

MALAGA COUNTY WATER DISTRICT

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REPORT ON AUDIT OF  
FINANCIAL STATEMENTS

FOR THE TWO YEARS ENDED  
JUNE 30, 2015 AND 2014

MALAGA COUNTY WATER DISTRICT  
REPORT ON AUDIT OF FINANCIAL STATEMENTS  
FOR THE TWO YEARS ENDED JUNE 30, 2015 AND 2014

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# **SANBORN & SANBORN ACCOUNTANCY CORPORATION**

CERTIFIED PUBLIC ACCOUNTANTS

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## **INDEPENDENT AUDITOR'S REPORT**

September 30, 2015

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, 2015 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, 2015 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2015 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, 2015**

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, 2015. 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, 2015 by \$6,430,678. Of this amount, unrestricted net position of \$772,362 may be used to meet the District's ongoing obligations to customers and creditors. As of June 30, 2014, assets exceeded liabilities by \$6,528,872 with unrestricted net position equaling \$1,152,865.
- Total net position decreased by \$98,194 for the year ended June 30, 2015. For the year ended June 30, 2014, total net position increased by \$52,765.
- During the current year, the District's fixed assets decreased by a net of \$198,543. This decrease was mostly attributable to improvements to the wastewater treatment plant less depreciation. Depreciation expense, the ratable amortization of the cost of fixed assets, amounted to \$404,383 for the current year. Prior year depreciation was \$411,243.
- Total debt decreased by a net of \$154,837 during the current year. The decrease was mostly attributable to the repayment of long-term debt. During the prior year, total debt decreased by a net of \$160,790. 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, 2015, the District's assets exceeded liabilities by \$6,430,678. A significant portion of the District's net position (84 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 \$233,035 in net position (four 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

	Business-Type Activities	Current Year Total	Prior Year Total
Current assets	\$ 1,082,433	\$ 1,082,433	\$ 1,359,373
Other assets	<u>8,013,364</u>	<u>8,013,364</u>	<u>7,989,455</u>
Total assets	<u>9,095,797</u>	<u>9,095,797</u>	<u>9,348,828</u>
Current liabilities	310,071	310,071	280,370
Deferred liabilities	<u>2,355,048</u>	<u>2,355,048</u>	<u>2,539,586</u>
Total liabilities	<u>2,665,119</u>	<u>2,665,119</u>	<u>2,819,956</u>
Net position:			
Invested in capital assets, net of related debt	5,425,281	5,425,281	4,968,338
Restricted for capital asset acquisition	233,035	233,035	407,669
Unrestricted	<u>772,362</u>	<u>772,362</u>	<u>1,152,865</u>
Total net position	<u>\$ 6,430,678</u>	<u>\$ 6,430,678</u>	<u>\$ 6,528,872</u>

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

	Business-Type Activities	Current Year Total	Prior Year Total
Program revenue			
Charges for services	\$ 2,433,625	\$ 2,433,625	\$ 2,366,675
Other	<u>29,927</u>	<u>29,927</u>	<u>81,131</u>
Total revenue	<u>2,463,552</u>	<u>2,463,552</u>	<u>2,447,806</u>
Expense			
Waste disposal utility activities	1,477,629	1,477,629	1,251,634
Water utility activities	1,091,136	1,091,136	912,093
Community recreation activities	<u>457,882</u>	<u>457,882</u>	<u>402,842</u>
Total expense	<u>3,026,647</u>	<u>3,026,647</u>	<u>2,566,569</u>
Net operating income/(loss)	(563,095)	(563,095)	(118,763)
Net nonoperating revenue/(expense)	<u>464,901</u>	<u>464,901</u>	<u>171,528</u>
Increase/(decrease) in net position	(98,194)	(98,194)	52,765
Net position, beginning of year	<u>6,528,872</u>	<u>6,528,872</u>	<u>6,476,107</u>
Net position, end of year	<u>\$ 6,430,678</u>	<u>\$ 6,430,678</u>	<u>\$ 6,528,872</u>

**Business-type activities.** Business-type activities decreased the District's net position by \$98,194, 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, 2015, the District's proprietary funds reported a combined ending fund balance of \$6,430,678, a decrease of \$98,194, in comparison to the prior year. Of the entire ending fund balance, \$772,362 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, 2015 amounted to \$7,780,329 (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 \$2,355,048 as of June 30, 2015. Of this total amount, \$104,586 is due and payable during the year ending June 30, 2015. The remainder, referred to as deferred liabilities, is due and payable over the next 19 years.

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

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

The budget for the year ending June 30, 2016 projects a surplus of \$30,927. Revenue is anticipated to increase by \$1,546,456 compared to 2014/2015, while expenses are expected to increase by \$1,417,335. Charges for services are anticipated to increase by \$80,851, while non-operating revenue is expected to increase by \$1,465,605. Salaries, wages and employee benefits are expected to increase by \$23,012 and services and supplies are anticipated to increase by \$1,394,323 compared to 2014/2015.

User rates are not expected to increase during the year ending June 30, 2015.

### **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, 2015

Assets

Current assets

Cash and cash equivalents	\$ 746,876
Accounts receivable	248,149
Prepaid expense	<u>87,408</u>

Total current assets 1,082,433

Other assets

Restricted assets – cash	233,035
Capital assets (net of allowance for depreciation)	<u>7,780,329</u>

Total other assets 8,013,364

Total assets 9,095,797

Liabilities

Current liabilities

Accounts payable and accrued expense	237,745
Compensated absences payable	54,423
Customer deposits	<u>17,903</u>

Total current liabilities 310,071

Noncurrent liabilities

Payable within one year	104,586
Payable after one year	<u>2,250,462</u>

Total noncurrent liabilities 2,355,048

Total liabilities 2,665,119

Net Position

Invested in capital assets, net of related debt	5,425,281
Restricted	233,035
Unrestricted	<u>772,362</u>

Total net position \$ 6,430,678

See accompanying notes to financial statements.

MALAGA COUNTY WATER DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2015

Business-type activities		
Operating revenue		
Charges for services		\$ 2,433,625
Other		<u>29,927</u>
Total operating revenue		2,463,552
Operating expense		
Waste disposal utility activities	\$ 1,477,629	
Water utility activities	1,091,136	
Community recreation activities	<u>457,882</u>	
Total operating expense		<u>3,026,647</u>
Net operating income/(loss)		(563,095)
Net nonoperating revenue/(expense)		<u>464,901</u>
Change in net position		(98,194)
Net position, beginning of year		<u>6,528,872</u>
Net position, end of year		<u>\$ 6,430,678</u>

See accompanying notes to financial statements.

MALAGA COUNTY WATER DISTRICT  
 PROPRIETARY FUNDS  
 COMPARATIVE STATEMENT OF NET POSITION  
 JUNE 30, 2015 AND 2014

	Business-Type Activities - Enterprise Funds				
	2015				2014
	Water	Waste Disposal	Recreation	Total	Total
Assets					
Current assets					
Cash and cash equivalents	\$ 336,094	\$ 336,094	\$ 74,688	\$ 746,876	\$ 1,094,459
Accounts receivable	105,398	142,301	450	248,149	209,905
Prepaid expense	40,946	38,505	7,957	87,408	55,009
Total current assets	482,438	516,900	83,095	1,082,433	1,359,373
Other assets					
Restricted cash		233,035		233,035	407,669
Advances to other activities	2,490,475			2,490,475	2,295,513
Capital assets (net of allowance for depreciation)	2,613,870	4,696,121	470,338	7,780,329	7,581,786
Total other assets	5,104,345	4,929,156	470,338	10,503,839	10,284,968
Total assets	5,586,783	5,446,056	553,433	11,586,272	11,644,341
Liabilities					
Current liabilities					
Accounts payable and accrued expense	93,931	122,939	20,875	237,745	229,506
Compensated absences payable	16,514	23,897	14,012	54,423	41,359
Customer deposits	8,263	8,262	1,378	17,903	9,505
Current portion of notes payable	40,319	64,267		104,586	100,016
Total current liabilities	159,027	219,365	36,265	414,657	380,386
Other liabilities					
Advances from other activities		1,053,048	1,437,427	2,490,475	2,295,513
Noncurrent liabilities					
Notes payable	1,149,366	1,101,096		2,250,462	2,439,570
Total liabilities	1,308,393	2,373,509	1,473,692	5,155,594	5,115,469
Net Position					
Invested in capital assets, net of related debt	1,424,185	3,530,758	470,338	5,425,281	4,968,338
Restricted assets		233,035		233,035	407,669
Unrestricted/(deficit)	2,854,205	(691,246)	(1,390,597)	772,362	1,152,865
Total net position	\$ 4,278,390	\$ 3,072,547	\$ (920,259)	\$ 6,430,678	\$ 6,528,872

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, 2015 AND 2014

	Business-Type Activities - Enterprise Funds				
	2015				2014
	Water	Waste Disposal	Recreation	Total	Total
Operating revenue					
Charges for services	\$ 1,050,554	\$ 1,351,791	\$ 31,280	\$ 2,433,625	\$ 2,366,675
Other	29,397	25,980	(31,250)	24,127	81,131
Total operating revenue	1,079,951	1,377,771	30	2,457,752	2,447,806
Operating expense					
Salaries and wages	191,515	304,422	101,818	597,755	380,934
Employee benefits	155,679	176,842	91,972	424,493	321,144
Depreciation	149,810	212,745	41,828	404,383	411,243
Utilities	179,064	122,124	44,083	345,271	382,828
Professional services	133,997	115,992	3,828	253,817	187,152
Board of directors	101,739	68,239	9,752	179,730	177,423
Materials	33,616	101,619	32,077	167,312	77,319
Repairs and maintenance	25,779	110,369	31,114	167,262	106,892
Contract services	7,374	7,496	76,430	91,300	142,376
Refuse collection and disposal		72,026		72,026	77,155
Insurance	24,664	24,717	5,274	54,655	52,849
Dues and memberships	20,507	31,561	1,099	53,167	36,934
Other	19,141	21,658	5,159	45,958	20,501
Testing	2,530	36,796		39,326	77,757
Rents and leases	6,225	23,905	2,044	32,174	51,256
Travel, meetings and education	13,119	14,685	2,445	30,249	7,484
Telephone	9,747	13,858	4,995	28,600	16,889
Office supplies and postage	8,907	9,648	2,245	20,800	13,566
Fuel and oil	7,723	8,927	1,719	18,369	24,867
Total operating expense	1,091,136	1,477,629	457,882	3,026,647	2,566,569
Net operating income	(11,185)	(99,858)	(457,852)	(568,895)	(118,763)
Nonoperating revenue/(expense)					
Property taxes			269,659	269,659	285,739
Grant revenue		306,088		306,088	
Interest and use of property		7,540	1,368	8,908	8,410
Interest expense	(59,131)	(54,823)		(113,954)	(122,621)
Net nonoperating revenue/(expense)	(59,131)	258,805	271,027	470,701	171,528
Change in net position	(70,316)	158,947	(186,825)	(98,194)	52,765
Net position, beginning of year	4,348,706	2,913,600	(733,434)	6,528,872	6,476,107
Net position, end of year	\$ 4,278,390	\$ 3,072,547	\$ (920,259)	\$ 6,430,678	\$ 6,528,872

See accompanying notes to financial statements.

MALAGA COUNTY WATER DISTRICT  
 PROPRIETARY FUNDS  
 COMPARATIVE STATEMENT OF CASH FLOW  
 FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

Page 1 of 2

	Business-Type Activities - Enterprise Funds				
	2015				2014
	Water	Waste Disposal	Recreation	Total	Total
Cash flow from operating activities					
Receipts from customers and users	\$ 1,087,881	\$ 1,338,749	\$ 32,526	\$ 2,459,156	\$ 2,450,601
Payments to suppliers	(568,616)	(835,730)	(251,080)	(1,655,426)	(1,453,982)
Payments to employees	(343,703)	(474,342)	(191,139)	(1,009,184)	(712,817)
Net cash provided by/(used for) operating activities	175,562	28,677	(409,693)	(205,454)	283,802
Cash flow from noncapital financing activities					
Loans (to)/from other funds	(194,962)	13,164	181,798		
Property taxes and other nonoperating revenue			269,659	269,659	285,739
Net cash provided by/(used for) noncapital financing activities	(194,962)	13,164	451,457	269,659	285,739
Cash flow from capital and related financing activities					
Grant revenue		306,088		306,088	
Principal paid on debt	(77,882)	(106,656)		(184,538)	(228,042)
Interest paid on financing	(59,131)	(54,823)		(113,954)	(122,621)
Purchase of capital assets		(525,037)	(77,889)	(602,926)	(104,963)
Net cash provided by/(used for) capital and related financing activities	(137,013)	(380,428)	(77,889)	(595,330)	(455,626)
Cash flow from investing activities					
Interest and use of property		7,540	1,368	8,908	8,410
Net increase/(decrease) in cash	(156,413)	(331,047)	(34,757)	(522,217)	122,325
Cash, beginning of year	492,507	900,176	109,445	1,502,128	1,379,803
Cash, end of year	\$ 336,094	\$ 569,129	\$ 74,688	\$ 979,911	\$ 1,502,128

See accompanying notes to financial statements.

MALAGA COUNTY WATER DISTRICT  
 PROPRIETARY FUNDS  
 COMPARATIVE STATEMENT OF CASH FLOW  
 FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

Page 2 of 2

	Business-Type Activities - Enterprise Funds				2014
	2015				Total
	Water	Waste Disposal	Recreation	Total	
Reconciliation of operating income to net cash provided by/(used for) operating activities:					
Operating income/(loss)	\$ (11,185)	\$ (99,858)	\$ (457,852)	\$ (568,895)	\$ (118,763)
Adjustments to reconcile operating income/(loss) to net cash provided by/(used for) operating activities					
Depreciation	149,810	212,745	41,828	404,383	411,243
(Increase)/decrease in accounts receivable	4,143	(42,808)	421	(38,244)	2,499
(Increase)/decrease in prepaid expense	(16,192)	(13,751)	(2,456)	(32,399)	(4,567)
Increase/(decrease) in accounts payable	41,708	(38,359)	4,890	8,239	3,833
Increase/(decrease) in compensated absences payable	3,491	6,922	2,651	13,064	(10,739)
Increase/(decrease) in deposits	<u>3,787</u>	<u>3,786</u>	<u>825</u>	<u>8,398</u>	<u>296</u>
Net cash provided by/(used for) operating activities	<u>\$ 175,562</u>	<u>\$ 28,677</u>	<u>\$ (409,693)</u>	<u>\$ (205,454)</u>	<u>\$ 283,802</u>
Summary of cash balances, end of year:					
Cash and cash equivalents	\$ 336,094	\$ 336,094	\$ 74,688	\$ 746,876	\$ 1,094,459
Restricted cash	<u>233,035</u>	<u>233,035</u>	<u>74,688</u>	<u>233,035</u>	<u>407,669</u>
	<u>\$ 336,094</u>	<u>\$ 569,129</u>	<u>\$ 74,688</u>	<u>\$ 979,911</u>	<u>\$ 1,502,128</u>

See accompanying notes to financial statements.

MALAGA COUNTY WATER DISTRICT  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE TWO YEARS ENDED JUNE 30, 2015 AND 2014

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, 2015 AND 2014

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, 2015 AND 2014

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, 2015. 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, 2015 AND 2014

Note 2: Cash

The District's deposits as of June 30, 2015, 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, 2015:

	Bank Balance Category*			Carrying Amount
	1	2	3	
Cash on hand	\$ 19,245	\$	\$	\$ 19,245
Cash in bank	250,000	172,899		422,899
Fresno County Treasury		29,504		29,504
Local Agency Investment Fund		508,263		508,263
	<u>\$ 269,245</u>	<u>\$ 710,666</u>	<u>\$</u>	<u>\$ 979,911</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, 2015:

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
Land*	\$ 599,613	\$	\$	\$ 599,613
Water system	5,015,246			5,015,246
Sewer system	7,192,310	42,849		7,235,159
Buildings	1,133,346			1,133,346
Construction in progress*	193,783	482,187		675,970
Park development	890,799	77,890		968,689
Equipment	401,910			401,910
Total	15,427,007	602,926		16,029,933
Allowance for depreciation	<u>(7,845,221)</u>	<u>(404,383)</u>		<u>(8,249,604)</u>
	<u>\$ 7,581,786</u>	<u>\$ 198,543</u>	<u>\$</u>	<u>\$ 7,780,329</u>

\* Not current being depreciated.

MALAGA COUNTY WATER DISTRICT  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE TWO YEARS ENDED JUNE 30, 2015 AND 2014

Note 4: Noncurrent Liabilities

The following is a summary of deferred liabilities (long-term debt) for the year ended June 30, 2015:

	Beginning Balance	Additions	Deletions	Ending Balance	Classification	
					Due Within One Year	Due After One Year
Note payable - debt refinancing	\$ 750,951	\$	\$ 111,658	\$ 639,293	\$ 57,720	\$ 581,573
Note payable - systems improvements	1,302,851		55,480	1,247,371	28,753	1,218,618
Note payable - wastewater treatment plant improvements	485,784		17,400	468,384	18,112	450,272
	<u>\$2,539,586</u>	<u>\$</u>	<u>\$ 184,538</u>	<u>\$2,355,048</u>	<u>\$ 104,585</u>	<u>\$2,250,463</u>

Note 5: 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.

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, 2016	\$ 14,384	\$ 57,720	\$ 72,104
June 30, 2017	24,843	119,366	144,209
June 30, 2018	19,411	124,798	144,209
June 30, 2019	13,732	130,477	144,209
June 30, 2020	7,794	136,414	144,208
June 30, 2021	1,586	70,518	72,104
	<u>\$ 81,750</u>	<u>\$ 639,293</u>	<u>\$ 721,043</u>

MALAGA COUNTY WATER DISTRICT  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE TWO YEARS ENDED JUNE 30, 2015 AND 2014

Note 6: 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.

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, 2016	\$ 30,249	\$ 28,753	\$ 59,002
June 30, 2017	58,389	59,615	118,004
June 30, 2018	55,462	62,542	118,004
June 30, 2019	52,392	65,612	118,004
June 30, 2020	49,171	68,833	118,004
Five Years Ending June 30, 2025	191,733	398,288	590,021
Five Years Ending June 30, 2030	83,898	506,123	590,021
Two Years Ending June 30, 2030	<u>1,397</u>	<u>57,605</u>	<u>59,002</u>
	<u>\$ 522,691</u>	<u>\$1,247,371</u>	<u>\$1,770,062</u>

Note 7: 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 2014, 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.

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, 2016	\$ 18,788	\$ 18,112	\$ 36,900
June 30, 2017	18,047	18,853	36,900
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
Five Years Ending June 30, 2025	64,405	120,094	184,499
Five Years Ending June 30, 2030	37,746	146,753	184,499
Five Years Ending June 30, 2035	<u>7,441</u>	<u>103,258</u>	<u>110,699</u>
	<u>\$ 195,813</u>	<u>\$ 468,384</u>	<u>\$ 664,197</u>

MALAGA COUNTY WATER DISTRICT  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE TWO YEARS ENDED JUNE 30, 2015 AND 2014

Note 8: Restricted Assets - Cash

As of June 30, 2015, \$233,035 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, 2016.

Note 9: 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, 2015 was \$747,135 with covered payroll equaling \$566,441. 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, 2015 were \$56,644.

Note 10: Board of Directors

Members of the Board of Directors as of June 30, 2015, 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, 2015 AND 2014

	Business-Type Activities - Waste Disposal Fund				
	2015				2014
	Sewer	Pretreatment	Solid Waste	Total	Total
Operating revenue					
Charges for services	\$ 1,253,057	\$ 38,072	\$ 60,662	\$ 1,351,791	\$ 1,224,094
Other	25,911		69	25,980	53,897
Total operating revenue	1,278,968	38,072	60,731	1,377,771	1,277,991
Operating expense					
Salaries and wages	255,181	49,241		304,422	169,155
Employee benefits	156,644	20,198		176,842	134,995
Depreciation	212,745			212,745	212,427
Utilities	122,124			122,124	147,039
Professional services	79,841	36,151		115,992	85,513
Board of directors	67,031	1,208		68,239	67,253
Materials	90,358	11,261		101,619	58,338
Repairs and maintenance	93,080	17,289		110,369	67,534
Contract services	7,496			7,496	30,351
Refuse collection and disposal			72,026	72,026	77,155
Insurance	22,675	2,042		24,717	22,917
Dues and memberships	20,425	11,136		31,561	20,033
Other	17,945	3,713		21,658	15,269
Testing	23,593	13,203		36,796	73,924
Rents and leases	22,555	1,350		23,905	42,259
Travel, meetings and education	13,428	1,257		14,685	658
Telephone	11,664	2,194		13,858	8,400
Office supplies and postage	7,383	2,265		9,648	6,017
Fuel and oil	8,298	629		8,927	12,397
Total operating expense	1,232,466	173,137	72,026	1,477,629	1,251,634
Net operating income	46,502	(135,065)	(11,295)	(99,858)	26,357
Nonoperating revenue/(expense)					
Grant revenue	306,088			306,088	
Interest and use of property	7,540			7,540	7,380
Interest expense	(54,823)			(54,823)	(59,975)
Net nonoperating revenue/(expense)	258,805			258,805	(52,595)
Change in net position	\$ 305,307	\$ (135,065)	\$ (11,295)	\$ 158,947	\$ (26,238)

See accompanying notes to financial statements.

**SANBORN & SANBORN ACCOUNTANCY CORPORATION**  
CERTIFIED PUBLIC ACCOUNTANTS

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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**

September 30, 2015

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, 2015 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 30, 2015.

**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.

Board of Directors  
Malaga County Water District  
September 30, 2015  
Page Two

### **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



