

MALAGA COUNTY WATER DISTRICT
REPORT ON AUDIT OF FINANCIAL STATEMENTS
FOR THE TWO YEARS ENDED JUNE 30, 2019 AND 2018

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
Supplementary Information	
Combining Statement of Revenue and Expense - Waste Disposal Fund	20
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>	21 - 22

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INDEPENDENT AUDITOR'S REPORT

December 31, 2019

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, 2019 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, 2019 and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages three through six be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2019 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, 2019**

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, 2019. 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, 2019 by \$7,936,298. Of this amount, unrestricted net position of \$17,749 may be used to meet the District's ongoing obligations to customers and creditors. As of June 30, 2018, assets exceeded liabilities by \$7,050,419 with unrestricted net position equaling \$1,449,169.
- Total net position increased by \$885,879 for the year ended June 30, 2019. For the year ended June 30, 2018, total net position increased by \$83,531.
- During the current year, the District's fixed assets increased by a net of \$1,535,875. This increase was mostly attributable to the purchase of improvements to the water system and parks and recreation assets less depreciation. Depreciation expense, the ratable amortization of the cost of fixed assets, amounted to \$444,341 for the current year. Prior year depreciation was \$442,566.
- Total debt increased by a net of \$1,039,993 during the current year. The increase was mostly attributable to the acquisition of a loan to finance improvements to parks and recreation assets. During the prior year, total debt decreased by a net of \$241,063. This was mostly due to the repayment of long-term debt less increases in accounts payable and accrued expense.

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, 2019, the District's assets exceeded liabilities by \$7,936,298. A significant portion of the District's net position (90 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 \$815,487 in net position (ten percent) that is restricted to make improvements to water facilities and parks and recreation assets.

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	\$ 1,670,072	\$ 1,670,072	\$ 1,804,899
Other assets	<u>9,628,759</u>	<u>9,628,759</u>	<u>7,349,989</u>
Total assets	<u>11,298,831</u>	<u>11,298,831</u>	<u>9,154,888</u>
Current liabilities	836,836	836,836	355,730
Deferred liabilities	<u>2,525,697</u>	<u>2,525,697</u>	<u>1,748,739</u>
Total liabilities	<u>3,362,533</u>	<u>3,362,533</u>	<u>2,104,469</u>
Net position:			
Invested in capital assets, net of related debt	7,103,062	7,103,062	5,528,658
Restricted for capital asset acquisition	815,487	815,487	72,592
Unrestricted	<u>17,749</u>	<u>17,749</u>	<u>1,449,169</u>
Total net position	<u>\$ 7,936,298</u>	<u>\$ 7,936,298</u>	<u>\$ 7,050,419</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	\$ 3,231,677	\$ 3,231,677	\$ 2,984,380
Other	<u>124,037</u>	<u>124,037</u>	<u>91,207</u>
Total revenue	<u>3,355,714</u>	<u>3,355,714</u>	<u>3,075,587</u>
Expense			
Waste disposal utility activities	2,217,851	2,217,851	1,810,373
Water utility activities	1,200,476	1,200,476	1,128,025
Community recreation activities	<u>581,699</u>	<u>581,699</u>	<u>543,605</u>
Total expense	<u>4,000,026</u>	<u>4,000,026</u>	<u>3,482,003</u>
Net operating income/(loss)	(644,312)	(644,312)	(406,416)
Net nonoperating revenue/(expense)	<u>1,530,191</u>	<u>1,530,191</u>	<u>489,947</u>
Increase/(decrease) in net position	885,879	885,879	83,531
Net position, beginning of year	<u>7,050,419</u>	<u>7,050,419</u>	<u>6,966,888</u>
Net position, end of year	<u>\$ 7,936,298</u>	<u>\$ 7,936,298</u>	<u>\$ 7,050,419</u>

Business-type activities. Business-type activities increased the District's net position by \$885,879, 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, 2019, the District's proprietary funds reported a combined ending fund balance of \$7,936,298, an increase of \$885,879, in comparison to the prior year. Of the entire ending fund balance, \$17,749 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, 2019 amounted to \$8,813,272 (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 \$2,525,697 as of June 30, 2019. Of this total amount, \$178,558 is due and payable during the year ending June 30, 2019. The remainder, referred to as deferred liabilities, is due and payable over the next 15 years.

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

Economic Factors and Next Year's Budgets and Rates

The budget for the year ending June 30, 2020 projects a surplus of \$439,437. Revenue is anticipated to decrease by \$773,925 compared to 2018/2019, while expenses are expected to decrease by \$327,483. Operating revenue is anticipated to decrease by \$438,834, while non-operating revenue is expected to decrease by \$335,091. Salaries, wages and employee benefits are expected to increase by \$163,381 and services and supplies are anticipated to decrease by \$490,864 compared to 2018/2019.

User rates are not expected to increase during the year ending June 30, 2020.

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, 2019

Assets

Current assets

Cash and cash equivalents	\$ 1,263,811
Accounts receivable	300,382
Prepaid expense	<u>105,879</u>

Total current assets	<u>1,670,072</u>
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Other assets

Restricted assets – cash	815,487
Capital assets (net of allowance for depreciation)	<u>8,813,272</u>

Total other assets	<u>9,628,759</u>
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Total assets	<u>11,298,831</u>
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Liabilities

Current liabilities

Accounts payable and accrued expense	796,230
Customer deposits	<u>40,606</u>

Total current liabilities	<u>836,836</u>
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Noncurrent liabilities

Payable within one year	178,558
Payable after one year	<u>2,347,139</u>

Total noncurrent liabilities	<u>2,525,697</u>
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Total liabilities	<u>3,362,533</u>
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Net Position

Invested in capital assets, net of related debt	7,103,062
Restricted	815,487
Unrestricted	<u>17,749</u>

Total net position	<u>\$ 7,936,298</u>
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See accompanying notes to financial statements.

MALAGA COUNTY WATER DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

Business-type activities		
Operating revenue		
Charges for services		\$ 3,231,677
Other		<u>124,037</u>
Total operating revenue		3,355,714
Operating expense		
Waste disposal utility activities	\$ 2,217,851	
Water utility activities	1,200,476	
Community recreation activities	<u>581,699</u>	
Total operating expense		<u>4,000,026</u>
Net operating income/(loss)		(644,312)
Net nonoperating revenue/(expense)		<u>1,530,191</u>
Change in net position		885,879
Net position, beginning of year		<u>7,050,419</u>
Net position, end of year		<u>\$ 7,936,298</u>

See accompanying notes to financial statements.

MALAGA COUNTY WATER DISTRICT
 PROPRIETARY FUNDS
 COMPARATIVE STATEMENT OF NET POSITION
 JUNE 30, 2019 AND 2018

	Business-Type Activities - Enterprise Funds				
	2019				2018
	Water	Waste Disposal	Recreation	Total	Total
Assets					
Current assets					
Cash and cash equivalents	\$ 505,080	\$ 506,423	\$ 252,308	\$ 1,263,811	\$ 1,383,670
Accounts receivable	72,264	228,118		300,382	324,566
Prepaid expense	44,008	41,643	20,228	105,879	96,663
Total current assets	621,352	776,184	272,536	1,670,072	1,804,899
Other assets					
Restricted cash		44,060	771,427	815,487	72,592
Advances to other activities	3,096,587			3,096,587	3,314,658
Capital assets (net of allowance for depreciation)	3,923,863	4,262,893	626,516	8,813,272	7,277,397
Total other assets	7,020,450	4,306,953	1,397,943	12,725,346	10,664,647
Total assets	7,641,802	5,083,137	1,670,479	14,395,418	12,469,546
Liabilities					
Current liabilities					
Accounts payable and accrued expense	163,344	254,827	378,059	796,230	320,783
Customer deposits	20,303	20,303		40,606	34,947
Current portion of notes payable	48,554	76,504	53,500	178,558	127,314
Total current liabilities	232,201	351,634	431,559	1,015,394	483,044
Other liabilities					
Advances from other activities		1,481,023	1,615,564	3,096,587	3,314,658
Noncurrent liabilities					
Notes payable	790,768	611,871	944,500	2,347,139	1,621,425
Total liabilities	1,022,969	2,444,528	2,991,623	6,459,120	5,419,127
Net Position					
Invested in capital assets, net of related debt	3,084,541	3,618,578	399,943	7,103,062	5,528,658
Nonspendable	3,097,066			3,097,066	
Restricted assets		44,060	771,427	815,487	72,592
Unrestricted/(deficit)	437,226	(1,024,029)	(2,492,514)	(3,079,317)	1,449,169
Total net position	\$ 6,618,833	\$ 2,638,609	\$ (1,321,144)	\$ 7,936,298	\$ 7,050,419

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, 2019 AND 2018

	Business-Type Activities - Enterprise Funds				
	2019				2018
	Water	Waste Disposal	Recreation	Total	Total
Operating revenue					
Charges for services	\$ 1,271,034	\$ 1,917,581	\$ 43,062	\$ 3,231,677	\$ 2,984,380
Other	43,179	66,971	13,887	124,037	91,207
Total operating revenue	1,314,213	1,984,552	56,949	3,355,714	3,075,587
Operating expense ³⁰					
Salaries and wages	267,998	457,410	138,187	863,595	850,257
Employee benefits	153,013	230,685	107,849	491,547	473,235
Refuse collection and disposal	515	442,241	3,077	445,833	207,824
Depreciation	155,018	244,603	44,720	444,341	442,566
Utilities	186,916	131,895	54,029	372,840	345,335
Professional services	126,919	127,127		254,046	305,366
Repairs and maintenance	28,098	168,043	36,152	232,293	137,569
Board of directors	100,524	100,524		201,048	173,904
Contract services	30,755	51,884	55,378	138,017	124,453
Insurance	22,163	44,460	22,345	88,968	75,613
Supplies and small tools	2,720	28,491	19,800	51,011	85,229
Dues and memberships	21,322	40,387	1,054	62,763	60,646
Other	6,258	12,826	35,328	54,412	36,665
Telephone	10,033	26,599	7,718	44,350	39,615
Testing	5,022	37,383		42,405	54,943
Travel, meetings and education	14,879	6,605	1,048	22,532	17,518
Fuel and oil	4,102	5,956	7,101	17,159	14,922
Bank charges	9,189	7,521	67	16,777	
Office supplies and postage	6,761	7,946	306	15,013	17,542
Rents and leases	3,244	7,110	2,041	12,395	14,529
Education and training	772	3,378	1,875	6,025	4,272
Total operating expense	1,156,221	2,183,074	538,075	3,877,370	3,482,003
Net operating income/(loss)	157,992	(198,522)	(481,126)	(521,656)	(406,416)
Nonoperating revenue/(expense)					
Grant revenue	1,042,953	13,485	70,041	1,126,479	186,553
Taxes and assessments	2,710	1,823	357,477	362,010	341,821
Other	2,400		27,711	30,111	22,610
Interest and use of property	4,875	6,077	639	11,591	26,411
Interest expense	(44,255)	(34,777)	(43,624)	(122,656)	(87,448)
Net nonoperating revenue/(expense)	1,008,683	(13,392)	412,244	1,407,535	489,947
Change in net position	1,166,675	(211,914)	(68,882)	885,879	83,531
Net position, beginning of year	5,452,158	2,850,523	(1,252,262)	7,050,419	6,966,888
Net position, end of year	\$ 6,618,833	\$ 2,638,609	\$ (1,321,144)	\$ 7,936,298	\$ 7,050,419

See accompanying notes to financial statements.

MALAGA COUNTY WATER DISTRICT
 PROPRIETARY FUNDS
 COMPARATIVE STATEMENT OF CASH FLOW
 FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

Page 1 of 2

	Business-Type Activities - Enterprise Funds				
	2019				2018
	Water	Waste Disposal	Recreation	Total	Total
Cash flow from operating activities					
Receipts from customers and users	\$ 1,396,630	\$ 1,951,807	\$ 62,569	\$ 3,411,006	\$ 3,057,449
Payments to suppliers	(619,412)	(1,231,561)	(242,797)	(2,093,770)	(1,695,934)
Payments to employees	(419,601)	(686,685)	(258,641)	(1,364,927)	(1,334,146)
Net cash provided by/(used for) operating activities	357,617	33,561	(438,869)	(47,691)	27,369
Cash flow from noncapital financing activities					
Advances (to)/from other funds	218,071	(101,821)	(116,250)		
Property taxes and other nonoperating revenue	5,110	1,823	385,188	392,121	364,431
Net cash provided by/(used for) noncapital financing activities	223,181	(99,998)	268,938	392,121	364,431
Cash flow from capital and related financing activities					
Grant revenue	1,042,953	13,485	70,041	1,126,479	186,553
Proceeds from construction loan			1,026,500	1,026,500	
Principal paid on long-term debt	(24,952)	(64,984)	(28,500)	(118,436)	(211,288)
Interest paid on financing	(44,255)	(34,800)	(13,382)	(92,437)	(87,448)
Purchase of capital assets	(1,678,896)			(1,678,896)	(218,622)
Net cash provided by/(used for) capital and related financing activities	(705,150)	(86,299)	1,054,659	263,210	(330,805)
Cash flow from investing activities					
Interest and use of property	6,781	7,976	639	15,396	26,411
Net increase/(decrease) in cash	(117,571)	(144,760)	885,367	623,036	87,406
Cash, beginning of year	622,651	695,243	138,368	1,456,262	1,368,856
Cash, end of year	\$ 505,080	\$ 550,483	\$ 1,023,735	\$ 2,079,298	\$ 1,456,262

See accompanying notes to financial statements.

MALAGA COUNTY WATER DISTRICT
 PROPRIETARY FUNDS
 COMPARATIVE STATEMENT OF CASH FLOW
 FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

Page 2 of 2

	Business-Type Activities - Enterprise Funds				
	2019				2018
	Water	Waste Disposal	Recreation	Total	Total
Reconciliation of operating income to net cash provided by/(used for) operating activities:					
Operating income/(loss)	\$ 157,992	\$ (198,522)	\$ (481,126)	\$ (521,656)	\$ (406,416)
Adjustments to reconcile operating income/(loss) to net cash provided by/(used for) operating activities					
Depreciation	155,018	244,603	44,720	444,341	442,566
(Increase)/decrease in accounts receivable	64,961	(50,202)	5,620	20,379	(21,053)
(Increase)/decrease in prepaid expense	(12,693)	8,614	(5,137)	(9,216)	(9,672)
Increase/(decrease) in accounts payable	(10,491)	26,239	(2,946)	12,802	19,029
Increase/(decrease) in deposits	<u>2,830</u>	<u>2,829</u>		<u>5,659</u>	<u>2,915</u>
Net cash provided by/(used for) operating activities	<u>\$ 357,617</u>	<u>\$ 33,561</u>	<u>\$ (438,869)</u>	<u>\$ (47,691)</u>	<u>\$ 27,369</u>
Summary of cash balances, end of year:					
Cash and cash equivalents	\$ 505,080	\$ 506,423	\$ 252,308	\$ 1,263,811	\$ 1,383,670
Restricted cash		<u>44,060</u>	<u>771,427</u>	<u>815,487</u>	<u>72,592</u>
	<u>\$ 505,080</u>	<u>\$ 550,483</u>	<u>\$ 1,023,735</u>	<u>\$ 2,079,298</u>	<u>\$ 1,456,262</u>

See accompanying notes to financial statements.

MALAGA COUNTY WATER DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE TWO YEARS ENDED JUNE 30, 2019 AND 2018

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, 2019 AND 2018

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, 2019 AND 2018

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, 2019. 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, 2019 AND 2018

Note 2: Cash

The District's deposits as of June 30, 2019, 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, 2019:

	Bank Balance Category*			Carrying Amount
	1	2	3	
Cash on hand	\$ 52,200	\$	\$	\$ 52,200
Cash in bank	551,078	1,445,578		1,996,656
Fresno County Treasury		27,446		27,446
Local Agency Investment Fund		2,996		2,996
	<u>\$ 603,278</u>	<u>\$1,476,020</u>	<u>\$</u>	<u>\$2,079,298</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, 2019:

	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019
Land*	\$ 599,613	\$	\$	\$ 599,613
Water system	5,085,566			5,085,566
Sewer system	7,365,626			7,365,626
Buildings	1,169,276			1,169,276
Construction in progress*	1,035,180	1,980,216		3,015,396
Park development	968,689			968,689
Equipment	609,072			609,072
Total	16,833,022	1,980,216		18,813,238
Allowance for depreciation	(9,555,625)	(444,341)		(9,999,966)
	<u>\$ 7,277,397</u>	<u>\$1,535,875</u>	<u>\$</u>	<u>\$ 8,813,272</u>

* Not currently being depreciated.

MALAGA COUNTY WATER DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE TWO YEARS ENDED JUNE 30, 2019 AND 2018

Note 4: Subsequent Events

Events affecting the District subsequent to June 30, 2019 through December 31, 2019 have been evaluated and included within these financial statements when applicable.

Note 5: Noncurrent Liabilities

The following is a summary of deferred liabilities (long-term debt) for the year ended June 30, 2019:

	Beginning Balance	Additions	Deletions	Ending Balance	Classification	
					Due Within One Year	Due After One Year
Note payable - debt refinancing	\$ 272,896	\$	\$ 133,412	\$ 139,484	\$ 68,966	\$ 70,518
Note payable – water and sewer systems improvements	1,064,048		67,203	996,845	34,829	962,016
Note payable – parks and recreation improvements		1,026,500	28,500	998,000	53,500	944,500
Note payable - wastewater treatment plant improvements	411,795		20,427	391,368	21,263	370,105
	<u>\$1,748,739</u>	<u>\$1,026,500</u>	<u>\$ 249,542</u>	<u>\$2,525,697</u>	<u>\$ 178,558</u>	<u>\$2,347,139</u>

Note 6: Note Payable – Debt Refinancing

Long-term debt outstanding on June 30, 2010 was refinanced on July 26, 2010. The debt was originally incurred to make improvements to the water and sewer systems. The total amount of the refinanced debt was \$1,151,053 and provides for interest at the rate of 4.50 percent per annum. Semi-annual payments of principal and interest began January 2011, and continue until paid. Full repayment of the loan is scheduled to occur in July 2020. The Water Fund finances this debt to the extent of 30 percent of the payments due and the Waste Disposal Fund finances 70 percent of the payments. Interest paid on this loan for the year ended June 30, 2019 was \$16,603.

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, 2020	\$ 3,138	\$ 68,966	\$ 72,104
June 30, 2021	<u>1,587</u>	<u>70,518</u>	<u>72,105</u>
	<u>\$ 4,725</u>	<u>\$ 139,484</u>	<u>\$ 144,209</u>

MALAGA COUNTY WATER DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE TWO YEARS ENDED JUNE 30, 2019 AND 2018

Note 7: Note Payable – Systems Improvements

This debt was incurred to finance the construction of water well number eight and improvements to the sewer system. The total amount of the debt was \$1,500,000 and provides for interest at the rate of 4.85 percent per annum. Semi-annual payments of principal and interest began January 2011, and continue until paid. Full repayment of the loan is scheduled to occur in July 2030. The Water Fund finances this debt to the extent of 80 percent of the payments due and the Waste Disposal Fund finances 20 percent of the payments. Interest paid on this loan for the year ended June 30, 2019 was \$50,960.

Future payments of the bonds are as follows:

<u>Due during the year(s) ending</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
June 30, 2020	\$ 24,173	\$ 34,829	\$ 59,002
June 30, 2021	45,793	72,211	118,004
June 30, 2022	42,248	75,756	118,004
June 30, 2023	38,529	79,475	118,004
June 30, 2024	34,628	83,376	118,004
Five Years Ending June 30, 2029	107,579	482,442	590,021
Five Years Ending June 30, 2034	<u>8,250</u>	<u>168,756</u>	<u>177,006</u>
	<u>\$ 301,200</u>	<u>\$ 996,845</u>	<u>\$1,298,045</u>

Note 8: Note Payable – Wastewater Treatment Plant Improvements

This debt was incurred to finance the construction of wastewater treatment plant improvements. The total amount of the debt was \$502,500 and provides for interest at the rate of 4.05 percent per annum. Semi-annual payments of principal and interest began December 2018, and continue until paid. Full repayment of the loan is scheduled to occur in June 2033. The Waste Disposal Fund finances this debt to the extent of 100 percent of the payments. Interest paid on this loan for the year ended June 30, 2019 was \$16,450.

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, 2020	\$ 15,637	\$ 21,263	\$ 36,900
June 30, 2021	14,768	22,132	36,900
June 30, 2022	13,862	23,038	36,900
June 30, 2023	12,920	23,980	36,900
June 30, 2024	11,939	24,961	36,900
Five Years Ending June 30, 2029	43,513	140,986	184,499
Five Years Ending June 30, 2034	<u>12,591</u>	<u>135,008</u>	<u>147,599</u>
	<u>\$ 125,230</u>	<u>\$ 391,368</u>	<u>\$ 516,598</u>

MALAGA COUNTY WATER DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE TWO YEARS ENDED JUNE 30, 2019 AND 2018

Note 9: Note Payable – Parks and Recreation Improvements

This debt was incurred to finance improvements to parks and recreation department assets. The total amount of the debt was \$1,026,500 and provides for interest at the rate of 3.690 percent per annum. Semi-annual payments of principal and interest began June 2019, and continue until paid. Full repayment of the loan is scheduled to occur in December 2033. The Parks and Recreation Fund finances this debt. Interest paid on this loan for the year ended June 30, 2019 was \$43,624, including a loan fee of \$24,464.

Future payments of the bonds are as follows:

<u>Due during the year(s) ending</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
June 30, 2020	\$ 36,347	\$ 53,500	\$ 89,847
June 30, 2021	34,355	55,500	89,855
June 30, 2022	32,278	57,500	89,778
June 30, 2023	30,138	59,500	89,638
June 30, 2024	27,924	61,500	89,424
Five Years Ending June 30, 2029	103,604	342,500	446,104
Five Years Ending June 30, 2034	<u>34,779</u>	<u>368,000</u>	<u>402,779</u>
	<u>\$ 299,425</u>	<u>\$ 998,000</u>	<u>\$1,297,425</u>

Note 10: Restricted Assets - Cash

As of June 30, 2019, \$815,487 in cash is restricted for the improvements to the wastewater treatment plant and parks and recreation assets. This amount is not available for spending for other purposes. The improvements to the wastewater treatment plant and the parks and recreation assets should be made during the year ending June 30, 2020.

Note 11: 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, 2019 was \$863,595 with covered payroll equaling \$775,220. 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, 2019 were \$77,522.

Note 12: Board of Directors

Members of the Board of Directors as of June 30, 2019, were as follows:

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

MALAGA COUNTY WATER DISTRICT
WASTE DISPOSAL FUND
COMBINING STATEMENT OF REVENUE AND EXPENSE
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	Business-Type Activities - Waste Disposal Fund				
	2019				2018
	Sewer	Pretreatment	Solid Waste	Total	Total
Operating revenue					
Charges for services	\$ 1,312,957	\$ 173,078	\$ 431,546	\$ 1,917,581	\$ 1,665,361
Other	28,137	38,834		66,971	47,202
Total operating revenue	1,341,094	211,912	431,546	1,984,552	1,712,563
Operating expense					
Salaries and wages	388,167	69,243		457,410	458,365
Refuse collection and disposal	4,552		437,689	442,241	207,824
Depreciation	244,603			244,603	244,379
Employee benefits	198,595	32,090		230,685	219,303
Repairs and maintenance	160,286	7,757		168,043	75,241
Utilities	131,895			131,895	121,397
Professional services	125,398	1,729		127,127	148,183
Board of directors	100,524			100,524	86,941
Contract services	42,922	8,962		51,884	36,092
Insurance	22,297	22,163		44,460	32,157
Dues and memberships	29,380	11,007		40,387	37,370
Testing	27,457	9,926		37,383	51,565
Supplies and small tools	28,008	483		28,491	30,576
Telephone	22,922	3,677		26,599	21,638
Other	10,619	2,207		12,826	6,807
Office supplies and postage	6,188	1,758		7,946	9,486
Bank charges	7,521			7,521	
Rents and leases	6,331	779		7,110	7,570
Travel, meetings and education	6,569	36		6,605	5,741
Fuel and oil	4,290	1,666		5,956	6,655
Education and training	2,660	718		3,378	3,083
Total operating expense	1,571,184	174,201	437,689	2,183,074	1,810,373
Net operating income	(230,090)	37,711	(6,143)	(198,522)	(97,810)
Nonoperating revenue/(expense)					
Grant revenue	13,485			13,485	45,345
Taxes and assessments	992		831	1,823	36,178
Other					12,718
Interest and use of property	6,011		66	6,077	6,521
Interest expense	(34,777)			(34,777)	(46,026)
Net nonoperating revenue/(expense)	(14,289)		897	(13,392)	54,736
Change in net position	\$ (244,379)	\$ 37,711	\$ (5,246)	\$ (211,914)	\$ (43,074)

See accompanying notes to financial statements.

SANBORN & SANBORN ACCOUNTANCY CORPORATION

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

INDEPENDENT AUDITOR'S REPORT

December 31, 2019

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, 2019 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 31, 2019.

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