

# EXHIBIT E

PVC 1-14 Financial Statements

PALO VERDE COUNTY WATER DISTRICT

FINANCIAL STATEMENTS  
WITH  
INDEPENDENT AUDITOR'S REPORT

As of June 30, 2014  
and for the Fiscal Year then Ended

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Palo Verde County Water District  
Palo Verde, California

I have audited the accompanying financial statements of Palo Verde County Water District, as of and for the year ended June 30, 2014 and the related notes to the financial statements, which collectively comprise the financial statements.

### **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**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted the audit in accordance with auditing standards generally accepted in the United States of America and the State Controller's minimum audit requirements for California Special District. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **Opinion**

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the activities of Palo Verde County Water District as of June 30, 2014, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

The accompanying financial statements have been prepared assuming that the District will continue as a going concern. As discussed in Note 11 to the financial statements, the District has incurred substantial net operating losses during the last few years. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 11. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

## **Emphasis of Matter Regarding Going Concern**

The accompanying financial statements have been prepared assuming that the District will continue as a going concern. As shown in the financial statements, the District incurred a net loss of \$ 79,377 during the year ended June 30, 2014, and, as of that date, had a working capital deficiency of \$ 3,376 and deficit unrestricted net assets of \$ 69,090. This condition raises substantial doubt about the District's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. My opinion is not modified with respect to that matter.

## **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 through 7 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the financial statements as a whole. The statement of revenues and expenses-actual compared to budget (page 21) is presented for purposes of additional analysis and is not a required part of the financial statements. The information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "James J. [unclear]", is positioned to the right of the date.

January 26, 2015

Palo Verde County Water District  
Management's Discussion and Analysis  
June 30, 2014

The following section of the annual financial report of the Palo Verde County Water District (the District) includes an overview and analysis of the District's financial position and activities for the years ended June 30, 2014 and 2013. This discussion and analysis, as well as the basic financial statements which it accompanies, is the responsibility of the management of the District.

**Introduction to the Basic Financial Statements**

This annual report consists of a series of financial statements, prepared in accordance with generally accepted accounting principles; such report has been designed to improve the usefulness of the report to the primary users of these basic financial statements.

The District presents its basic financial statements using the economic resources measurement to focus and accrual basis of accounting. As a Business-Type Activity, the District's basic financial statements include a Statement of Net Assets; a Statement of Revenues, Expenses, a Statement of Changes in Net Assets; and a Statement of Cash Flows. Notes to the basic financial statements and this section support these statements. All sections must be considered together to obtain a complete understanding of the financial position and results of operations of the District.

**Statements of Net Assets** – The Statements of Net Assets include all assets and liabilities of the District, with the difference between the two reported as net assets. Assets and liabilities are reported at their book value, on an accrual basis, as of June 30, 2014, and 2013. These statements also identify major categories of restrictions on the District's net assets.

**Statements of Revenues, Expenses, and Changes in Net Assets** – The Statements of Revenues, Expenses, and Changes in Net Assets present the revenues earned and expenses incurred by the District during the years ended June 30, 2014, and 2013, on the accrual basis of accounting.

**Statement of Cash Flows** – The Statements of Cash Flows present the changes in the District's cash and investments for the years ended June 30, 2014 and 2013. Such statements are summarized by operating, capital, and noncapital financing and investing activities. The statements of cash flows have been prepared using the direct method of reporting cash flows and, therefore, present gross, rather than net amounts, for each respective year's activities.

Palo Verde County Water District  
Management's Discussion and Analysis  
June 30, 2014

**Condensed Financial Position Information**

The following condensed financial information provided an overview of the District's financial position for the fiscal years ended June 30, 2014 and June 30, 2013.

	<u>2014</u>	<u>2013</u>
<b>Assets:</b>		
Utility plant, net	\$ 2,515,345	\$ 2,584,577
Other assets	<u>27,869</u>	<u>19,525</u>
Total assets	<u>2,543,214</u>	<u>2,604,102</u>
<b>Liabilities:</b>		
Long-term liabilities	172,714	116,100
Other liabilities	<u>26,025</u>	<u>64,150</u>
Total liabilities	<u>198,739</u>	<u>180,250</u>
<b>Net assets:</b>		
Invested in utility plant, net of related debt	2,408,345	2,460,477
Restricted for debt service	5,220	3,856
Unrestricted (deficit)	<u>(69,090)</u>	<u>(40,481)</u>
Total net assets	<u>\$ 2,344,475</u>	<u>\$ 2,423,852</u>

**(a) Net Assets**

Net assets, the difference between assets and liabilities, decreased \$ 79,377 for the fiscal year ended June 30, 2014 and decreased \$ 85,894 for the fiscal year ended June 30, 2013.

**(b) Utility Plant**

Net utility plant, which is comprised of property plant and equipment, decreased \$ 69,231. The decrease was due to annual depreciation expense in the amount of \$ 69,231.

Palo Verde County Water District  
Management's Discussion and Analysis  
June 30, 2014

**(c) Other Assets**

Other assets consist of cash, investments, and accounts receivable.

**(d) Long-Term Liabilities**

Long-term liabilities decreased \$ 17,100 from prior year as a result of the current year and subsequent year scheduled bond payments.

In addition, a new loan was received from the County of Imperial in the amount of \$ 65,714.

**(e) Other Liabilities**

Other liabilities consists of accounts payable, payroll taxes payable, accrued interests payable, and customer deposits.



Palo Verde County Water District  
 Management's Discussion and Analysis  
 June 30, 2014

**Summary of Operations and Changes in Net Assets**

Changes in the District's net assets for fiscal years ended 2014 and 2013 was a decrease of \$ 79,377 and an decrease of \$ 85,894 or a 3% decrease each fiscal year. The tables below summarize the District's fiscal year 2014 and 2013 activity:

	<u>2014</u>	<u>2013</u>
<u>Operating revenues:</u>		
Water sales	\$ <u>121,117</u>	\$ <u>123,383</u>
<u>Operating expenses:</u>		
Operation and maint. of water system	124,862	135,287
Depreciation	<u>69,231</u>	<u>70,076</u>
Total operating expense	<u>194,093</u>	<u>205,363</u>
Operating income (loss)	<u>(72,976)</u>	<u>(82,127)</u>
<u>Non-operating revenues (expenses):</u>		
Interest income	2	3
Property taxes	2,528	2,565
Interest expense	<u>(8,931)</u>	<u>(6,335)</u>
Total non-operating revenues (Expenses) Net	<u>(6,401)</u>	<u>(3,767)</u>
Increase (Decrease) in net assets	(79,377)	(85,894)
Total net assets, beginning of year	<u>2,423,852</u>	<u>2,509,746</u>
Total net assets, end of year	<u>\$ 2,344,475</u>	<u>\$ 2,423,852</u>

Palo Verde County Water District  
Management's Discussion and Analysis  
June 30, 2014

**(a) Operating Revenues**

In fiscal year 2014 operating revenues decreased \$ 2,266, a 2 % decrease.

**(b) Operating Expenses**

Operating expenses consists of salaries, administrative expenses and operations and maintenance costs. During the year, operating expenses (including depreciation) decreased \$ 10,425.

**(c) Non-operating Revenues and Expenses**

Non-operating revenues and expenses consist of interest income, property taxes, grant income and bond interest expense.

**Utility Plant and Debt Administration**

**(a) Utility Plant**

Net utility plant is comprised of the water system, land and buildings. Equipment consists of vehicles, tools and equipment, office furniture, and computer equipment.

**(b) Long-Term Debt**

See Note 5 of notes to financial statements for more detailed information regarding the District's long-term debt.

**Going Concern and Financial Challenges**

The District continues to have financial challenges. Mainly the inability to generate sufficient cash flow to meet its obligations on a timely basis. Alternative sources of capital are currently being sought. See note 11 of notes to financial statements for more detailed information.

**Request for Information**

This financial report is designed to provide a general overview of the Palo Verde County Water District's finances for all those with an interest in the district's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office Manager, Palo Verde County Water District, P.O. Box 185, Palo Verde, California, 92266.

Palo Verde County Water District  
Statement of Net Assets  
As of June 30, 2014

ASSETS

CURRENT ASSETS:	
Cash	\$ 10,110
Accounts receivable	12,539
Total current assets	22,649
Cash, restricted for debt service	5,220
PROPERTY, PLANT AND EQUIPMENT	
Property, Plant and Equipment	3,537,512
Less Allowance for Depreciation	(1,022,167)
Total Fixed Assets, Net	2,515,345
TOTAL ASSETS	\$ 2,543,214

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:	
Accounts Payable	\$ 17,685
Payroll Taxes Payable	4,791
Accrued Interest Payable	1,035
Customer deposits	2,514
Current portion of long-term debt	-0-
Total Current Liabilities	26,025
LONG TERM LIABILITIES:	
Loan payable County of Imperial	65,714
Bonds Payable, Net of Current Portion	107,000
Total Long Term Liabilities	172,714
TOTAL LIABILITIES	198,739
NET ASSETS:	
Invested in utility plant, net of related debt	2,408,345
Restricted for debt service	5,220
Unrestricted (deficit)	(69,090)
Total Net Assets	\$ 2,344,475

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

Palo Verde County Water District  
Statement of Operations  
For the Fiscal Year Ended June 30, 2014

REVENUES - Water Sales	<u>\$ 121,117</u>
OPERATING EXPENSES	
Audit & Legal Fees	955
Automobile and Equipment Repairs	460
Bank Service Charges	2,745
Communications	1,864
Depreciation Expense	69,231
Equipment rental	559
Late charges	778
Legal and professional	3,545
Maintenance and Repair-Plant	5,578
Miscellaneous Expense	3,432
Office Expense	2,847
Other Professional Services	10,157
Payroll Taxes	8,999
Property and Liability Insurance	3,795
Salaries and Wages	47,813
Small Tools and Supplies	444
Transportation and Travel	3,095
Uncategorized expenses	2,565
Utilities	8,133
Water Testing	5,758
Water Treatment Supplies	7,860
Worker's Compensation Insurance	<u>3,480</u>
TOTAL OPERATING EXPENSES	<u>194,093</u>
OPERATING NET INCOME (LOSS)	<u>(72,976)</u>
NON-OPERATING INCOME (EXPENSE)	
Interest Income	2
Property Taxes	2,528
Interest Expense	<u>(8,931)</u>
Total Non-Operating Income (expenses) - Net	<u>(6,401)</u>
NET CHANGE IN NET ASSETS - INCREASE (DECREASE)	<u><u>\$ (79,377)</u></u>

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

Palo Verde County Water District  
Statement of Changes in Net Assets  
For The Fiscal Year Ended June 30, 2014

Balance beginning of the year	\$ 2,423,852
Net change in net assets - decrease	<u>(79,377)</u>
Balance end of the year	<u>\$ 2,344,475</u>

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

Palo Verde County Water District  
Statement of Cash Flows  
For the Year Ended June 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES

Operating Net Income (Loss)	\$ (72,976)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:	
Increase in Loan Payable County of Imperial	\$ 65,714
Depreciation Expense	69,231
Increase (decrease) in Accounts Payable	(31,586)
Increase (decrease) in Accounts Receivable	(1,592)
Increase in Payroll Taxes Payable	1,537
Decrease in Customer Deposits	<u>(75)</u>
Net Cash Provided by Operating Activities	<u>30,253</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Property Tax Revenue	2,528
Interest Earnings	<u>2</u>
Net Cash Used by Investing Activities	<u>2,530</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Payment of Bond Principal	(17,100)
Bond Interest	<u>(8,931)</u>
Net Cash Used by Financing Activities	<u>(26,031)</u>

NET CASH PROVIDED BY (USED BY) ALL ACTIVITIES	6,752
CASH, BEGINNING OF YEAR	<u>8,578</u>
CASH, END OF YEAR	<u>\$ 15,330</u>
Interest Paid During the Year	<u>\$ 8,931</u>

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

Palo Verde County Water District  
Notes to Financial Statements  
June 30, 2014

NOTE 1: HISTORY OF THE ORGANIZATION

The Palo Verde County Water District (the "District") was formed February 19, 1961, under the State of California Water Code. Construction of the water system was completed during 1984 and delivery of water to residents of the district began in September 1984.

A Board of Directors, consisting of five members who are elected or appointed for four-year terms, governs the District.

The financial statements consist only of the funds of the District. The District has no oversight responsibility for any other governmental entity since no other entities are considered to be controlled or dependent on the District.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements include all accounts of the District and are prepared under the accrual method of accounting.

No amounts have been reported in the accompanying financial statements for contributed services.

For purposes of reporting cash flows, cash and cash equivalents include unrestricted cash on hand and cash in banks.

The District prepares and adopts a budget each year.

Palo Verde County Water District  
Notes to Financial Statements (Continued)  
June 30, 2014

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

In preparing financial statements in conformity with U.S. generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates. These estimates include useful lives of property, plant and equipment for depreciation purposes and fair value of financial instruments.

NOTE 3: RESTRICTED FUNDS

The rules and regulations of the United States Department Agriculture (USDA), Rural and Economic Development Department require owners of projects financed and administered by it to maintain restricted cash accounts for replacement reserves. It is the policy of the District to record interest earned on restricted funds as interest income. The Bond Reserve account is restricted and withdrawals from this account may only be made with specific approval of USDA.

The District is required to contribute \$ 1,465 a year to a reserve account for the 1983 bonds until a balance of \$ 14,650 has been met. As of June 30, 2014, the reserve account balance was \$ 5,220.

NOTE 4: PROPERTY, PLANT, EQUIPMENT AND DEPRECIATION

Property, plant and equipment are recorded at cost. Expenditures for maintenance and repairs are charged against operations. Renewals and betterments that materially extend the life of the assets are capitalized. Depreciation on property, plant and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis.



Palo Verde County Water District  
Notes to Financial Statements (Continued)  
June 30, 2014

NOTE 4: PROPERTY, PLANT, EQUIPMENT AND DEPRECIATION (Continued)

The estimated useful lives are as follows:

Buildings	10 – 25 years
Water System	50 years
Office Equipment	5 years
Trucks	5 years
Tools and Equipment	10 years

Property, plant and equipment is summarized as follows:

	<u>Balance as of July 1, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance as of June 30, 2014</u>
Land	\$ 27,552	\$ -0-	\$ -0-	\$ 27,552
Building	75,085	-0-	-0-	75,085
Water System	3,396,313	-0-	-0-	3,396,313
Office Equipment	10,239	-0-	-0-	10,239
Truck	14,413	-0-	-0-	14,413
Tools and Equip.	<u>13,910</u>	<u>-0-</u>	<u>-0-</u>	<u>13,910</u>
 Total	 <u>\$ 3,537,512</u>	 <u>\$ -0-</u>	 <u>\$ -0-</u>	 <u>3,537,512</u>
 Less Accumulated Depreciation				 <u>(1,022,167)</u>
 Property, Plant and Equipment, Net				 <u>\$ 2,515,345</u>

Palo Verde County Water District  
Notes to Financial Statements (Continued)  
June 30, 2014

NOTE 5: GENERAL OBLIGATION BONDS PAYABLE

Water revenue bonds, Series A, were issued in 1982, which totaled \$ 143,400.

Water revenue bonds, Series B, were issued in November 1988, which total \$ 105,100 for completion on new water filtration system.

The balance outstanding as of June 30, 2014 is as follows:

	Water Revenue Bonds		
	Series A	Series B	Total
Bonds Payable	\$ 49,000	\$ 58,000	\$ 107,000
Less Current Portion	-0-	-0-	-0-
Net Long-Term Debt	\$ 49,000	\$ 58,000	\$ 107,000

Principal payments are due annually on September 1, interest payments are due semi-annually on March 1 and September 1. The annual required payments to amortize the bonded debt outstanding as of June 30, 2014, are as follows:

Water Revenue Bond – Series A

Year Ending June 30	Principal	Interest	Total Debt Service
2015	\$ -0-	\$ -0-	\$ -0-
2016	6,000	2,300	8,300
2017	6,000	2,000	8,000
2018	7,000	1,675	8,675
2019	7,000	1,325	8,325
2020-2022	23,000	1,775	24,775
Total	\$ 49,000	\$ 9,075	\$ 58,075

Palo Verde County Water District  
Notes to Financial Statements (Continued)  
June 30, 2014

NOTE 5: GENERAL OBLIGATION BONDS PAYABLE (Continued)

Water Revenue Bond – Series B

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2015	\$ -0-	\$ -0-	\$ -0-
2016	3,300	2,818	6,118
2017	3,400	2,650	6,050
2018	3,600	2,475	6,075
2019	3,800	2,290	6,090
2020-2024	22,000	8,325	30,325
2025-2028	<u>21,7900</u>	<u>2,258</u>	<u>24,158</u>
Total	<u>\$ 58,000</u>	<u>\$ 20,816</u>	<u>\$ 78,816</u>

The combined aggregate maturity of all long-term debt obligations is detailed as of June 30, 2014 by fiscal year of maturity as follows:

Combined

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Total Debt Interest</u>	<u>Service</u>
2015	\$ -0-	\$ -0-	\$ -0-
2016	9,300	5,118	14,418
2017	9,400	4,650	14,050
2018	10,600	4,150	14,750
2019	10,800	3,615	14,415
2020-2024	45,000	10,100	55,100
2025-2028	<u>21,900</u>	<u>2,258</u>	<u>24,158</u>
Total	<u>\$ 107,000</u>	<u>\$ 29,891</u>	<u>\$ 136,891</u>

Palo Verde County Water District  
Notes to Financial Statements (Continued)  
June 30, 2014

NOTE 6: LOAN PAYABLE - COUNTY OF IMPERIAL

The District entered into a loan agreement with the County of Imperial on March 25, 2014. The loan balance as of June 30, 2014 was \$ 65,714. The initial amount of the loan was to be \$ 98,000.

The loan was obtained by the District for two specific purposes. For the application and financial analysis with Imperial County Local Agency Formation Commission (LAFCO) to expand its services to include wastewater treatment. And to bring the District's delinquent accounts current in order to apply for financial assistance from the United States Department of Agriculture (USDA).

The initial terms of the loan are as follows:

No payments were required for the first year of the loan. Repayments by the District were to begin March 25, 2015. The initial monthly payment was to be \$ 1,633.33 based on a loan amount of \$ 98,000. The loan was initially agreed to be non-interest bearing. Upon default of certain conditions, the County of Imperial, at its sole discretion, may declare all loan funds due and payable immediately.

The District and the County of Imperial are currently in the process of revising the terms and conditions of this loan agreement.

NOTE 7: RELATED PARTY TRANSACTIONS

Members of the Board of Directors and employees are also customers of the District. They are billed for their water at the same rate as other customers.

NOTE 8: CUSTOMER AND CREDIT CONCENTRATIONS

The District sells water to the community of Palo Verde, California; approximately 400 residents.

NOTE 9: FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value is a reasonable estimation of the fair value of all financial instruments (cash and working funds, accounts receivable, prepaid expenses, accounts payable, accrued expenses, customer deposits and bonds payable.)

Palo Verde County Water District  
Notes to Financial Statements (Continued)  
June 30, 2014

**NOTE 10: CASH AND INVESTMENTS**

California Government Code 53601 authorizes the District's to invest in obligations of the U.S. Treasury or its agencies, obligations of the State of California and any local agency, corporate bonds rated AAA by Standard and Poor, certificates of deposit or other interest bearing deposits of insured financial institutions and other investments as may be allowed by law.

**Deposits** – As of June 30, 2014, the carrying amount of the District's deposits was \$ 15,330 and the bank balance was \$ 15,822. The bank balance is classified into three categories of credit risk:

1. Insured or collateralized with securities held by the District or by its agent in the District's name.
2. Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.
3. Uncollateralized. (This includes any bank balance that is collateralized with securities held by their pledging financial institution, or by its trust department or agent but not in the District's name.)

Classifications of bank balance by credit risk:

	Categories			
	1	2	3	Total
Deposits	\$ 15,822	\$ -0-	\$ -0-	\$ 15,822

**NOTE 11: GOING CONCERN**

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As reported in the financial statements during the year ended June 30, 2014, the District incurred a operating loss of \$ 79,377. In the prior year the District incurred a loss of \$ 85,894. These factors including a deficit in the District's unrestricted assets of \$ 69,090 may indicate that the District will be unable to continue as a going concern for reasonable period of time.

Palo Verde County Water District  
Notes to Financial Statements (Continued)  
June 30, 2014

NOTE 11: GOING CONCERN (CONTINUED)

The District's continuation as a going concern is dependent upon its ability to generate sufficient cash flow to meet its obligations on a timely basis. This includes repayment of the loan payable to the County of Imperial.

Another major area of concern is that many septic tanks of residents and businesses located in the District are out of compliance with state law. The District has been working with the County of Imperial, the Environmental Protection Agency (EPA), and the Border Environment Cooperation Commission to obtain funding for a wastewater treatment plant which would bring the District into compliance with state law and avoid the need for new, individual septic tanks. In order to begin the construction of the wastewater treatment plant, the District is required to submit an application and fiscal analysis to the Imperial County Local Agency Formation Commission (LAFCO) to expand its services to include wastewater treatment. This concern is currently being addressed by all parties.

NOTE 12: SUBSEQUENT EVENTS

The management of The Palo Verde County Water District has reviewed the results of operations for the period of time from its year end June 30, 2014 through January 26, 2015, the date the financial statements were available to be issued, and have determined that no adjustments are necessary to the amounts reported in the accompanying combined financial statements nor have any subsequent events occurred, the nature of which would require disclosure.

Palo Verde County Water District  
Statement of Revenues and Expenses -  
Actual Compared to Budget (Budgetary Basis)  
For The Fiscal Year Ended June 30, 2014

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
<b>Operating Revenues</b>			
Water Sales	\$ 97,200	\$ 121,117	\$ 23,917
<b>Operating Expenses</b>			
Audit & Legal Fees	11,000	955	(10,045)
Automobile and Equipment Repairs	1,500	460	(1,040)
Bank Service Charges	3,310	2,745	(565)
Capital Outlay	11,000	-0-	(11,000)
Communications	1,926	1,864	(62)
Depreciation Expense	61,500	69,231	7,731
Equipment rental	-0-	559	559
Late charges	-0-	778	778
Legal and professional	-0-	3,545	3,545
Maintenance and Repair-Plant	7,500	5,578	(1,922)
Miscellaneous Expense	1,800	3,432	1,632
Office Expense	-0-	2,847	2,847
Other Professional Services	6,180	10,157	3,977
Payroll Taxes	9,893	8,999	(894)
Permits	22,348	-0-	(22,348)
Property and Liability Insurance	6,285	3,795	(2,490)
Renewal / Replacement	15,000	-0-	(15,000)
Salaries and Wages	51,039	47,813	(3,226)
Small Tools and Supplies	10,715	444	(10,271)
Transportation and Travel	5,275	3,095	(2,180)
Uncategorized expenses	-0-	2,565	2,565
Utilities	12,945	8,133	(4,812)
Water Testing	4,800	5,758	958
Water Treatment Supplies	13,000	7,860	(5,140)
Worker's Compensation Insurance	3,700	3,480	(220)
Total expenses	<u>260,716</u>	<u>194,093</u>	<u>(66,623)</u>
Net operating income (loss)	<u>(163,516)</u>	<u>(72,976)</u>	<u>90,540</u>
<b>Non-operating revenues (expenses)</b>			
Interest Income	4	2	(2)
Property Taxes	2,496	2,528	32
Debt Service	<u>(14,500)</u>	<u>(26,031)</u>	<u>(11,531)</u>
Non-operating revenues (expenses) - Net	<u>(12,000)</u>	<u>(23,501)</u>	<u>(11,501)</u>
Net Income (loss)	<u>\$ (175,516)</u>	<u>\$ (96,477)</u>	<u>\$ 79,039</u>

See Auditor's Report on Supplemental Information.