

MALAGA COUNTY WATER DISTRICT

REPORT ON AUDIT OF
FINANCIAL STATEMENTS

FOR THE TWO YEARS ENDED
JUNE 30, 2014 AND 2013

MALAGA COUNTY WATER DISTRICT
REPORT ON AUDIT OF FINANCIAL STATEMENTS
FOR THE TWO YEARS ENDED JUNE 30, 2014 AND 2013

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1 - 2
Management's Discussion and Analysis	3 - 6
Government-wide Financial Statements	
Statement of Net Position	7
Statement of Activities	8
Fund Financial Statements	
Comparative Statement of Net Position – Proprietary Fund	9
Comparative Statement of Revenue, Expense and Changes in Fund Net Position – Proprietary Fund	10
Comparative Statement of Cash Flow – Proprietary Fund	11 - 12
Notes to General Purpose Financial Statements	13 - 19
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	20 - 21

SANBORN & SANBORN ACCOUNTANCY CORPORATION

CERTIFIED PUBLIC ACCOUNTANTS

1423 Eleventh Street
P O Box 1157
Reddley CA 93654

(559) 638-8600
(800) 464 5711
Fax (559) 638-8700

INDEPENDENT AUDITOR'S REPORT

September 29, 2014

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, 2014 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, 2014 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 29, 2014 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, 2014**

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, 2014. 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, 2014 by \$6,528,872. Of this amount, unrestricted net position of \$1,152,865 may be used to meet the District's ongoing obligations to customers and creditors. As of June 30, 2013, assets exceeded liabilities by \$6,476,107 with unrestricted net position equaling \$929,531.
- Total net position increased by \$52,765 for the year ended June 30, 2014. For the year ended June 30, 2013, total net position increased by \$264,561.
- During the current year, the District's fixed assets decreased by a net of \$232,418. 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 \$411,243 for the current year. Prior year depreciation was \$370,106.
- Total debt decreased by a net of \$160,790 during the current year. The decrease was mostly attributable to the repayment of long-term debt. During the prior year, total debt increased by a net of \$981,963. This was mostly due to the acquisition of a loan with which to make wastewater system improvements.

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, 2014, the District's assets exceeded liabilities by \$6,528,872. A significant portion of the District's net position (76 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 \$407,669 in net position (six 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	\$ 1,359,373	\$ 1,359,373	\$ 1,142,649
Other assets	<u>7,989,455</u>	<u>7,989,455</u>	<u>8,314,204</u>
Total assets	<u>9,348,828</u>	<u>9,348,828</u>	<u>9,456,853</u>
Current liabilities	280,370	280,370	213,118
Deferred liabilities	<u>2,539,586</u>	<u>2,539,586</u>	<u>2,767,628</u>
Total liabilities	<u>2,819,956</u>	<u>2,819,956</u>	<u>2,980,746</u>
Net position:			
Invested in capital assets, net of related debt	4,968,338	4,968,338	5,046,576
Restricted for capital asset acquisition	407,669	407,669	500,000
Unrestricted	<u>1,152,865</u>	<u>1,152,865</u>	<u>929,531</u>
Total net position	<u>\$ 6,528,872</u>	<u>\$ 6,528,872</u>	<u>\$ 6,476,107</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	\$ 2,366,675	\$ 2,366,675	\$ 2,649,816
Other	<u>81,131</u>	<u>81,131</u>	<u>76,411</u>
Total revenue	<u>2,447,806</u>	<u>2,447,806</u>	<u>2,726,227</u>
Expense			
Waste disposal utility activities	1,251,634	1,251,634	1,227,898
Water utility activities	912,093	912,093	888,754
Community recreation activities	<u>402,842</u>	<u>402,842</u>	<u>504,975</u>
Total expense	<u>2,566,569</u>	<u>2,566,569</u>	<u>2,621,627</u>
Net operating income/(loss)	(118,763)	(118,763)	104,600
Net nonoperating revenue/(expense)	<u>171,528</u>	<u>171,528</u>	<u>159,961</u>
Increase/(decrease) in net position	52,765	52,765	264,561
Net position, beginning of year	<u>6,476,107</u>	<u>6,476,107</u>	<u>6,211,546</u>
Net position, end of year	<u>\$ 6,528,872</u>	<u>\$ 6,528,872</u>	<u>\$ 6,476,107</u>

Business-type activities. Business-type activities increased the District's net position by \$52,765, 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, 2014, the District's proprietary funds reported a combined ending fund balance of \$6,528,872, an increase of \$52,765, in comparison to the prior year. Of the entire ending fund balance, \$1,152,865 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, 2014 amounted to \$7,581,786 (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 \$2,539,586 as of June 30, 2014. Of this total amount, \$100,016 is due and payable during the year ending June 30, 2014. The remainder, referred to as deferred liabilities, is due and payable over the next 20 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, 2015 projects a surplus of \$340,705. Revenue is anticipated to increase by \$403,125 compared to 2013/2014, while expenses are expected to increase by \$115,185. Charges for services are anticipated to increase by \$285,894, while non-operating revenue is expected to increase by \$117,231. Salaries, wages and employee benefits are expected to increase by \$199,747 and services and supplies are anticipated to decrease by \$84,562 compared to 2013/2014.

User rates are not expected to increase during the year ending June 30, 2014.

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 Secretary, Malaga County Water District, 3580 South Frank Street, Fresno, California 93725.

MALAGA COUNTY WATER DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2014

Assets	
Current assets	\$ 1,094,459
Cash and cash equivalents	209,905
Accounts receivable	<u>55,009</u>
Prepaid expense	
Total current assets	<u>1,359,373</u>
Other assets	407,669
Restricted assets - cash	<u>7,581,786</u>
Capital assets (net of allowance for depreciation)	
Total other assets	<u>7,989,455</u>
Total assets	<u>9,348,828</u>
Liabilities	
Current liabilities	229,506
Accounts payable and accrued expense	41,359
Compensated absences payable	<u>9,505</u>
Customer deposits	
Total current liabilities	<u>280,370</u>
Noncurrent liabilities	100,016
Payable within one year	<u>2,439,570</u>
Payable after one year	
Total noncurrent liabilities	<u>2,539,586</u>
Total liabilities	<u>2,819,956</u>
Net Position	
Invested in capital assets, net of related debt	4,968,338
Restricted	407,669
Unrestricted	<u>1,152,865</u>
Total net position	<u>\$ 6,528,872</u>

See accompanying notes to financial statements.

MALAGA COUNTY WATER DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

Business-type activities		
Operating revenue		\$ 2,366,675
Charges for services		<u>81,131</u>
Other		
Total operating revenue		2,447,806
Operating expense	\$ 1,251,634	
Waste disposal utility activities	912,093	
Water utility activities	<u>402,842</u>	
Community recreation activities		
Total operating expense		<u>2,566,569</u>
Net operating income/(loss)		(118,763)
Net nonoperating revenue/(expense)		<u>171,528</u>
Change in net position		52,765
Net position, beginning of year		<u>6,476,107</u>
Net position, end of year		<u>\$ 6,528,872</u>

See accompanying notes to financial statements.

MALAGA COUNTY WATER DISTRICT
 PROPRIETARY FUNDS
 COMPARATIVE STATEMENT OF NET POSITION
 JUNE 30, 2014 AND 2013

	Business-Type Activities – Enterprise Funds				2013 Total
	2014				
	Water	Waste Disposal	Recreation	Total	
Assets					
Current assets					
Cash and cash equivalents	\$ 492,507	\$ 492,507	\$ 109,445	\$ 1,094,459	\$ 879,803
Accounts receivable	109,541	99,493	871	209,905	212,404
Prepaid expense	24,754	24,754	5,501	55,009	50,442
Total current assets	626,802	616,754	115,817	1,359,373	1,142,649
Other assets					
Restricted cash		407,669		407,669	500,000
Advances to other activities	2,295,513			2,295,513	2,200,940
Capital assets (net of allowance for depreciation)	2,763,680	4,383,829	434,277	7,581,786	7,814,204
Total other assets	5,059,193	4,791,498	434,277	10,284,968	10,515,144
Total assets	5,685,995	5,408,252	550,094	11,644,341	11,657,793
Liabilities					
Current liabilities					
Accounts payable and accrued expense	52,223	161,298	15,985	229,506	151,811
Compensated absences payable	13,023	16,975	11,361	41,359	52,098
Customer deposits	4,476	4,476	553	9,505	9,209
Current portion of notes payable	38,489	61,527		100,016	147,290
Total current liabilities	108,211	244,276	27,899	380,386	360,408
Other liabilities					
Advances from other activities		1,039,884	1,255,629	2,295,513	2,200,940
Noncurrent liabilities					
Notes payable	1,229,078	1,210,492		2,439,570	2,620,338
Total liabilities	1,337,289	2,494,652	1,283,528	5,115,469	5,181,686
Net Position					
Invested in capital assets, net of related debt	1,496,113	3,037,948	434,277	4,968,338	5,046,576
Restricted assets		407,669		407,669	500,000
Unrestricted/(deficit)	2,852,593	(532,017)	(1,167,711)	1,152,865	929,531
Total net position	\$ 4,348,706	\$ 2,913,600	\$ (733,434)	\$ 6,528,872	\$ 6,476,107

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, 2014 AND 2013

	Business-Type Activities - Enterprise Funds				2013 Total
	2014				
	Water	Waste Disposal	Recreation	Total	
Operating revenue					
Charges for services	\$ 1,104,584	\$ 1,224,094	\$ 37,997	\$ 2,366,675	\$ 2,649,816
Other	27,234	53,897		81,131	76,411
Total operating revenue	<u>1,131,818</u>	<u>1,277,991</u>	<u>37,997</u>	<u>2,447,806</u>	<u>2,726,227</u>
Operating expense					
Depreciation	152,000	212,427	46,816	411,243	370,106
Utilities	196,432	147,039	39,357	382,828	328,776
Salaries and wages	131,685	169,155	80,094	380,934	375,862
Employee benefits	106,914	134,995	79,235	321,144	284,573
Professional services	100,971	85,513	668	187,152	209,408
Board of directors	102,068	67,253	8,102	177,423	175,086
Contract services	18,302	30,351	93,723	142,376	232,872
Repairs and maintenance	22,740	67,534	16,618	106,892	116,672
Testing	3,833	73,924		77,757	71,356
Materials		58,338	18,981	77,319	137,098
Refuse collection and disposal		77,155		77,155	68,663
Insurance	24,119	22,917	5,813	52,849	41,160
Rents and leases	5,988	42,259	3,009	51,256	26,867
Dues and memberships	16,647	20,033	254	36,934	39,807
Fuel and oil	10,301	12,397	2,169	24,867	26,331
Other	2,478	15,269	2,754	20,501	64,337
Telephone	4,793	8,400	3,696	16,889	17,515
Office supplies and postage	6,020	6,017	1,529	13,566	17,489
Travel and meetings	6,802	658	24	7,484	17,649
Total operating expense	<u>912,093</u>	<u>1,251,634</u>	<u>402,842</u>	<u>2,566,569</u>	<u>2,621,627</u>
Net operating income	<u>219,725</u>	<u>26,357</u>	<u>(364,845)</u>	<u>(118,763)</u>	<u>104,600</u>
Nonoperating revenue/(expense)					
Property taxes			285,739	285,739	269,721
Interest and use of property	35	7,380	995	8,410	5,357
Interest expense	(62,646)	(59,975)		(122,621)	(115,117)
Net nonoperating revenue/(expense)	<u>(62,611)</u>	<u>(52,595)</u>	<u>286,734</u>	<u>171,528</u>	<u>159,961</u>
Change in net position	157,114	(26,238)	(78,111)	52,765	264,561
Net position, beginning of year	4,191,592	2,939,838	(655,323)	6,476,107	6,211,546
Net position, end of year	<u>\$ 4,348,706</u>	<u>\$ 2,913,600</u>	<u>\$ (733,434)</u>	<u>\$ 6,528,872</u>	<u>\$ 6,476,107</u>

See accompanying notes to financial statements.

MALAGA COUNTY WATER DISTRICT
 PROPRIETARY FUNDS
 COMPARATIVE STATEMENT OF CASH FLOW
 FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

Page 1 of 2

	Business-Type Activities – Enterprise Funds				2013 Total
	2014			Total	
	Water	Waste Disposal	Recreation		
Cash flow from operating activities					
Receipts from customers and users	\$ 1,111,738	\$ 1,301,966	\$ 36,897	\$ 2,450,601	\$ 2,716,665
Payments to suppliers	(523,943)	(716,163)	(213,876)	(1,453,982)	(1,584,174)
Payments to employees	(244,176)	(309,901)	(158,740)	(712,817)	(670,712)
Net cash provided by/(used for) operating activities	343,619	275,902	(335,719)	283,802	461,779
Cash flow from noncapital financing activities					
Loans (to)/from other funds	(94,573)	24,124	70,449		
Property taxes and other nonoperating revenue			285,739	285,739	269,329
Net cash provided by/(used for) noncapital financing activities	(94,573)	24,124	356,188	285,739	269,329
Cash flow from capital and related financing activities					
Loan proceeds					500,000
Principal paid on debt	(89,839)	(138,203)		(228,042)	(98,417)
Interest paid on financing	(62,646)	(59,975)		(122,621)	(97,595)
Purchase of capital assets		(104,963)		(104,963)	(1,420,845)
Net cash provided by/(used for) capital and related financing activities	(152,485)	(303,141)		(455,626)	(1,116,857)
Cash flow from investing activities					
Interest and use of property	35	7,380	995	8,410	5,738
Net increase/(decrease) in cash	96,596	4,265	21,464	122,325	(380,011)
Cash, beginning of year	395,911	895,911	87,981	1,379,803	1,759,814
Cash, end of year	\$ 492,507	\$ 900,176	\$ 109,445	\$ 1,502,128	\$ 1,379,803

See accompanying notes to financial statements.

MALAGA COUNTY WATER DISTRICT
 PROPRIETARY FUNDS
 COMPARATIVE STATEMENT OF CASH FLOW
 FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

Page 2 of 2

	Business-Type Activities – Enterprise Funds				2013 Total
	2014				
	Water	Waste Disposal	Recreation	Total	
Reconciliation of operating income to net cash provided by/(used for) operating activities:					
Operating income/(loss)	\$ 219,725	\$ 26,357	\$ (364,845)	\$ (118,763)	\$ 104,600
Adjustments to reconcile operating income/(loss) to net cash provided by/(used for) operating activities					
Depreciation	152,000	212,427	46,816	411,243	370,106
(Increase)/decrease in accounts receivable	(20,804)	23,251	52	2,499	(12,489)
(Increase)/decrease in prepaid expense	(2,055)	(2,055)	(457)	(4,567)	3,273
Increase/(decrease) in accounts payable	(394)	20,949	(16,722)	3,833	6,186
Increase/(decrease) in compensated absences payable	(5,577)	(5,751)	589	(10,739)	(12,086)
Increase/(decrease) in deposits	<u>724</u>	<u>724</u>	<u>(1,152)</u>	<u>296</u>	<u>2,189</u>
Net cash provided by/(used for) operating activities	<u>\$ 343,619</u>	<u>\$ 275,902</u>	<u>\$ (335,719)</u>	<u>\$ 283,802</u>	<u>\$ 461,779</u>
Summary of cash balances, end of year:					
Cash and cash equivalents	\$ 492,507	\$ 492,507	\$ 109,445	\$ 1,094,459	\$ 879,803
Restricted cash		<u>407,669</u>		<u>407,669</u>	<u>500,000</u>
	<u>\$ 492,507</u>	<u>\$ 900,176</u>	<u>\$ 109,445</u>	<u>\$ 1,502,128</u>	<u>\$ 1,379,803</u>

See accompanying notes to financial statements.

MALAGA COUNTY WATER DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE TWO YEARS ENDED JUNE 30, 2014 AND 2013

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, 2014 AND 2013

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, 2014 AND 2013

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:

	Estimated Useful Life in Years
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, 2014. 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, 2014 AND 2013

Note 2: Cash

The District's deposits as of June 30, 2014, 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, 2014:

	Bank Balance Category*			Carrying Amount
	1	2	3	
Cash on hand	\$ 44,509	\$	\$	\$ 44,509
Cash in bank	250,000	553,611		803,611
Fresno County Treasury		146,984		146,984
Local Agency Investment Fund		507,024		507,024
	<u>\$ 294,509</u>	<u>\$1,207,619</u>	<u>\$</u>	<u>\$1,502,128</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, 2014:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Land*	\$ 599,613	\$	\$	\$ 599,613
Water system	5,015,246			5,015,246
Sewer system	7,192,310			7,192,310
Buildings	1,133,346			1,133,346
Construction in progress*	14,958	178,825		193,783
Park development	890,799			890,799
Equipment	401,910			401,910
Total	15,248,182	178,825		15,427,007
Allowance for depreciation	<u>(7,433,978)</u>	<u>(411,243)</u>		<u>(7,845,221)</u>
	<u>\$ 7,814,204</u>	<u>\$ (232,418)</u>	<u>\$</u>	<u>\$ 7,581,786</u>

* Not current being depreciated.

MALAGA COUNTY WATER DISTRICT
 NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
 FOR THE TWO YEARS ENDED JUNE 30, 2014 AND 2013

Note 4: Noncurrent Liabilities

The following is a summary of deferred liabilities (long-term debt) for the year ended June 30, 2014:

	Beginning Balance	Additions	Deletions	Ending Balance	Classification	
					Due Within One Year	Due After One Year
Note payable - debt refinancing	\$ 909,392	\$	\$ 158,441	\$ 750,951	\$ 55,208	\$ 695,743
Note payable - systems improvements	1,355,736		52,885	1,302,851	27,408	1,275,443
Note payable - wastewater treatment plant improvements	<u>502,500</u>		<u>16,716</u>	<u>485,784</u>	<u>17,400</u>	<u>468,384</u>
	<u>\$2,767,628</u>	<u>\$</u>	<u>\$ 228,042</u>	<u>\$2,539,586</u>	<u>\$ 100,016</u>	<u>\$2,439,570</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, 2015	\$ 16,896	\$ 55,208	\$ 72,104
June 30, 2016	30,039	114,170	144,209
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	<u>1,586</u>	<u>70,518</u>	<u>72,104</u>
	<u>\$ 114,301</u>	<u>\$ 750,951</u>	<u>\$ 865,252</u>

MAJAGA COUNTY WATER DISTRICT
 NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
 FOR THE TWO YEARS ENDED JUNE 30, 2014 AND 2013

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, 2015	\$ 31,594	\$ 27,408	\$ 59,002
June 30, 2016	61,178	56,826	118,004
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
Five Years Ending June 30, 2024	210,370	379,651	590,021
Five Years Ending June 30, 2029	107,580	482,441	590,021
Two Years Ending June 30, 2031	<u>8,250</u>	<u>168,756</u>	<u>177,006</u>
	<u>\$ 585,215</u>	<u>\$ 1,302,851</u>	<u>\$ 1,888,066</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 2013, 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, 2015	\$ 19,500	\$ 17,400	\$ 36,900
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
Five Years Ending June 30, 2024	69,125	115,374	184,499
Five Years Ending June 30, 2029	43,514	140,985	184,499
Five Years Ending June 30, 2034	<u>12,590</u>	<u>135,009</u>	<u>147,599</u>
	<u>\$ 215,313</u>	<u>\$ 485,784</u>	<u>\$ 701,097</u>

MALAGA COUNTY WATER DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE TWO YEARS ENDED JUNE 30, 2014 AND 2013

Note 8: Restricted Asssts - Cash

As of June 30, 2014, \$407,669 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, 2015.

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 was \$375,862 with covered payroll of \$316,709. The cost to the District is 10 percent of the participants' compensation. Required and paid contributions for the year were \$31,671.

Note 10: Board of Directors

Members of the Board of Directors as of June 30, 2014, 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.

SANBORN & SANBORN ACCOUNTANCY CORPORATION

CERTIFIED PUBLIC ACCOUNTANTS

1423 Eleventh Street
P O Box 1057
Reedley CA 93654

(559) 638-8600
(800) 464-5711
Fax (559) 638-8700

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 29, 2014

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, 2014 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 29, 2014.

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

