

**CALIFORNIA ASSOCIATION OF MUTUAL  
WATER COMPANIES  
JOINT POWERS RISK AND INSURANCE  
MANAGEMENT AUTHORITY**

**REPORT ON AUDIT OF FINANCIAL STATEMENTS**

**December 31, 2016**

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**CALIFORNIA ASSOCIATION OF MUTUAL  
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December 31, 2016**

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
California Association of Mutual Water Companies  
Joint Powers Risk and Insurance Management Authority  
Whittier, California

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

We have audited the accompanying financial statements of the California Association of Mutual Water Companies Joint Powers Risk and Insurance Management Authority (“CalMutuals JPRIMA” or “the Authority”) as of and for the year ended December 31 2016, and the related notes to the financial statements, which collectively comprise the Authority’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 an opinion 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 and the policies and procedures of the *State Controller’s Office of Local Government Fiscal Affairs Minimum Audit Requirements for California Special Districts*, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Board of Directors  
California Association of Mutual Water Companies  
Joint Powers Risk and Insurance Management Authority  
Whittier, California

An audit involves performing procedures to obtain 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 Authority'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 Authority'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 opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2016, and the respective changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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.

Board of Directors  
California Association of Mutual Water Companies  
Joint Powers Risk and Insurance Management Authority  
Whittier, California

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated August 22, 2017 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP  
Glendora, California  
August 22, 2017

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**CALIFORNIA ASSOCIATION OF MUTUAL  
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**MANAGEMENT’S DISCUSSION AND ANALYSIS  
December 31, 2016**

The following report reflects on the financial condition of California Association of Mutual Water Companies Joint Powers Risk and Insurance Management Authority (“CalMutuals JPRIMA” or “the Authority”) as of and for the fiscal year ended December 31, 2016. It examines and reviews financial operations and analyzes the significant financial changes during the year. Readers should review it in conjunction with the financial statements and notes to the financial statements included with this report.

**Introduction and Background**

In January 2016, the California Association of Mutual Water Companies Joint Powers Risk and Insurance Management Authority became the nation’s first joint powers insurance authority to provide insurance and technical assistance to help small community water systems statewide fix their aging pipes and comply with water quality regulations.

CalMutuals JPRIMA was formed after Assembly Bill 656 (Garcia) became law. Authored by Assemblywoman Cristina Garcia (D-Bell Gardens), AB 656 specifically authorizes a mutual water company and a public agency to participate in a joint powers agreement for purposes of insurance and risk-pooling, technical support, and other similar services.

AB 656 was initiated by mutual water companies who also won the support of the (Central Valley Ag Coalition, and the California State Firefighters’ Association. Nine mutual water companies from throughout Southern and Central California partnered with North of the River Municipal Water District, a public agency in Kern County, to form the Authority. The founders include Bellflower Somerset Mutual Water Company (Bellflower), California Domestic Water Company (Whittier), Covina Irrigating Company (Covina), Montebello Land & Water Company (Montebello), Oildale Mutual Water Company (Kern County), Rubio Cañon Land & Water Association (Altadena), South Mesa Mutual Water Company (Calimesa/Yucaipa), Sunny Slope Mutual Water Company (Pasadena), and Valencia Heights Mutual Water Company (West Covina).

The Authority provides customized insurance solutions to small water systems throughout California whose operations comprise the development, transportation, management, storage, treatment or distribution of water. These water systems provide water to more than 1.3 million Californians.

Other water management agencies, such as public water districts, sewer districts, conservation districts, and community services districts, are also eligible and now well-positioned to secure insurance coverage through CalMutuals JPRIMA.

**CALIFORNIA ASSOCIATION OF MUTUAL  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2016**

**Financial Highlights**

Operating revenues for the first year of operations were \$34,889. Operating revenue is earned as a percentage of premium contributions from members as defined in the Authority's agreement with its members.

Operating expenses for the first year of operations were \$61,565. The Authority's program expenses are primarily for professional and consulting services as well as general and administrative expenses to maintain the operations of CalMutuals JPRIMA

**Financial Management and Control**

The Authority is responsible for establishing and maintaining an internal control structure designed to ensure that assets are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for preparation of financial statements in conformity with generally accepted accounting principles (GAAP).

The Authority has contracted with Adan Ortega Associates for administrative responsibilities, which include ensuring that it meets its commitment to its members, for operational efficiency and organizational integrity, for implementing policies established by the Board of Directors, as set forth in organizational documents and bylaws.

The Authority has contracted with Alteris Insurance Service, Inc. (Alteris) to serve as its insurance administrator. Alteris operates as a full-service managing general agency providing a broad spectrum of insurance products and services to CalMutuals JPRIMA members. Serving as Insurance Administrator, Alteris oversees member services in the areas of underwriting, claims, risk management and control, legal and regulatory compliance, and continuing education. Alteris is responsible for remitting policy fees to the Authority in accordance with the Authority's agreement.

California Domestic Water Company (CalDomestic) provides financial management and reporting services to the Board. Budgetary control is provided by verification of budgeted amounts prior to expenditures and analysis of all account totals compared to budgeted amounts. Detailed financial statements include budget-to-actual comparisons and are provided to the Board at every meeting.

CliftonLarsonAllen LLP, Certified Public Accountants, performs an independent audit examination of the financial statements in accordance with generally accepted auditing standards (GAAS).

**CALIFORNIA ASSOCIATION OF MUTUAL  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2016**

**Basic Financial Statements**

Financial statements are prepared in conformity with generally accepted accounting principles and include amounts based upon reliable estimates and judgments. The financial statements include the Statement of Net Position; Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows. The statements are accompanied by footnotes to clarify unique accounting policies and other financial information and required supplementary information. The assets, liabilities, revenues, and expenses are reported on a full-accrual basis.

The **Statement of Net Position** presents information on all assets and liabilities, with the difference between the two representing net position. Assets and Liabilities are classified as current or non-current. Changes within the year in total net position as presented on the Statement of Net Position are based on the activity presented on the Statement of Revenues, Expenses and Changes in Net Position.

The **Statement of Revenues, Expenses and Change in Net Position** presents information showing total revenues versus total expenses and how net position changed during the fiscal year. All revenues earned and expenses incurred during the year are required to be classified as either "operating" or "nonoperating." For the current year, all revenues earned and expenses incurred are considered to be operating. All revenues and expenses are recognized as soon as the underlying event occurs, regardless of timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in the disbursement or collection of cash during future fiscal years (e.g., the expense associated with changes in claim liability involving cash transactions beyond the date of the financial statements).

The **Statement of Cash Flows** presents the changes in the cash and cash equivalents during the fiscal year. This statement is prepared using the direct method of cash flow. The statement breaks the sources and uses of cash and cash equivalents into three categories:

- Operating activities
- Investing activities
- Financing activities

The routine activities appear in the operating activities, while investment in intangible assets comprises the investing activities and loans obtained from a related party comprise the financing activities.



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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2016**

The **Notes to the Financial Statements** provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes describe the nature of operations and significant accounting policies as well as clarify unique financial information.

**Condensed Financial Information**

This is the first year of the Authority's operations so no comparative information is available. In the future, comparative information will be added as it becomes available.

The Authority provides a vehicle whereby small water systems can obtain low-cost property and casualty, and workers' compensation coverage. As of December 31, 2016, the Authority's total liabilities exceeded its total assets, resulting in negative net position of \$(26,676).

**Condensed Statement of Net Position**

	<u>December 31, 2016</u>	Variance	
		<u>(\$)</u>	<u>(%)</u>
Assets			
Current Assets	\$ 17,069	N/A	0.0%
Non Current Assets	6,500	N/A	0.0%
Total Assets	<u>\$ 23,569</u>	<u>N/A</u>	<u>0.0%</u>
Total Liabilities	<u>\$ 50,245</u>	<u>N/A</u>	<u>0.0%</u>
Net Position	<u>\$ (26,676)</u>	<u>N/A</u>	<u>0.0%</u>

**Assets:**

Assets consist primarily of cash and fees receivable from participating members. In addition, the Authority invested in website development which was recorded as an intangible, long-term asset.

**Liabilities:**

Liabilities consist primarily of accounts payable and advances payable to a related party. In addition, the Authority recorded deferred revenue for payments received but for which program fees had not yet been earned.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2016**

**Net Position:**

As of December 31, 2016, the Authority had negative net position of \$(26,676) resulting from operating costs exceeding revenues in the start-up year.

**Condensed Statements of Revenues Expenses and Change in Net Position**

	December 31, 2016	Variance	
		(\$)	(%)
Operating Revenues	\$ 34,889	N/A	0.0%
Operating Expenses			
Program Expenses	58,229	N/A	0.0%
General & Administrative	3,336	N/A	0.0%
Total Operating Expenses	61,565	N/A	0.0%
Operating loss	(26,676)	N/A	0.0%
Change in Net Position	(26,676)	N/A	0.0%
Net Position - Beginning of Year	-	N/A	0.0%
Net Position - End of Year	\$ (26,676)	N/A	0.0%

As of December 31, 2016, the Authority's total operating expenses exceeded its total operating revenues, resulting in negative net position of \$(26,676).

**Operating Revenues:**

Operating Revenue consists of fees assessed as a percentage of the premiums charged to the Authority's members. Fees are directly remitted by the insurance administrator. The Authority began enrolling members in March 2016 and insurance coverage for those members did not commence until April 2016.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2016**

**Operating Expenses:**

Operating expenses consist of consulting, professional and legal services that were incurred in connection with the start-up of the Authority. In addition, the Authority retains administrative services as discussed above as well as general expenses related to the ongoing activities of the Authority.

**Description of Facts or Conditions that are expected to have a Significant Effect on Financial Position or Results of Operations**

CalMutuals is an association built exclusively for the advancement of mutual water companies and other small water systems throughout California. The Authority was established in January 2016 in order to advance those companies and systems by providing them with quality insurance products at affordable prices and providing them with much needed technical assistance.

CalMutuals JPRIMA began enrolling members in March 2016. CalMutuals JPRIMA experienced an operating loss in its first year of operations. Management believes that as the Authority continues to grow in membership, the financial position of the Authority will stabilize, permitting the organization to pursue the objectives of the Authority.

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**FINANCIAL SECTION**

**CALIFORNIA ASSOCIATION OF MUTUAL  
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**STATEMENT OF NET POSITION  
December 31, 2016**

**ASSETS**

	<b>2016</b>
<b>Current Assets</b>	
Cash and cash equivalents	\$ 8,663
Accounts receivable	8,406
<b>Total Current Assets</b>	17,069
<b>Non Current Assets</b>	
Intangible assets	6,500
<b>Total Assets</b>	\$ 23,569

**LIABILITIES AND NET POSITION**

<b>Current Liabilities</b>	
Accounts payable	\$ 1,757
Unearned program revenue	15,447
<b>Total Current Liabilities</b>	17,204
<b>Non Current Liabilities</b>	
Advances due to CalMutual	33,041
<b>Total Liabilities</b>	50,245
<b>Net Position</b>	
Unrestricted	(26,676)
<b>Total Net Position</b>	(26,676)
<b>Total Liabilities and Net Position</b>	\$ 23,569

See accompanying notes to the financial statements.

**CALIFORNIA ASSOCIATION OF MUTUAL  
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**STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION  
For the Year Ended December 31, 2016**

	<b>2016</b>
<b>Operating Revenues</b>	
Program revenue	\$ 28,909
Reimbursement income	5,980
<b>Total Operating Revenues</b>	34,889
<b>Operating Expenses</b>	
Administrative services	12,500
Consulting services	37,500
Legal services	8,229
General and administrative	3,336
<b>Total Operating Expenditures</b>	61,565
Net operating loss	(26,676)
<b>Change in net position</b>	(26,676)
<b>Net position, beginning of period</b>	-
<b>Net position, end of period</b>	\$ (26,676)

See accompanying notes to the financial statements.

**CALIFORNIA ASSOCIATION OF MUTUAL  
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**STATEMENT OF CASH FLOWS  
For the Fiscal Years Ended June 30, 2016 and 2017**

	<b>2016</b>
<b>Cash Flows from Operating Activities</b>	
Program fees	\$ 35,950
Reimbursements	5,980
Program expenses paid	(56,472)
Administrative expenses paid	(3,336)
<b>Net cash used by operating activities</b>	<b>(17,878)</b>
<b>Cash Flows from Investing Activities</b>	
Payments made for website development	(6,500)
<b>Net cash used by investing activities</b>	<b>(6,500)</b>
<b>Cash Flows from Financing Activities</b>	
Proceeds from advances	33,041
<b>Net cash provided by financing activities</b>	<b>33,041</b>
<b>Net increase in cash</b>	8,663
<b>Cash and cash equivalents, beginning of period</b>	-
<b>Cash and cash equivalents, end of period</b>	<b>\$ 8,663</b>
<b>Reconciliation of net operating loss to net cash used by operating activities</b>	
Net operating loss	\$ (26,676)
Unearned program revenue	15,447
Adjustments:	
(Increase) decrease in receivables	(8,406)
Increase (decrease) in accounts payables	1,757
<b>Net cash used by operating activities</b>	<b>\$ (17,878)</b>

See accompanying notes to the financial statements.

**CALIFORNIA ASSOCIATION OF MUTUAL  
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**NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2016**

**NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

California Association of Mutual Water Companies Joint Powers Risk and Insurance Management Authority (“CalMutuals JPRIMA” or “the Authority” was formed in January 2016. The Authority is an association built exclusively to enhance the technical, managerial and financial capabilities of its members which are municipal water companies and other small water systems throughout California.

The Authority offers its members high quality and cost-effective insurance products to protect and enhance its members’ assets and operations and reduce overall risk management costs as well as provide efficient and effective claims, underwriting, distribution and risk control services to Authority members. The Authority helps small water systems meet basic requirements for eligibility of grants and loans to improve aging pipes and infrastructure in order to comply with water quality regulations and deliver high quality water to their customers and members. Additionally, the Authority provides water systems with technical support, continuing education, safety engineering and operational and managerial advisory assistance in order to reduce risk liabilities and further their technical, managerial, and financial capacity.

As of December 31, 2016, 134 members were participating in the program. Each member is assessed a fee based upon their individual risk-bearer premium of 2.5% for workers’ compensation and 3% for property/casualty coverage. The Authority does not bear the risk of loss.

**Accounting Policies**

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America (US GAAP) as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certificated Public Accountants.

**Basis of Accounting**

Basis of Accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. Accordingly, all assets, liabilities, and deferred inflows and outflows of resources are included in the Statement of Net Position. The Statement of Revenues, Expenses and Change in Net Position present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recognized when goods or services have been rendered regardless of the timing of related cash flows.



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**NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2016**

**NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

**Use of Estimates**

The preparation of the financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**Cash and Cash Equivalents**

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. Cash and cash equivalents at December 31, 2016 consisted of cash deposited with a financial institution.

**Custodial Credit Risk**

Custodial credit risk is the risk that, in the event of a bank failure, the Authority will not be able to recover its deposits that are in the possession of an outside party. The Authority does not have a formal policy for custodial credit risk. As of December 31, 2016, the Authority's deposits were fully insured by the Federal Deposit Insurance Corporation (FDIC).

**Receivables**

All receivables are reported net of the estimated portion that is expected to be uncollectible. Receivables are amounts due from member agencies for administrative fees. At December 31, 2016, the total accounts receivable portfolio was considered collectible.

**Classification of Revenues**

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

Revenues mainly consist of administrative fees assessed to its members in accordance with the Authority's Insurance Administration Agreement which are recognized as revenues in the period for which insurance protection is provided.

The Authority did not record any non-operating income as of December 31, 2016.

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**NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2016**

**NOTE 2: JOINT POWERS AGREEMENT**

As of January 1, 2016, the Authority was established under California Government Code Section 6525 in order to provide insurance or reinsurance at reduced rates to its members and to provide technical support, continuing education, safety engineering, and operational and managerial advisory assistance in order to reduce risk liabilities and further the technical, managerial and financial capacity of its members. The Authority was established with ten members initially and had grown to 134 members at December 31, 2016.

**NOTE 3: INTANGIBLE ASSETS**

In accordance with US GAAP, the Authority capitalized the direct costs of materials and services related to the development of the Authority's website. The costs will be amortized over a period of three years.

**NOTE 4: DEFICIT FUND BALANCE**

As December 31, 2016, the Authority had a deficit fund balance which will be financed through future revenues, and advances from a related party as necessary.

**NOTE 5: RELATED PARTY TRANSACTIONS**

The California Association of Mutual Water Companies (CalMutuals) is an organization that supports, educates and represents mutual water companies in the legislative process, development of policies, and allocation of resources. CalMutuals is affiliated with the Authority and has the same Board of Directors. During the year ended December 31, 2016, CalMutuals agreed to make cash advances to the Authority in order to finance its operations during the start-up period. As of December 31, 2016, CalMutuals had advanced \$33,041 to the Authority. The Authority anticipates repayment of these advances to CalMutuals to take place in early 2018. As such, the advances are shown as a long-term liability in the accompanying statement of net position.

The Authority engages California Domestic Water Company (CalDomestic) to maintain the books and records of the Authority. CalDomestic is a member of the CalMutuals JPRIMA. CalDomestic has not required the Authority to pay for these services. Management of the Authority does not believe the amount would be material if the Authority was required to pay for these services. Accordingly, no amounts for these services have been recorded in these financial statements.

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**NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2016**

**NOTE 6: SUBSEQUENT EVENTS**

The Authority's management has evaluated its 2016 financial statements for subsequent events through August 22, 2017, the date the financial statements were available to be issued and has determined there are no items requiring recognition or disclosure.

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**OFFICERS AND THIRD PARTY ADMINISTRATORS**

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WATER COMPANIES  
JOINT POWERS RISK AND INSURANCE  
MANAGEMENT AUTHORITY**

**OFFICERS AND THIRD PARTY ADMINISTRATORS  
December 31, 2016**

**OFFICERS**

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President	Jim Byerrum	California Domestic Water Company
Vice President	David Michalko	Valencia Heights Mutual Water Company
Secretary	Kenneth Bradbury	Montebello Land & Water Company
Member	David Armstrong	South Mesa Water Company
Member	Lisa Yamashita Lopez	Rubio Canon Land and Water Association
Member	Doug Nunneley	Oildale Mutual Water Company
Member	Kenneth Tcheng	Sunny Slope Water Company

**THIRD PARTY ADMINISTRATORS**

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JPA Administrator	Adan Ortega Associates
Insurance Administrator	Alteris Insurance Service

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**OTHER INDEPENDENT AUDITOR'S REPORT**

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors  
California Association of Mutual Water Companies  
Joint Powers Risk and Insurance Management Authority  
Whittier, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of California Association of Mutual Water Companies Joint Powers Risk and Insurance Management Authority (the Authority), as of and for the year ended December 31, 2016 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated August 22, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS***

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP  
Glendora, California  
August 22, 2017



Board of Directors  
California Association of Mutual Water Companies  
Joint Powers Risk and Insurance Management Authority  
Whittier, California

We have audited the financial statements of the California Association of Mutual Water Companies CalMutuals JPRIMA Joint Powers Risk and Insurance Management Authority (CalMutuals JPRIMA) as of and for the year ended December 31, 2016, and have issued our report thereon dated August 22, 2017. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

### **Significant audit findings**

#### ***Qualitative aspects of accounting practices***

##### *Accounting policies*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by CalMutuals JPRIMA are described in Note 1 to the financial statements.

No new accounting policies were adopted and the application of existing policies was not changed during 2016.

We noted no transactions entered into by the entity during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

##### *Accounting estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no accounting estimates affecting the financial statements which were particularly sensitive or required substantial judgments by management.

##### *Financial statement disclosures*

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement disclosures.

- The financial statement disclosures are neutral, consistent, and clear.

#### ***Difficulties encountered in performing the audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

***Uncorrected misstatements***

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

***Corrected misstatements***

The following material misstatement detected as a result of audit procedures was corrected by management:

- The organization recorded an adjustment for \$6,500 to capitalize the costs of website development to intangible assets. This resulted in an increase to ending net position as of December 31, 2016.

***Disagreements with management***

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. No such disagreements arose during our audit.

***Management representations***

We have requested certain representations from management that are included in the management representation letter dated August 22, 2017.

***Management consultations with other independent accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the entity's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

***Significant issues discussed with management prior to engagement***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to engagement as the entity's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our engagement.

***Other information in documents containing audited financial statements***

With respect to the required supplementary information (RSI) accompanying the financial statements, we made certain inquiries of management about the methods of preparing the RSI, including whether the RSI has been measured and presented in accordance with prescribed guidelines, and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the RSI. We compared the RSI for consistency with management's responses to the foregoing inquiries, the basic

Board of Directors  
California Association of Mutual Water Companies  
Joint Powers Risk and Insurance Management Authority  
Whittier, California  
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financial statements, and other knowledge obtained during the audit of the basic financial statements. Because these limited procedures do not provide sufficient evidence, we did not express an opinion or provide any assurance on the RSI.

This communication is intended solely for the information and use of the Board of Directors and management of CalMutuals JPRIMA and is not intended to be, and should not be, used by anyone other than these specified parties.

**CliftonLarsonAllen LLP**  
Glendora, California