

# SANBORN & SANBORN ACCOUNTANCY CORPORATION

CERTIFIED PUBLIC ACCOUNTANTS

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October 27, 2017

To the Board of Directors  
Malaga County Water District  
Fresno, California

I have audited the financial statements of Malaga County Water District (District) for the year ended June 30, 2017. Professional standards require that I provide you with information about my responsibilities under generally accepted auditing standards and generally accepted accounting principles, as well as certain information related to the planned scope and timing of my audit. I have communicated such information in my letter to you dated September 25, 2017. Professional standards also require that I communicate to you the following information related to my audit.

## Significant Audit Findings

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District 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 the two years ended June 30, 2017. I noted no transactions entered into by the District 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 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. The most sensitive estimate affecting the District's financial statements is recognition of depreciation expense on capital assets.

Management's estimate of depreciation appears reasonable.

The financial statements are neutral, consistent and clear.

### *Difficulties Encountered in Performing the Audit*

I encountered no significant difficulties in dealing with management in performing and completing my audit.

### *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 my satisfaction that could be significant to the financial statements or the auditor's report. I am pleased to report that no such disagreements arose during the course of my audit.

MALAGA COUNTY WATER DISTRICT  
REPORT ON AUDIT OF FINANCIAL STATEMENTS  
FOR THE TWO YEARS ENDED JUNE 30, 2017 AND 2016

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## **INDEPENDENT AUDITOR'S REPORT**

October 27, 2017

Board of Directors  
Malaga County Water District  
Fresno, California

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

We have audited the accompanying financial statements of the business-type activities of Malaga County Water District, State of California, as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable in 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.

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 judgement, 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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Malaga County Water District, State of California, as of June 30, 2017 and the respective 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.

## **Other Matters**

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages three through six 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 inquires 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.

### **Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Malaga County Water District's basic financial statements. The other supplementary information (page 20) is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information (page 20) is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information (page 20) is fairly stated, in all material respects, in relation to the basic financial statement as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2017 on our consideration of Malaga County Water District'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 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 District's internal control over financial reporting and compliance.

*Sanborn and Sanborn  
Accountancy Corporation*

CERTIFIED PUBLIC ACCOUNTANTS

**MALAGA COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2017**

As management of Malaga County Water District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with information that is included within the financial statements.

**Financial Highlights**

- Assets of the District exceeded its liabilities as of June 30, 2017 by \$6,966,888. Of this amount, unrestricted net position of \$1,277,842 may be used to meet the District's ongoing obligations to customers and creditors. As of June 30, 2016, assets exceeded liabilities by \$6,924,723 with unrestricted net position equaling \$1,224,526.
- Total net position increased by \$42,165 for the year ended June 30, 2017. For the year ended June 30, 2016, total net position increased by \$494,045.
- During the current year, the District's fixed assets decreased by a net of \$156,120. This decrease was mostly attributable to improvements to the water system and wastewater treatment plant less depreciation. Depreciation expense, the ratable amortization of the cost of fixed assets, amounted to \$437,858 for the current year. Prior year depreciation was \$425,597.
- Total debt decreased by a net of \$177,317 during the current year. The decrease was mostly attributable to the repayment of long-term debt of \$201,966. During the prior year, total debt decreased by a net of \$193,989. This was mostly due to the repayment of long-term debt.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to Malaga County Water District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the District's assets and liabilities, with the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. 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. Thus, revenue and expense are reported in this statement for some items that will only result in cash flow in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the District that are principally proprietary in nature (business-type activities) which are functions that are intended to recover all or a significant portion of their costs through user fees and charges. The District has no governmental activities.

The government-wide financial statements include only the District itself. The District has no component units.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and proprietary funds. The District has no governmental funds and three proprietary funds, the Water Fund, the Waste Disposal Fund and the Recreation Fund.

**Proprietary funds.** Proprietary funds are used to account for essentially the same functions reported as business-type activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain other supplementary information.

### **Government-wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. As of June 30, 2017, the District's assets exceeded liabilities by \$6,966,888. A significant portion of the District's net position (80 percent) reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. Capital assets are used to provide services to customers and they are not available for future spending.

In addition, the District has \$147,732 in net position (two percent) that is restricted to make improvements to the wastewater treatment facilities.

The following represent summaries of the District's net position and changes in net position for the current and prior years:

### Malaga County Water District's Net Position

	<u>Business-Type Activities</u>	<u>Current Year Total</u>	<u>Prior Year Total</u>
Current assets	\$ 1,611,628	\$ 1,611,628	\$ 1,533,663
Other assets	<u>7,649,073</u>	<u>7,649,073</u>	<u>7,862,190</u>
Total assets	<u>9,260,701</u>	<u>9,260,701</u>	<u>9,395,853</u>
Current liabilities	333,786	333,786	309,137
Deferred liabilities	<u>1,960,027</u>	<u>1,960,027</u>	<u>2,161,993</u>
Total liabilities	<u>2,293,813</u>	<u>2,293,813</u>	<u>2,471,130</u>
Net position:			
Invested in capital assets, net of related debt	5,541,314	5,541,314	5,495,468
Restricted for capital asset acquisition	147,732	147,732	204,729
Unrestricted	<u>1,277,842</u>	<u>1,277,842</u>	<u>1,224,526</u>
Total net position	<u>\$ 6,966,888</u>	<u>\$ 6,966,888</u>	<u>\$ 6,924,723</u>

### Malaga County Water District's Changes in Net Position

	<u>Business-Type Activities</u>	<u>Current Year Total</u>	<u>Prior Year Total</u>
Program revenue			
Charges for services	\$ 2,897,255	\$ 2,897,255	\$ 2,874,323
Other	<u>113,894</u>	<u>113,894</u>	<u>53,564</u>
Total revenue	<u>3,011,149</u>	<u>3,011,149</u>	<u>2,927,887</u>
Expense			
Waste disposal utility activities	1,769,787	1,769,787	1,190,351
Water utility activities	1,185,850	1,185,850	1,473,000
Community recreation activities	<u>463,804</u>	<u>463,804</u>	<u>463,431</u>
Total expense	<u>3,419,441</u>	<u>3,419,441</u>	<u>3,126,782</u>
Net operating income/(loss)	(408,292)	(408,292)	(198,895)
Net nonoperating revenue/(expense)	<u>450,457</u>	<u>450,457</u>	<u>692,940</u>
Increase/(decrease) in net position	42,165	42,165	494,045
Net position, beginning of year	<u>6,924,723</u>	<u>6,924,723</u>	<u>6,430,678</u>
Net position, end of year	<u>\$ 6,966,888</u>	<u>\$ 6,966,888</u>	<u>\$ 6,924,723</u>

**Business-type activities.** Business-type activities increased the District's net position by \$42,165, accounting for 100 percent of the total increase in net position.

### **Financial Analysis of the District's Funds**

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

**Proprietary Funds.** The purpose of the District's proprietary fund financial statements is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of June 30, 2017, the District's proprietary funds reported a combined ending fund balance of \$6,966,888, an increase of \$42,165, in comparison to the prior year. Of the entire ending fund balance, \$1,277,842 is unrestricted and is available for spending at the District's discretion.

### **Capital Asset and Debt Administration**

**Capital assets.** The District's investment in capital assets for its business-type activities as of June 30, 2017 amounted to \$7,501,341 (net of allowance for depreciation). This investment in capital assets includes land, building, improvements, construction in progress and equipment.

Additional information on the District's capital assets can be found in note three.

**Debt administration.** The District's long-term debt totaled \$1,960,027 as of June 30, 2017. Of this total amount, \$114,362 is due and payable during the year ending June 30, 2017. The remainder, referred to as deferred liabilities, is due and payable over the next 16 years.

Additional information on the District's long-term debt can be found in notes five, six, seven and eight.

### **Economic Factors and Next Year's Budgets and Rates**

The budget for the year ending June 30, 2018 projects a surplus of \$627,265. Revenue is anticipated to increase by \$995,917 compared to 2016/2017, while expenses are expected to increase by \$410,817. Charges for services are anticipated to increase by \$560,816, while non-operating revenue is expected to increase by \$435,101. Salaries, wages and employee benefits are expected to decrease by \$283,385 and services and supplies are anticipated to increase by \$694,202 compared to 2016/2017.

User rates are not expected to increase during the year ending June 30, 2018.

### **Requests for Information**

This financial report is designed to provide a general overview of Malaga 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 request for additional financial information should be addressed to the General Manager, Malaga County Water District, 3580 South Frank Street, Fresno, California 93725.



MALAGA COUNTY WATER DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2017

Assets

Current assets

Cash and cash equivalents	\$ 1,221,124
Accounts receivable	303,513
Prepaid expense	<u>86,991</u>

Total current assets	<u>1,611,628</u>
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Other assets

Restricted assets – cash	147,732
Capital assets (net of allowance for depreciation)	<u>7,501,341</u>

Total other assets	<u>7,649,073</u>
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Total assets	<u>9,260,701</u>
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Liabilities

Current liabilities

Accounts payable and accrued expense	234,863
Compensated absences payable	66,891
Customer deposits	<u>32,032</u>

Total current liabilities	<u>333,786</u>
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Noncurrent liabilities

Payable within one year	114,362
Payable after one year	<u>1,845,665</u>

Total noncurrent liabilities	<u>1,960,027</u>
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Total liabilities	<u>2,293,813</u>
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Net Position

Invested in capital assets, net of related debt	5,541,314
Restricted	147,732
Unrestricted	<u>1,277,842</u>

Total net position	<u>\$ 6,966,888</u>
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See accompanying notes to financial statements.

MALAGA COUNTY WATER DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2017

Business-type activities		
Operating revenue		
Charges for services		\$ 2,897,255
Other		<u>113,894</u>
Total operating revenue		3,011,149
Operating expense		
Waste disposal utility activities	\$ 1,769,787	
Water utility activities	1,185,850	
Community recreation activities	<u>463,804</u>	
Total operating expense		<u>3,419,441</u>
Net operating income/(loss)		(408,292)
Net nonoperating revenue/(expense)		<u>450,457</u>
Change in net position		42,165
Net position, beginning of year		<u>6,924,723</u>
Net position, end of year		<u>\$ 6,966,888</u>

See accompanying notes to financial statements.

MALAGA COUNTY WATER DISTRICT  
 PROPRIETARY FUNDS  
 COMPARATIVE STATEMENT OF NET POSITION  
 JUNE 30, 2017 AND 2016

	Business-Type Activities - Enterprise Funds				
	2017				2016
Assets	Water	Waste Disposal	Recreation	Total	Total
Current assets					
Cash and cash equivalents	\$ 549,506	\$ 549,506	\$ 122,112	\$ 1,221,124	\$ 1,064,078
Accounts receivable	148,425	148,425	6,663	303,513	375,750
Prepaid expense	<u>40,288</u>	<u>38,536</u>	<u>8,167</u>	<u>86,991</u>	<u>93,835</u>
Total current assets	<u>738,219</u>	<u>736,467</u>	<u>136,942</u>	<u>1,611,628</u>	<u>1,533,663</u>
Other assets					
Restricted cash		147,732		147,732	204,729
Advances to other activities	3,149,377			3,149,377	2,880,305
Capital assets (net of allowance for depreciation)	<u>2,420,086</u>	<u>4,685,767</u>	<u>395,488</u>	<u>7,501,341</u>	<u>7,657,461</u>
Total other assets	<u>5,569,463</u>	<u>4,833,499</u>	<u>395,488</u>	<u>10,798,450</u>	<u>10,742,495</u>
Total assets	<u>6,307,682</u>	<u>5,569,966</u>	<u>532,430</u>	<u>12,410,078</u>	<u>12,276,158</u>
Liabilities					
Current liabilities					
Accounts payable and accrued expense	99,085	106,840	28,938	234,863	220,400
Compensated absences payable	23,069	27,030	16,792	66,891	64,259
Customer deposits	16,016	16,016		32,032	24,478
Current portion of notes payable	<u>44,244</u>	<u>70,118</u>		<u>114,362</u>	<u>109,365</u>
Total current liabilities	182,414	220,004	45,730	448,148	418,502
Other liabilities					
Advances from other activities		1,562,285	1,587,092	3,149,377	2,880,305
Noncurrent liabilities					
Notes payable	<u>978,391</u>	<u>867,274</u>		<u>1,845,665</u>	<u>2,052,628</u>
Total liabilities	<u>1,160,805</u>	<u>2,649,563</u>	<u>1,632,822</u>	<u>5,443,190</u>	<u>5,351,435</u>
Net Position					
Invested in capital assets, net of related debt	1,397,451	3,748,375	395,488	5,541,314	5,495,468
Restricted assets		147,732		147,732	204,729
Unrestricted/(deficit)	<u>3,749,426</u>	<u>(975,704)</u>	<u>(1,495,880)</u>	<u>1,277,842</u>	<u>1,224,526</u>
Total net position	<u>\$ 5,146,877</u>	<u>\$ 2,920,403</u>	<u>\$ (1,100,392)</u>	<u>\$ 6,966,888</u>	<u>\$ 6,924,723</u>

See accompanying notes to financial statements.

MALAGA COUNTY WATER DISTRICT  
 PROPRIETARY FUNDS  
 COMPARATIVE STATEMENT OF REVENUE,  
 EXPENSE AND CHANGES IN FUND NET ASSETS  
 FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	Business-Type Activities - Enterprise Funds				
	2017				2016
	Water	Waste Disposal	Recreation	Total	Total
Operating revenue					
Charges for services	\$ 1,341,604	\$ 1,509,701	\$ 45,950	\$ 2,897,255	\$ 2,874,323
Other	52,366	51,242	10,286	113,894	53,564
Total operating revenue	1,393,970	1,560,943	56,236	3,011,149	2,927,887
Operating expense					
Salaries and wages	238,753	421,662	148,639	809,054	654,692
Employee benefits	134,709	220,333	105,289	460,331	402,961
Depreciation	155,567	241,797	40,494	437,858	425,597
Professional services	145,952	239,595		385,547	170,433
Utilities	161,744	98,133	39,345	299,222	316,569
Board of directors	83,218	83,218		166,436	176,581
Supplies and small tools	60,441	52,047	3,760	116,248	
Contract services	20,453	39,799	46,392	106,644	114,306
Repairs and maintenance	13,509	63,939	19,058	96,506	245,199
Materials	20,132	37,752	33,860	91,744	162,736
Insurance	35,878	36,538	631	73,047	55,034
Dues and memberships	28,776	34,862	448	64,086	55,142
Refuse collection and disposal		61,792		61,792	66,864
Other	37,807	18,258	5,335	61,400	89,057
Testing	4,093	36,025		40,118	78,890
Telephone	7,739	17,346	11,992	37,077	31,959
Education and training	13,334	20,667	1,259	35,260	
Rents and leases	5,473	22,710	1,742	29,925	23,696
Travel, meetings and education	7,565	8,156	3,802	19,523	17,916
Office supplies and postage	5,590	8,589	304	14,483	26,122
Fuel and oil	5,117	6,569	1,454	13,140	13,028
Total operating expense	1,185,850	1,769,787	463,804	3,419,441	3,126,782
Net operating income/(loss)	208,120	(208,844)	(407,568)	(408,292)	(198,895)
Nonoperating revenue/(expense)					
DBCP settlement less legal costs					400,000
Grant revenue	13,025	74,630		87,655	99,387
Taxes and assessments	36,236	40,777	324,233	401,246	291,346
Interest and use of property	3,113	8,492	1,257	12,862	9,988
Other	40,469	6,567		47,036	
Interest expense	(53,182)	(45,160)		(98,342)	(107,781)
Net nonoperating revenue/(expense)	39,661	85,306	325,490	450,457	692,940
Change in net position	247,781	(123,538)	(82,078)	42,165	494,045
Net position, beginning of year	4,899,096	3,043,941	(1,018,314)	6,924,723	6,430,678
Net position, end of year	\$ 5,146,877	\$ 2,920,403	\$ (1,100,392)	\$ 6,966,888	\$ 6,924,723

See accompanying notes to financial statements.

MALAGA COUNTY WATER DISTRICT  
 PROPRIETARY FUNDS  
 COMPARATIVE STATEMENT OF CASH FLOW  
 FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

Page 1 of 2

	Business-Type Activities - Enterprise Funds				
	2017				2016
	Water	Waste Disposal	Recreation	Total	Total
Cash flow from operating activities					
Receipts from customers and users	\$ 1,470,765	\$ 1,566,838	\$ 56,236	\$ 3,093,839	\$ 2,904,606
Payments to suppliers	(642,900)	(883,867)	(164,124)	(1,690,891)	(1,675,530)
Payments to employees	(371,997)	(639,863)	(254,893)	(1,266,753)	(1,066,465)
Net cash provided by/(used for) operating activities	455,868	43,108	(362,781)	136,195	162,611
Cash flow from noncapital financing activities					
Advances (to)/from other funds	(269,072)	201,297	67,775		
DBCP settlement less legal costs					400,000
Property taxes and other nonoperating revenue	76,705	47,344	321,334	445,383	290,547
Net cash provided by/(used for) noncapital financing activities	(192,367)	248,641	389,109	445,383	690,547
Cash flow from capital and related financing activities					
Grant revenue	13,025	74,630		87,655	28,487
Principal paid on debt	(85,465)	(116,501)		(201,966)	(193,055)
Interest paid on financing	(53,182)	(45,160)		(98,342)	(106,058)
Purchase of capital assets	(70,321)	(199,536)	(11,881)	(281,738)	(302,729)
Net cash provided by/(used for) capital and related financing activities	(195,943)	(286,567)	(11,881)	(494,391)	(573,355)
Cash flow from investing activities					
Interest and use of property	3,113	8,492	1,257	12,862	9,093
Net increase/(decrease) in cash	70,671	13,674	15,704	100,049	288,896
Cash, beginning of year	478,835	683,564	106,408	1,268,807	979,911
Cash, end of year	\$ 549,506	\$ 697,238	\$ 122,112	\$ 1,368,856	\$ 1,268,807

See accompanying notes to financial statements.

MALAGA COUNTY WATER DISTRICT  
 PROPRIETARY FUNDS  
 COMPARATIVE STATEMENT OF CASH FLOW  
 FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

Page 2 of 2

	Business-Type Activities - Enterprise Funds				
	2017				2016
	Water	Waste Disposal	Recreation	Total	Total
Reconciliation of operating income to net cash provided by/(used for) operating activities:					
Operating income/(loss)	\$ 208,120	\$ (208,844)	\$ (407,568)	\$ (408,292)	\$ (198,895)
Adjustments to reconcile operating income/(loss) to net cash provided by/(used for) operating activities					
Depreciation	155,567	241,797	40,494	437,858	425,597
(Increase)/decrease in accounts receivable	73,018	2,118		75,136	(55,007)
(Increase)/decrease in prepaid expense	3,135	3,102	607	6,844	(8,173)
Increase/(decrease) in accounts payable	10,786	(974)	4,651	14,463	(17,322)
Increase/(decrease) in compensated absences payable	1,465	2,132	(965)	2,632	9,836
Increase/(decrease) in deposits	<u>3,777</u>	<u>3,777</u>		<u>7,554</u>	<u>6,575</u>
Net cash provided by/(used for) operating activities	<u>\$ 455,868</u>	<u>\$ 43,108</u>	<u>\$ (362,781)</u>	<u>\$ 136,195</u>	<u>\$ 162,611</u>
Summary of cash balances, end of year:					
Cash and cash equivalents	\$ 549,506	\$ 549,506	\$ 122,112	\$ 1,221,124	\$ 1,064,078
Restricted cash		<u>147,732</u>		<u>147,732</u>	<u>204,729</u>
	<u>\$ 549,506</u>	<u>\$ 697,238</u>	<u>\$ 122,112</u>	<u>\$ 1,368,856</u>	<u>\$ 1,268,807</u>

See accompanying notes to financial statements.

MALAGA COUNTY WATER DISTRICT  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE TWO YEARS ENDED JUNE 30, 2017 AND 2016

Note 1: Summary of Significant Accounting Policies

Malaga County Water District is a California special district that was created as a result of a State of California statute. The District was organized to provide and maintain sewer and water operations in the community of Malaga, County of Fresno, State of California. The District is governed by a board of directors. As the District is a governmental unit, it is exempt from federal and California taxes on income.

The accounting and reporting policies of the District conform to generally accepted accounting principles applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Government Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units*, and by the Financial Accounting Standards Board (when applicable).

A. Financial Reporting Entity

As required by generally accepted accounting principles, these general purpose financial statements present the District in conformance with GASB Statement No. 14, "The Financial Reporting Entity." Under Statement No. 14, component units are organizations that are included in the District's reporting entity because of the significance of their operational or financial relationships with the District. The District has no component units.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements, which are the statement of net position and the statement of activities, report information on all of the nonfiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District has no governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or activity are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenue include charges to customers and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported in separate columns in the fund financial statements.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds financial statements. Revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cash flow. Property taxes are recognized as revenue in the year in which they are levied. Grants and similar items are recognized as revenue when all eligibility requirements imposed by the provider have been met.

MALAGA COUNTY WATER DISTRICT  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE TWO YEARS ENDED JUNE 30, 2017 AND 2016

Note 1: Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

The financial statements of the District are prepared in accordance with generally accepted accounting principles. The District's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with the GASB pronouncements. The District's reporting entity does not apply FASB pronouncements of APB opinions issued after November 30, 1989.

Proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cash flow.

The District reports the following major proprietary funds:

The Sewer, Water and Recreation Funds are the District's only operating funds. The Recreation Fund accounts for community recreation activities and the Sewer and Water Funds account for the sewer and water systems operations in the community of Malaga, County of Fresno, State of California. The District also provides solid waste disposal services to residential housing within the immediate residential area of the community of Malaga by contracting with a third party vendor for the provision of that service.

Amounts reported as program revenue include charges to customers for goods and services, operating grants and contributions and capital grants and contributions.

D. Assets, Liabilities and Net Position or Equity

1. Cash and Investments

Investments are reported at fair value. Cash represents cash on hand, in banks and on deposit in the treasury of the County of Fresno and the State of California Local Agency Investment Fund. Investments made from pooled cash consist primarily of short-term investments.

2. Property, Plant and Equipment

Capital assets, which include property, plant and equipment are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of three years. All material fixed assets are valued at historical cost. Donated fixed assets are valued at their estimated fair value on the date donated. When an asset is disposed of, cost and related accumulated depreciation is removed and any gain or loss arising from its disposal is credited or charged to operations.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.



MALAGA COUNTY WATER DISTRICT  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE TWO YEARS ENDED JUNE 30, 2017 AND 2016

Note 1: Summary of Significant Accounting Policies (continued)

Assets, Liabilities and Net Position or Equity (continued)

Depreciation is recorded by using the straight-line method. The book value of each asset is reduced by equal amounts over its estimated useful life as follows:

	<u>Estimated Useful Life in Years</u>
Buildings and improvements	20 – 40
Equipment	10 – 20

3. Net Position

Net position comprise the various net earnings from operating income, nonoperating revenue and expense and capital contributions. Net position is classified in the following three components:

*Invested in capital assets, net of related debt* – This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvements of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net asset components as the unspent proceeds.

*Restricted* – This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net position* – This component of net position consists of net position that do not meet the definition of restricted or invested in capital assets, net of related debt.

E. Budgets and Budgetary Accounting

The District established a budget for its governmental fund for the year ended June 30, 2017. The budget is adopted on a basis consistent with generally accepted accounting principles (GAAP).

F. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

MALAGA COUNTY WATER DISTRICT  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE TWO YEARS ENDED JUNE 30, 2017 AND 2016

Note 2: Cash

The District's deposits as of June 30, 2017, were entirely covered by federal depository insurance or otherwise collateralized. The Government Code of the State of California requires California financial institutions to secure District deposits by pledging government securities as collateral.

The following is an analysis of cash as of June 30, 2017:

	Bank Balance Category*			Carrying Amount
	1	2	3	
Cash on hand	\$ 11,869	\$	\$	\$ 11,869
Cash in bank	250,000	224,629		474,629
Fresno County Treasury		86,135		86,135
Local Agency Investment Fund		796,223		796,223
	<u>\$ 261,869</u>	<u>\$1,106,987</u>	<u>\$</u>	<u>\$1,368,856</u>

\* These categories are as follows:

Category 1: Cash on hand or insured by the Federal Deposit Insurance Corporation or collateralized with securities held by the District or by its agents in the District's name.

Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3: Uncollateralized.

Restricted assets consists of cash deposits from loan proceeds to be used only for capital asset acquisition.

Note 3: Property, Plant and Equipment

The following is an analysis of the District's capital assets as of June 30, 2017:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Land*	\$ 599,613	\$	\$	\$ 599,613
Water system	5,015,246	70,320		5,085,566
Sewer system	7,235,158	130,468		7,365,626
Buildings	1,133,346	35,930		1,169,276
Construction in progress*	913,830			913,830
Park development	968,689			968,689
Equipment	466,779	45,020		511,799
Total	16,332,661	281,738		16,614,399
Allowance for depreciation	(8,675,200)	(437,858)		(9,113,058)
	<u>\$ 7,657,461</u>	<u>\$ (156,120)</u>	<u>\$</u>	<u>\$ 7,501,341</u>

\* Not currently being depreciated.

MALAGA COUNTY WATER DISTRICT  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE TWO YEARS ENDED JUNE 30, 2017 AND 2016

Note 4: Subsequent Events

Events affecting the District subsequent to June 30, 2017 through October 27, 2017 have been evaluated and included within these financial statements when applicable.

Note 5: Noncurrent Liabilities

The following is a summary of deferred liabilities (long-term debt) for the year ended June 30, 2017:

	Beginning Balance	Additions	Deletions	Ending Balance	Classification	
					Due Within One Year	Due After One Year
Note payable - debt refinancing	\$ 522,554	\$	\$ 122,052	\$ 400,502	\$ 63,093	\$ 337,409
Note payable - systems improvements	1,189,167		61,061	1,128,106	31,645	1,096,461
Note payable - wastewater treatment plant improvements	450,272		18,853	431,419	19,624	411,795
	<u>\$2,161,993</u>	<u>\$</u>	<u>\$ 201,966</u>	<u>\$1,960,027</u>	<u>\$ 114,362</u>	<u>\$1,845,665</u>

Note 6: Note Payable – Debt Refinancing

Long-term debt outstanding on June 30, 2010 was refinanced on July 26, 2010. The debt was originally incurred to make improvements to the water and sewer systems. The total amount of the refinanced debt was \$1,151,053 and provides for interest at the rate of 4.50 percent per annum. Semi-annual payments of principal and interest began January 2011, and continue until paid. Full repayment of the loan is scheduled to occur in July 2020. The Water Fund finances this debt to the extent of 30 percent of the payments due and the Waste Disposal Fund finances 70 percent of the payments. Interest paid on this loan for the year ended June 30, 2017 was \$22,157.

Future payments of the note are as follows:

<u>Due during the year ending</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
June 30, 2018	\$ 9,011	\$ 63,093	\$ 72,104
June 30, 2019	13,732	130,477	144,209
June 30, 2020	7,794	136,414	144,208
June 30, 2021	<u>1,586</u>	<u>70,518</u>	<u>72,104</u>
	<u>\$ 32,123</u>	<u>\$ 400,502</u>	<u>\$ 432,625</u>

MALAGA COUNTY WATER DISTRICT  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE TWO YEARS ENDED JUNE 30, 2017 AND 2016

Note 7: Note Payable – Systems Improvements

This debt was incurred to finance the construction of water well number eight and improvements to the sewer system. The total amount of the debt was \$1,500,000 and provides for interest at the rate of 4.85 percent per annum. Semi-annual payments of principal and interest began January 2011, and continue until paid. Full repayment of the loan is scheduled to occur in July 2030. The Water Fund finances this debt to the extent of 80 percent of the payments due and the Waste Disposal Fund finances 20 percent of the payments. Interest paid on this loan for the year ended June 30, 2017 was \$56,943.

Future payments of the bonds are as follows:

<u>Due during the year(s) ending</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
June 30, 2018	\$ 27,357	\$ 31,645	\$ 59,002
June 30, 2019	52,392	65,612	118,004
June 30, 2020	49,171	68,833	118,004
June 30, 2021	45,793	72,211	118,004
June 30, 2012	42,248	75,756	118,004
Five Years Ending June 30, 2027	151,671	438,350	590,021
Five Years Ending June 30, 2032	<u>37,315</u>	<u>375,699</u>	<u>413,014</u>
	<u>\$ 405,947</u>	<u>\$1,128,106</u>	<u>\$1,534,053</u>

Note 8: Note Payable – Wastewater Treatment Plant Improvements

This debt was incurred to finance the construction of wastewater treatment plant improvements. The total amount of the debt was \$502,500 and provides for interest at the rate of 4.05 percent per annum. Semi-annual payments of principal and interest began December 2016, and continue until paid. Full repayment of the loan is scheduled to occur in June 2033. The Waste Disposal Fund finances this debt to the extent of 100 percent of the payments. Interest paid on this loan for the year ended June 30, 2017 was \$18,421.

Future payments of the bonds are as follows:

<u>Due during the year ending</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
June 30, 2018	\$ 17,276	\$ 19,624	\$ 36,900
June 30, 2019	16,473	20,427	36,900
June 30, 2020	15,637	21,263	36,900
June 30, 2021	14,768	22,132	36,900
June 30, 2022	13,862	23,038	36,900
Five Years Ending June 30, 2027	54,378	130,121	184,499
Five Years Ending June 30, 2032	25,493	159,006	184,499
June 30, 2033	<u>1,092</u>	<u>35,808</u>	<u>36,900</u>
	<u>\$ 158,979</u>	<u>\$ 431,419</u>	<u>\$ 590,398</u>

MALAGA COUNTY WATER DISTRICT  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE TWO YEARS ENDED JUNE 30, 2017 AND 2016

Note 9: Restricted Assets - Cash

As of June 30, 2017, \$147,732 in cash is restricted for the improvements to the wastewater treatment plant. This amount is not available for spending for other purposes. The improvements to the wastewater treatment plant should be made during the year ending June 30, 2018.

Note 10: Pension Plan

All full-time employees are participants in the District's Money Purchase Retirement Benefit Plan after twelve consecutive months of employment. Total payroll for the year ended June 30, 2017 was \$809,054 with covered payroll equaling \$635,841. The pension cost to the District is 10 percent of the participants' compensation. Required and accrued contributions to the plan for the year ended June 30, 2017 were \$63,584.

Note 11: Board of Directors

Members of the Board of Directors as of June 30, 2017, were as follows:

Charles Garabedian, Jr.	President
Salvador Cerrillo	Vice President
Irma Castaneda	Director
Frank Cerrillo, Jr.	Director
Carlos Tovar, Jr.	Director

James D. Anderson is the General Manager of the District.

MALAGA COUNTY WATER DISTRICT  
WASTE DISPOSAL FUND  
COMBINING STATEMENT OF REVENUE AND EXPENSE  
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	Business-Type Activities - Waste Disposal Fund				
	2017				2016
	Sewer	Pretreatment	Solid Waste	Total	Total
Operating revenue					
Charges for services	\$ 1,264,371	\$ 182,367	\$ 62,963	\$ 1,509,701	\$ 1,439,222
Other	36,246	14,996		51,242	22,501
Total operating revenue	1,300,617	197,363	62,963	1,560,943	1,461,723
Operating expense					
Salaries and wages	350,072	71,590		421,662	309,689
Depreciation	241,797			241,797	227,759
Professional services	175,561	64,034		239,595	85,585
Employee benefits	197,711	22,622		220,333	190,967
Utilities	98,133			98,133	103,422
Board of directors	83,218			83,218	67,014
Repairs and maintenance	61,944	1,995		63,939	99,941
Refuse collection and disposal			61,792	61,792	66,864
Supplies and small tools	52,047			52,047	
Contract services	37,563	2,236		39,799	19,717
Materials	36,755	997		37,752	71,177
Insurance	35,907	631		36,538	29,131
Testing	22,211	13,814		36,025	74,577
Dues and memberships	31,339	1,503	2,020	34,862	27,786
Rents and leases	21,860	850		22,710	14,904
Education and training	17,467	3,200		20,667	
Other	15,612	2,027	619	18,258	43,465
Telephone	15,276	2,070		17,346	14,343
Office supplies and postage	7,362	1,205	22	8,589	12,345
Travel, meetings and education	7,519	637		8,156	7,960
Fuel and oil	5,918	651		6,569	6,354
Total operating expense	1,515,272	190,062	64,453	1,769,787	1,473,000
Net operating income	(214,655)	7,301	(1,490)	(208,844)	(11,277)
Nonoperating revenue/(expense)					
Grant revenue	74,630			74,630	28,487
Taxes and assessments	37,756		3,021	40,777	
Interest and use of property	8,448		44	8,492	4,683
Other	6,567			6,567	
Interest expense	(45,160)			(45,160)	(50,499)
Net nonoperating revenue/(expense)	82,241		3,065	85,306	(17,329)
Change in net position	\$ (132,414)	\$ 7,301	\$ 1,575	\$ (123,538)	\$ (28,606)

See accompanying notes to financial statements.

# SANBORN & SANBORN ACCOUNTANCY CORPORATION

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## **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***

### **INDEPENDENT AUDITOR'S REPORT**

October 27, 2017

Board of Directors  
Malaga County Water District  
Fresno, California

We have audited, in accordance with the 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 the business-type activities of Malaga County Water District as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 27, 2017.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Malaga County Water District'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. *A significant 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.

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 Malaga County Water District'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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of the 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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Sanborn and Sanborn  
Accountancy Corporation*

CERTIFIED PUBLIC ACCOUNTANTS