORMATION**

Following are the Statement of Net Position and a chart illustrating the Net Position by Category:

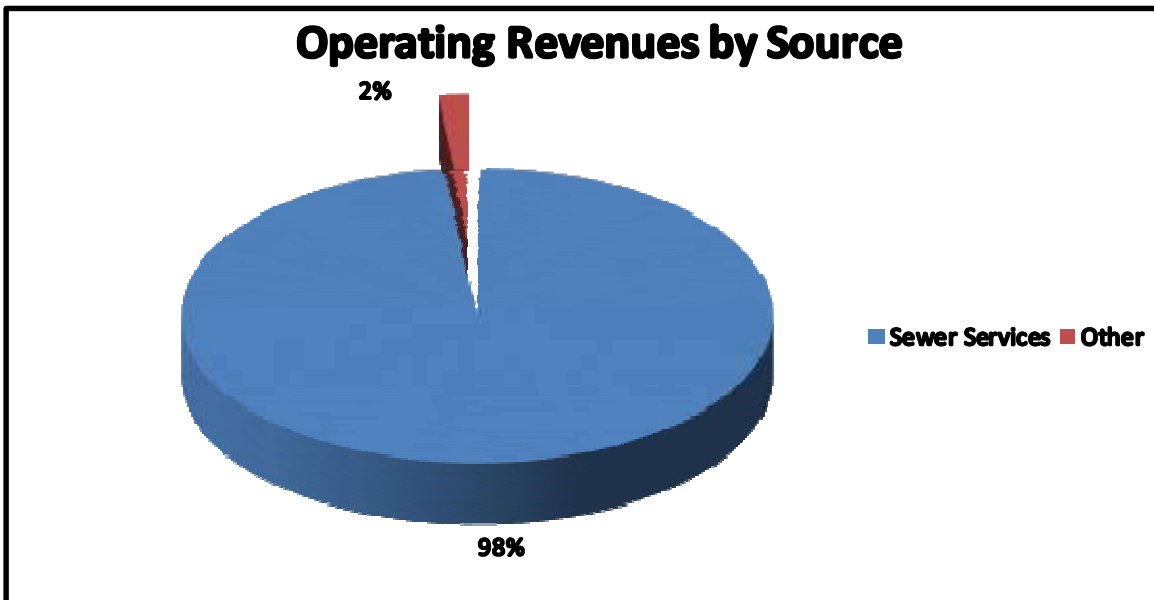
| <b>HOME GARDENS SANITARY DISTRICT</b>          |                     |                     |
|--|---------------------|---------------------|
| <b>Statement of Net Position</b>               |                     |                     |
| <b>For the Year Ended June 30, 2023</b>        |                     |                     |
|  | <b>2023</b>         | <b>2022</b>         |
| Cash and LAIF account                          | \$ 4,124,711        | \$ 4,222,010        |
| Other assets                                   | 189,834             | 196,561             |
| Capital assets                                 | 4,355,739           | 4,794,344           |
| <b>Total Deferred Outflows of Resources</b>    | <b>8,670,284</b>    | <b>9,212,915</b>    |
| Accounts payable and other current liabilities | 146,895             | 318,010             |
| Long-term liabilities                          | 874,665             | 925,659             |
| <b>Total Deferred Inflows of Resources</b>     | <b>1,021,560</b>    | <b>1,243,669</b>    |
| Net position:                                  |                     |                     |
| Net investment in capital assets               | 3,438,038           | 3,824,189           |
| Unrestricted                                   | 4,210,686           | 4,145,057           |
| <b>Total Net Position</b>                      | <b>\$ 7,648,724</b> | <b>\$ 7,969,246</b> |

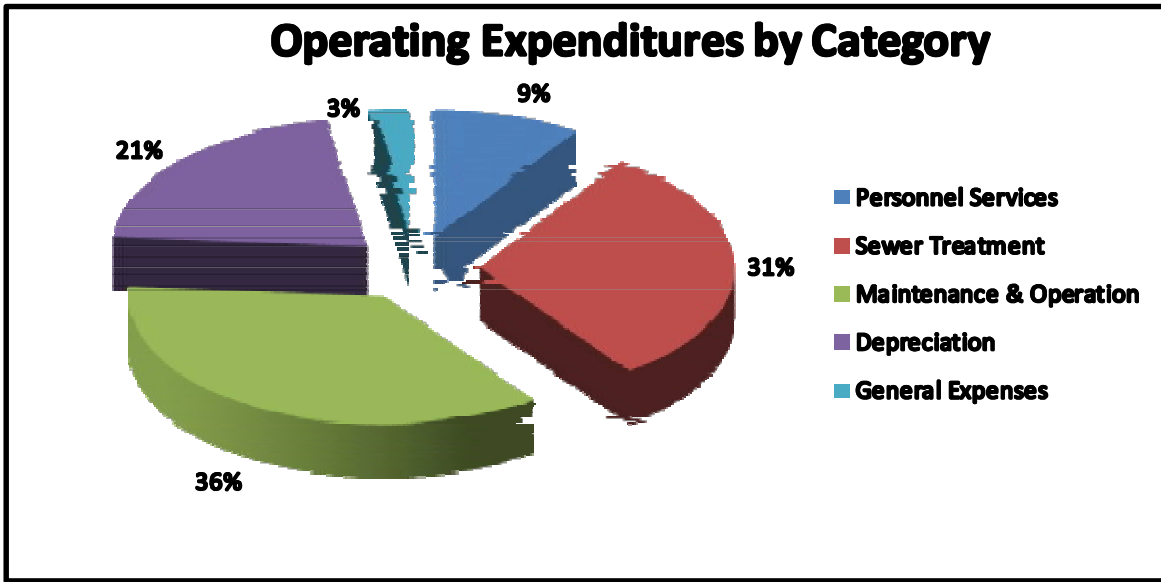
Long-term liabilities consist of accrued compensated absences and loan balances on constructed capital.

The following are the Statement of Revenues and Expenses, and Changes in Net Position, a chart illustrating the Operating Revenues by Source, and a chart illustrating the Operating Expenses by Category:

**HOME GARDENS SANITARY DISTRICT**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**For the Year Ended June 30, 2023**

|  | <b>2023</b>             | <b>2022</b>             |
|--|-------------------------|-------------------------|
| <b>Operating Revenues</b>                    |                         |                         |
| Sewer services                               | \$ 1,364,344            | \$ 1,302,909            |
| Other  | 23,170                  | 3,528                   |
| <i>Total operating revenues</i>              | <u>1,387,514</u>        | <u>1,306,437</u>        |
| <b>Operating Expenses</b>                    |                         |                         |
| General operating expenses                   | 2,078,051               | 1,464,281               |
| <i>Total operating expenses</i>              | <u>2,078,051</u>        | <u>1,464,281</u>        |
| <b>Operating Income (Loss)</b>               | <u><b>(690,537)</b></u> | <u><b>(157,844)</b></u> |
| <b>Nonoperating Revenues (Expenses)</b>      |                         |                         |
| Interest and other income                    | 87,575                  | 24,894                  |
| Property taxes                               | 300,873                 | 265,521                 |
| Interest expense                             | (18,433)                | (19,411)                |
| <i>Total nonoperating revenue (expenses)</i> | <u>370,015</u>          | <u>271,004</u>          |
| <b>Change in Net Position</b>                | <b>(320,522)</b>        | <b>113,160</b>          |
| Net position - beginning                     | 7,969,246               | 7,856,086               |
| Net position - ending                        | <u>\$ 7,648,724</u>     | <u>\$ 7,969,246</u>     |





#### FINANCIAL ANALYSIS OF OVERALL POSITION

The analysis covered in this section focuses on the Statement of Net Position, and Statement of Revenues and Expenses, and Changes in Net Position, as previously illustrated.

##### *Statement of Net Position*

At June 30, 2023 and 2022, the Sanitary District reflects a strong liquid position with \$4,124,711 and \$4,222,010 in cash and LAIF account amounts, respectively.

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

As depicted in the Statement of Revenues and Expenses, and Changes in Net Position, the District's net position decreased by (\$320,522) and increased by \$113,160 for the years ended June 30, 2023 and 2022, respectively. Total operating revenues increased approximately by 5% as of June 30, 2023, and decreased approximately by 12% in 2022.

**ANALYSIS OF SIGNIFICANT BUDGET VARIANCES**

The Sewer District’s Board of Directors monitors the annual operating budget throughout the fiscal year in order to avoid expenditures in excess of available funds. Monthly and quarterly financial documents are prepared to assist in this process.

**Comparison of Actual and Budget**

The following is an illustration of the comparison between the budget and the actual financial activity:

**HOME GARDENS SANITARY DISTRICT  
Statement of Revenues, Expenses, and Changes in Net Position  
For the Year Ended June 30, 2023**

| <b>Operating Revenues</b>                    | <b>Actual</b>           | <b>Budget</b>           | <b>Difference</b>     |
|--|-------------------------|-------------------------|-----------------------|
| Sewer services                               | \$ 1,364,344            | \$ 1,300,000            | \$ 64,344             |
| Other  | 23,170                  | 75,000                  | (51,830)              |
| <i>Total operating revenues</i>              | <u>1,387,514</u>        | <u>1,375,000</u>        | <u>12,514</u>         |
| <b>Operating Expenses</b>                    |                         |                         |                       |
| General operating expenses                   | 2,078,051               | 2,153,000               | 74,949                |
| <i>Total operating expenses</i>              | <u>2,078,051</u>        | <u>2,153,000</u>        | <u>74,949</u>         |
| <b>Operating Income (Loss)</b>               | <b><u>(690,537)</u></b> | <b><u>(778,000)</u></b> | <b><u>87,463</u></b>  |
| <b>Nonoperating Revenues (Expenses)</b>      |                         |                         |                       |
| Property taxes                               | 300,873                 | 275,000                 | 25,873                |
| Interest expense                             | (18,433)                | -                       | (18,433)              |
| Interest and other income                    | 87,575                  | 503,000                 | (415,425)             |
| <i>Total nonoperating revenue (expenses)</i> | <u>370,015</u>          | <u>778,000</u>          | <u>(407,985)</u>      |
| <b>Change in Net Position</b>                | <b><u>(320,522)</u></b> | <b><u>-</u></b>         | <b><u>320,522</u></b> |
| Net position - beginning                     | 7,969,246               | 7,969,246               | -                     |
| Net position - ending                        | <u>\$ 7,648,724</u>     | <u>7,969,246</u>        | <u>\$ 320,522</u>     |

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

*Capital Assets*

The Sewer District maintains various capital assets. Less than 1% of the net capital assets relate to administration and support activities, the remaining 99% of the net book value supports the sewer system and treatment plant.

*Long-Term Debt*

Home Gardens Sanitary District has \$917,701 and \$970,155 in long-term debt outstanding, excluding compensated absences as of June 30, 2023 and 2022, respectively.

**CURRENTLY KNOWN FACTS: ECONOMIC FACTORS**

The HGSD is primarily dependent on fees paid by customers for sewer services and receives a portion of their revenues from property taxes.

Expenses are monitored on an ongoing basis; however, sewer treatment expense represents approximately 40% of the annual operating expenses.

*Conditions Affecting Current Financial Position*

Management is unaware of any conditions which could have a significant impact on the District's current financial position, net position, or operating results in terms of past, present, and future.

*Requests for Information*

This financial report is designed to provide a general overview of the Home Gardens Sanitary District's finances for all those with an interest in the Home Gardens Sanitary District finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the District Manager at the Home Gardens Sanitary District, 13538 Magnolia Ave., Corona, CA 92879.

**Home Gardens Sanitary District**  
Statement of Net Position - Enterprise Fund  
June 30, 2023

**ASSETS**

**Current Assets**

|                                    |                  |
|------------------------------------|------------------|
| Cash                               | \$ 440,704       |
| LAIF account                       | 3,684,007        |
| <b>Total Cash and LAIF Account</b> | <b>4,124,711</b> |
| Accounts receivable (net)          | 189,834          |
| <b>Total Current Assets</b>        | <b>4,314,545</b> |
| Capital assets (net)               | 4,355,739        |
| <b>Total Assets</b>                | <b>8,670,284</b> |

**Deferred Outflows of Resources**

|   |   |
|---|---|
| <b>Total Deferred Outflows of Resources</b> | - |
|---|---|

**LIABILITIES**

**Current Liabilities**

|  |                |
|--|----------------|
| Accounts payable                       | 62,753         |
| Compensated absences - current portion | 5,783          |
| Notes payable - current portion        | 53,451         |
| Prepaid sewer fees                     | 24,908         |
| <b>Total Current Liabilities</b>       | <b>146,895</b> |

**Non-Current Liabilities**

|                                      |                  |
|--------------------------------------|------------------|
| Compensated absences                 | 10,415           |
| Notes payable - S.R.L.F.             | 864,250          |
| <b>Total Non-Current Liabilities</b> | <b>874,665</b>   |
| <b>Total Liabilities</b>             | <b>1,021,560</b> |

**Deferred Inflows of Resources**

|  |   |
|--|---|
| <b>Total Deferred Inflows of Resources</b> | - |
|--|---|

**NET POSITION**

|                                  |                     |
|----------------------------------|---------------------|
| Net investment in capital assets | 3,438,038           |
| Restricted                       | -                   |
| Unrestricted                     | 4,210,686           |
| <b>Total Net Position</b>        | <b>\$ 7,648,724</b> |



**Home Gardens Sanitary District**  
Statement of Revenues, Expenses, and Changes in Net Position - Enterprise Fund  
For the Year Ended June 30, 2023

**OPERATING REVENUES**

|                                 |                  |
|---------------------------------|------------------|
| Sewer services                  | \$ 1,364,344     |
| Plan check fees                 | 22,750           |
| Other income                    | 420              |
| <b>Total Operating Revenues</b> | <b>1,387,514</b> |

**OPERATING EXPENSES**

|                                    |                  |
|------------------------------------|------------------|
| Salaries                           | 124,732          |
| Employee benefits                  | 28,200           |
| OASDI                              | 21,559           |
| Director's fees                    | 20,532           |
| Election expense                   | 381              |
| Vehicle expense                    | 1,589            |
| Depreciation expense               | 438,605          |
| Accounting fees                    | 4,145            |
| Insurance                          | 24,484           |
| Office expense                     | 13,411           |
| Operating expense                  | 6,747            |
| Research monitor                   | 3,402            |
| Professional services              | 176,429          |
| Repairs and maintenance            | 49,496           |
| Construction                       | 521,109          |
| Sewer treatment                    | 636,707          |
| Utilities                          | 6,522            |
| <b>Total Operating Expenses</b>    | <b>2,078,051</b> |
| <b>Net Operating Income (Loss)</b> | <b>(690,537)</b> |

**NON-OPERATING REVENUES**

|                                     |                |
|-------------------------------------|----------------|
| Interest - LAIF and savings         | 84,845         |
| Property taxes                      | 300,873        |
| Connection fees                     | 2,730          |
| <b>Total Non-Operating Revenues</b> | <b>388,448</b> |

**NON-OPERATING EXPENSES**

|  |                |
|--|----------------|
| Interest on long-term debt             | 18,433         |
| <b>Total Non-Operating Expenses</b>    | <b>18,433</b>  |
| <b>Net Non-Operating Income (Loss)</b> | <b>370,015</b> |

|                               |                  |
|-------------------------------|------------------|
| <b>Change in Net Position</b> | <b>(320,522)</b> |
|-------------------------------|------------------|

|   |                  |
|---|------------------|
| <b>Net Position - Beginning Balance</b> | <b>7,969,246</b> |
|---|------------------|

|                                      |                     |
|--------------------------------------|---------------------|
| <b>Net Position - Ending Balance</b> | <b>\$ 7,648,724</b> |
|--------------------------------------|---------------------|

**Home Gardens Sanitary District**  
Statement of Cash Flows - Enterprise Fund  
For the Year Ended June 30, 2023

**CASH FLOWS FROM OPERATING ACTIVITIES**

|   |                         |
|---|-------------------------|
| Receipts from sewer services                    | \$ 1,364,344            |
| Other receipts                                  | 23,170                  |
| Payments for personnel services                 | (364,678)               |
| Payments for other operating activities         | (1,444,423)             |
| <b>Net Cash Flows from Operating Activities</b> | <b><u>(421,587)</u></b> |

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

|  |                       |
|--|-----------------------|
| Receipts of property taxes                                 | 300,873               |
| <b>Net Cash Flows from Noncapital Financing Activities</b> | <b><u>300,873</u></b> |

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

|   |                        |
|---|------------------------|
| Interest paid on capital debt                                       | (18,433)               |
| Payment on loans payable  | (52,454)               |
| Proceeds from connection fees                                       | 2,730                  |
| <b>Net Cash Flows from Capital and Related Financing Activities</b> | <b><u>(68,157)</u></b> |

**CASH FLOWS FROM INVESTING ACTIVITIES**

|   |                      |
|---|----------------------|
| Interest received from LAIF and savings         | 91,572               |
| <b>Net Cash Flows from Investing Activities</b> | <b><u>91,572</u></b> |

|  |                            |
|--|----------------------------|
| Net increase (decrease) in cash                    | (97,299)                   |
| <b>Cash at Beginning of Year</b>                   | <b><u>4,222,010</u></b>    |
| <b>Cash at End of Year (Cash and LAIF Account)</b> | <b><u>\$ 4,124,711</u></b> |

**Reconciliation of Operating Income to Net Cash Provided (Used)  
by Operating Activities**

|   |                            |
|---|----------------------------|
| Net income from operating activities            | \$ (690,537)               |
| <i>Non-cash items included in net income:</i>   |                            |
| Depreciation                                    | 438,605                    |
| <i>Increase (decrease) in:</i>                  |                            |
| Accounts payable                                | (172,070)                  |
| Compensated absences payable                    | 2,457                      |
| Payroll tax liability                           | (42)                       |
| <b>Net Cash Flows from Operating Activities</b> | <b><u>\$ (421,587)</u></b> |

## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Background**

The Home Gardens Sanitary District (the District), was formed on July 1, 1957, for the purpose of collection and disposal of sewage under Section 6400 et. seq., of the Health and Safety Code.

The District's records are located at 13538 Magnolia Ave., Corona, CA 92879.

### **Basis of Presentation**

The District's financial statements have been prepared in conformity with Generally Accepted Accounting Principles (GAAP). The District has elected to follow all relevant pronouncements of the Governmental Accounting Standards Board (GASB).

### **Measurement Focus and Basis of Accounting**

The District reports its activities as an enterprise funds, which is used to account for operations that are financed and operated in a manner similar to business enterprises, where the intent of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges. Enterprise funds are accounted for on the flow of economic resources measurement focus utilizing full accrual accounting. With this measurement focus, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the enterprise are recorded on its statement of net position, and under the full accrual basis of accounting.

Under this basis, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

### **Operating vs. Non-Operating Activities**

Operating activities are distinguished from non-operating activities on the statement of revenues and expenses. Operating revenues and expenses generally result from providing sanitation services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

### **Budgetary Accounting**

The District's uses the following budgetary procedures prior to the beginning of each fiscal year; the District adopts and files an itemized statement of estimated operating expenses, reserve requirements and anticipated revenues with the County Auditor-Controller. The sources of finances for these operating costs and reserve requirements are (1) available retained earnings carried forward from the preceding year (2) revenue other than property taxes and (3) property taxes. The Auditor-Controller computes the tax rate necessary to provide the required debt service property tax revenue. This rate is computed by dividing the required property tax revenue per the District's submitted budget by the District's assessed valuations determined by the County Assessor. Budgetary information is not required to be presented for business-type activities in the financial statements.

### **Cash and Cash Equivalents**

For purposes of the statements of cash flows, the District considers cash and all highly liquid investments with maturities of three months or less when purchased. Included therein are cash on hand, demand deposits with financial institutions, and deposits with the State of California Local Agency Investment Fund (LAIF).

**Accounts Receivable**

Accounts receivable are presented net of the allowance for doubtful accounts. The District provides an allowance for doubtful collections based upon a review of outstanding receivables, historical collection information, and existing economic conditions, for the year ended June 30, 2023, the District deemed 1% of total accounts receivable to be uncollectable. Collection efforts are pursued on all valid receivables until appeals are exhausted or the account is deemed uncollectible. At that point, the account is written off and sent to a collection agency, if appropriate.

**Capital Assets**

The District records capital assets at cost. Assets costing \$1,000 or more, with useful lives greater than one year, are capitalized. Construction in progress is recorded at cost and includes ancillary charges necessary to place the asset in use and are not depreciated until placed into service. Ancillary charges include costs such as site preparation expenditures and professional fees. Capital assets of the District are depreciated using the straight-line method over the following estimated useful lives:

|                         |              |
|-------------------------|--------------|
| Buildings               | 25 years     |
| Improvements            | 15 years     |
| Furniture and equipment | 5 - 10 years |

**Employee Compensated Absences**

District employees earn vacation and sick leave days based on length of service. Upon termination, the District is obligated to compensate employees for 100% of the accrued unused vacation time and 50% of accrued sick time. Compensated absences payable is presented in the liabilities section of the statement of net position.

**Property Taxes**

Property taxes are attached as an enforceable lien on property as of March 1<sup>st</sup>. Taxes are levied on July 1<sup>st</sup> and are due in two installments. The first installment is due on November 1<sup>st</sup> and is payable through December 10<sup>th</sup> without penalty. The second installment is due February 1<sup>st</sup> and becomes delinquent on April 10<sup>th</sup>. Property taxes are remitted to the District from the County of Riverside at various times throughout the year.

**Connection Fees**

Connection fees represent a one-time contribution of resources to the District imposed on contractors and developers for the purpose of financing growth-related construction and improvements. Connection fees are recognized as other operating revenues in the statement of revenues and expenses. Any cumulative fees collected in excess of amounts expended are shown as restricted net position. As of June 30, 2023, the District did not have cumulative fees collected in excess of amount expended.

**Stewardship, Compliance, and Accountability**

Although the District prepares and adopts an annual budget, budgetary information is not presented because financial reporting standards do not require the presentation of budgetary information for business-type activities in the financial statements.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Net Position**

The District’s net position is required to be classified for accounting and reporting purposes into the following categories:

*Net Investment in Capital Assets* – This component of net position consists of capital assets and capacity rights, net of accumulated depreciation and amortization, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net investment in capital assets and capacity rights excludes unspent debt proceeds.

*Restricted* – This component of net position consists of assets which are legally restricted by outside parties for use for a specific purpose.

*Unrestricted* – This component of net position consists of net position that does not meet the definition of “restricted” or “net investment in capital assets.” Dedicated net position represents unrestricted assets which are segregated by the Board of Directors for specific future uses.

**Implementation of Accounting Pronouncement**

GASB Statement No. 87 – Leases: The requirements of this Statements are effective for fiscal years beginning after June 12, 2021, and all reporting periods thereafter. This standard has been implemented by the District in the current fiscal year. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases. This Statement increases the usefulness of business-type activities financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract.

**NOTE 2 - COMPOSITION OF ACCOUNTS RECEIVABLE**

The balance shown as accounts receivable consists of the following items:

|                              |                   |
|------------------------------|-------------------|
| Sewer service receivable     | \$ 192,257        |
| Allowance for uncollectible  | <u>(2,423)</u>    |
| Net sewer service receivable | 189,834           |
| Interest receivable          | <u>-</u>          |
|                              | <u>\$ 189,834</u> |

**NOTE 3 - COMPOSITION OF CAPITAL ASSETS**

The composition of capital assets and the related accumulated depreciation are as follows:

|                                       | 6/30/22             | Additions           | Deletions             | 6/30/23             |
|---------------------------------------|---------------------|---------------------|-----------------------|---------------------|
| <b>Non-Depreciable Capital Assets</b> |                     |                     |                       |                     |
| Land                                  | \$ 237,962          | \$ -                | \$ -                  | \$ 237,962          |
| Construction in progress              | 2,483,267           | -                   | (2,483,267)           | -                   |
| Subtotal                              | 2,721,229           | -                   | (2,483,267)           | 237,962             |
| <b>Depreciable Capital Assets</b>     |                     |                     |                       |                     |
| Sewer disposal system                 | 1,621,285           | -                   | -                     | 1,621,285           |
| Donated sewer disposal system         | 152,270             | -                   | -                     | 152,270             |
| Treatment plant                       | 3,766,712           | 2,483,267           | -                     | 6,249,979           |
| Office equipment and furniture        | 28,329              | -                   | -                     | 28,329              |
| Automobiles                           | 26,284              | -                   | -                     | 26,284              |
| Buildings and structures              | 829,295             | -                   | -                     | 829,295             |
| Subtotal                              | 6,424,175           | 2,483,267           | -                     | 8,907,442           |
| <b>Total Capital Assets</b>           | <b>9,145,404</b>    | <b>2,483,267</b>    | <b>(2,483,267)</b>    | <b>9,145,404</b>    |
| Accumulated depreciation              | (4,351,060)         | (438,605)           | -                     | (4,789,665)         |
| <b>Net Capital Assets</b>             | <b>\$ 4,794,344</b> | <b>\$ 2,044,662</b> | <b>\$ (2,483,267)</b> | <b>\$ 4,355,739</b> |

Depreciation Expense for the Year Amounted to:

\$ 438,605

**NOTE 4 - PENSION PLAN**

Full-time employees with continuous service of twelve months are covered by a defined contribution plan funded totally by the District. The contribution rate is 25% of participant wages. The total payroll was \$145,264 and covered payroll was \$161,462. A participant is one who has sufficient year of service with the District and meets other eligibility requirements under the plan. Vesting is based on years of continuous service. A participant is 100% vested after six years of service.

Total plan contributions for the year amounted to:

\$ 28,200

The plan is fully funded at year end.

**NOTE 5 - NET POSITION**

Activities relating to net position are as follows:

|                        | Net                 |             |                     |                     |
|------------------------|---------------------|-------------|---------------------|---------------------|
|                        | Investment in       | Restricted  | Unrestricted        | Total               |
|                        | Capital Assets      |             |                     |                     |
| Beginning balance      | \$ 3,824,189        | \$ -        | \$ 4,145,057        | \$ 7,969,246        |
| Changes:               |                     |             |                     |                     |
| Change in net position | (386,151)           | -           | 65,629              | (320,522)           |
| <b>Total</b>           | <b>\$ 3,438,038</b> | <b>\$ -</b> | <b>\$ 4,210,686</b> | <b>\$ 7,648,724</b> |

**NOTE 6 - COMPENSATED ABSENCES PAYABLE**

Pursuant to GASB Statement 16, the accompanying financial statements present accrued vacation and sick pay due employees at year-end.

| <u>06/30/22</u> | <u>Additions</u> | <u>Deletions</u> | <u>06/30/23</u> | <u>Due within<br/>One Year</u> |
|-----------------|------------------|------------------|-----------------|--------------------------------|
| \$ 13,741       | \$ 8,753         | \$ (45,103)      | \$ 16,198       | \$ 5,783                       |

**NOTE 7 - COMPOSITION OF CASH AND INVESTMENTS**

The District has adopted an investment policy which authorizes the District's investments in the State of California Local Agency Investment Fund (LAIF). The District selects its investments based on safety, liquidity, and yield.

|  |                     |
|--|---------------------|
| Petty cash                                     | <u>\$ 100</u>       |
| Interest and non-interest bearing checking     | <u>\$ 440,604</u>   |
| Total insured                                  | <u>\$ 440,604</u>   |
| California Local Agency Investment Fund (LAIF) | <u>\$ 3,684,007</u> |

**Investments Authorized by the California Government Code and the District's Investment Policy**

The table below identifies the **investment types** that are authorized for the District by the California Government Code. The table also identifies certain provisions of the California Government Code that address **interest rate risk, credit risk, and concentration credit risk**. This table does not address investment of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District investment policy.

| <b>Authorized<br/>Investment Type</b> | <b>Maximum<br/>Maturity</b> | <b>Maximum<br/>Percentage<br/>of * Portfolio</b> | <b>Maximum<br/>Investment<br/>in One Issuer</b> |
|---------------------------------------|-----------------------------|--|---|
| Local Agency Bonds                    | 5 years                     | None   | None  |
| U.S. Treasury Obligations             | 5 years                     | None   | None  |
| U.S. Agency Securities                | 5 years                     | None   | None  |
| Banker's Acceptances                  | 180 days                    | 40%  | 30%   |
| Commercial Paper                      | 270 days                    | 25%  | 10%   |
| Negotiable Certificates of Deposit    | 5 years                     | 30%  | None  |
| Repurchase Agreements                 | 1 year                      | None   | None  |
| Reverse Repurchase Agreements         | 92 days                     | 20% of base value                                | None  |
| Medium-Term Notes                     | 5 years                     | 30%  | None  |
| Mutual Funds                          | N/A                         | 20%  | 10%   |
| Money Market Mutual Funds             | N/A                         | 20%  | 10%   |
| Mortgage Pass-Through Securities      | 5 years                     | 20%  | None  |
| County Pooled Investment Funds        | N/A                         | None   | None  |
| Local Agency Investment Fund (LAIF)   | N/A                         | None   | None  |
| JPA Pools (other investment pools)    | N/A                         | None   | None  |

\*Excluding amounts held by bond trustee that are not subject to California Government Code restrictions

**Disclosure Relating to Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. As of year-end, the weighted average maturity of the investments contained in the District investment pool is approximately 10.5 months.

**Disclosure Relating to Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District investment fund does not have a rating provided by a nationally recognized statistical rating organization.

**Concentration of Credit Risk**

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer that represents 5% or more of total District investments.

**Custodial Credit Risk**

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government code and the District's investment policy do not contain legal or policy requirement that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposit.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investment, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of a mutual funds or government investment pool.

**Investment in District Investment Pool**

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. All investments with LAIF are secured by the full faith and credit of the State of California. Separate LAIF financial statements are available from the California State Treasurer's Office on the Internet at [www.treasurer.ca.gov](http://www.treasurer.ca.gov).



**NOTE 8 - JOINT VENTURE**

**Description of the Joint Powers Authority**

The District is a participant in the Western Riverside County Regional Wastewater Authority, formed under a joint powers agreement for the purpose of constructing a wastewater treatment facility. The Authority consists of five-member districts. The Authority has a ten-member Board of Directors comprised of one staff and one elected person for each agency. However, each agency receives only one vote.

The following represents the members of the joint venture and their respective percentage of the project:

|                                    |     |
|------------------------------------|-----|
| Home Gardens Sanitary District     | 5%  |
| Jurupa Community Services District | 43% |
| City of Norco                      | 19% |
| City of Corona                     | 19% |
| Western                            | 14% |

**NOTE 9 - NOTES PAYABLE**

Changes in long-term obligations for the year ended June 30, 2023, are as follows:

Installment purchase contracts with Western Riverside County Regional Wastewater Authority contract period August 1, 2017 through August 1, 2038, 1.9% interest rate.

|                                  | Balance at<br>July 01, 2022 | Increases | Decreases   | Balance at<br>June 30, 2023 | Due within<br>One Year |
|----------------------------------|-----------------------------|-----------|-------------|-----------------------------|------------------------|
| <b>Business-Type Activities:</b> | \$ 970,155                  | \$ -      | \$ (52,454) | \$ 917,701                  | \$ 53,451              |
| Notes from direct borrowings     | \$ 970,155                  | \$ -      | \$ (52,454) | \$ 917,701                  | \$ 53,451              |

Debt Service requirements on long-term debt at June 30, 2023, are as follows:

| June 30,   | Business-Type Activities |                   |
|------------|--------------------------|-------------------|
|            | Principal                | Interest          |
| 2024       | \$ 53,451                | \$ 18,433         |
| 2025       | 54,467                   | 17,436            |
| 2026       | 55,501                   | 16,421            |
| 2027       | 56,556                   | 15,386            |
| 2028       | 57,630                   | 14,331            |
| Thereafter | 640,096                  | 82,034            |
|            | <u>\$ 917,701</u>        | <u>\$ 164,041</u> |

**NOTE 10 - SUBSEQUENT EVENTS**

Events that occur after the balance sheet date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the balance sheet date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the balance sheet date require disclosure in the accompanying notes. Management evaluated the activity of the District through November 21, 2023, (the date the financial statements were available to be issued) and concluded that there were no subsequent events requiring adjustment to the financial statements or disclosures as stated herein except the ones mentioned above.

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