



MALAGA COUNTY WATER DISTRICT

**INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS
JUNE 30, 2022**

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**MALAGA COUNTY WATER DISTRICT
BOARD OF DIRECTORS AND ADMINISTRATION
JUNE 30, 2022**

Board of Directors

Charles E. Garabedian Jr. President

Salvador Cerrillo Jr. Vice-President

Irma Castaneda Director

Frank A. Cerrillo, Jr. Director

Carlos Tovar, Jr. Director

Administration

Moises Ortiz General Manager

Norma Melendez Clerk



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Malaga County Water District

Opinion

We have audited the accompanying financial statements of the business-type activities and each major fund of the Malaga County Water District (District) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the District as of June 30, 2022, and the respective changes in financial position, and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Malaga County Water District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Malaga County Water District's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not

detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Malaga County Water District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Malaga County Water District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on page 5-8 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the 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.

Management has omitted the budgetary comparison information that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 17, 2023, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Malaga County Water District's 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 Malaga County Water District's internal control over financial reporting and compliance.

Jaribu W. Nelson, CPA

Clovis, California

July 17, 2023

MALAGA COUNTY WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2022

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, 2022. 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, 2022, by \$7,154,941. Of this amount, unrestricted net position of \$899,314 may be used to meet the District's ongoing obligations to customers and creditors. As of June 30, 2021, assets exceeded liabilities by \$7,931,065 with unrestricted net position equaling \$1,307,035.
- Total net position decreased by \$605,463 for the year ended June 30, 2022. For the year ended June 30, 2021, total net position decreased by \$129,182.
- During the current year, the District's fixed assets increased by a net of \$108,187. 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 \$430,176 for the current year. Prior year depreciation was \$380,449.
- Total debt decreased by a net of \$97,354 during the current year. The decrease was mostly attributable to the debt service payments. During the prior year, total debt increased by a net of \$225,029. This was mostly attributable to the acquisition of a loan to finance improvements to safe water drinking.

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.

**MALAGA COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
YEAR ENDED JUNE 30, 2022**

Financial Highlights (continued)

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 four proprietary funds, the Water Fund, the Waste Disposal Fund, the Recreation Fund, and the Solid Waste.

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, 2022, the District's assets exceeded liabilities by \$7,154,941. A significant portion of the District's net position (83 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 \$397,091 in net position (two 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
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
YEAR ENDED JUNE 30, 2022**

Malaga County Water District's Net Position

| | Business-Type Activities | Total | Prior Year Total |
|---|-----------------------------|---------------------|---------------------|
| ASSETS | | | |
| Current assets | \$ 2,581,907 | \$ 2,581,907 | \$ 1,870,192 |
| Other assets | 8,677,373 | 8,677,373 | 9,143,130 |
| Total assets | <u>11,259,280</u> | <u>11,259,280</u> | <u>11,013,322</u> |
| LIABILITIES | | | |
| Current liabilities | 1,682,593 | 1,682,593 | 563,157 |
| Deferred liabilities | <u>2,421,746</u> | <u>2,421,746</u> | <u>2,519,100</u> |
| Total liabilities | <u>4,104,339</u> | <u>4,104,339</u> | <u>3,082,257</u> |
| NET POSITION | | | |
| Net investment in capital assets, net of related debt | 5,858,536 | 5,858,536 | 6,083,171 |
| Restricted | 397,091 | 397,091 | 540,859 |
| Unrestricted | <u>899,314</u> | <u>899,314</u> | <u>1,307,035</u> |
| Total net position | <u>\$ 7,154,941</u> | <u>\$ 7,154,941</u> | <u>\$ 7,931,065</u> |

Malaga County Water District's Changes in Net Position

| | Business-Type Activities | Current Year Total | Prior Year Total (as restated) |
|-------------------------------------|-----------------------------|-----------------------|--------------------------------------|
| REVENUE | | | |
| Program revenue | | | |
| Charges for services | \$ 3,111,463 | \$ 3,111,463 | \$ 3,143,493 |
| Other | <u>102,949</u> | <u>102,949</u> | <u>90,224</u> |
| Total Revenues | <u>3,214,412</u> | <u>3,214,412</u> | <u>3,233,717</u> |
| EXPENSE | | | |
| Waste disposal utility activities | 1,956,249 | 1,956,249 | 1,643,970 |
| Water utility activities | 1,431,059 | 1,431,059 | 1,388,990 |
| Solid waste activities | 499,231 | 499,231 | 457,333 |
| Community recreation activities | <u>665,709</u> | <u>665,709</u> | <u>322,000</u> |
| Total Expenses | <u>4,552,248</u> | <u>4,552,248</u> | <u>3,812,293</u> |
| Net operating income/(loss) | (1,337,836) | (1,337,836) | (578,576) |
| Net nonoperating revenue/(expense) | <u>732,373</u> | <u>732,373</u> | <u>449,394</u> |
| Increase/(decrease) in net position | (605,463) | (605,463) | (129,182) |
| Net position, beginning of year | <u>7,760,404</u> | <u>7,760,404</u> | <u>8,060,247</u> |
| Net position, end of year | <u>\$ 7,154,941</u> | <u>\$ 7,154,941</u> | <u>\$ 7,931,065</u> |

**MALAGA COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
YEAR ENDED JUNE 30, 2022**

Business-type activities. Business-type activities decreased the District's net position by \$605,463, accounting for 100 percent of the total decrease 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, 2022, the District's proprietary funds reported a combined ending fund balance of \$7,154,941, an decrease of \$605,463, and a restatement of beginning net position totaling \$170,661. Of the entire ending fund balance, \$899,314 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, 2022, amounted to \$8,280,282 (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 \$2,421,746 as of June 30, 2022. Of this total amount, \$196,492 is due and payable during the year ending June 30, 2023. The remainder, referred to as deferred liabilities, is due and payable over the next 21 years.

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

Economic Factors and Next Year's Budgets and Rates

The budget for the year ending June 30, 2023, projects a surplus of \$192,525. Revenue is anticipated to decrease by \$38,098 compared to 2021/2022, while expenses are expected to decrease by \$13,401. Charges for services are anticipated to decrease by \$17,347, while non-operating revenue is expected to increase by \$24,811. Salaries, wages and employee benefits are expected to decrease by \$53,203 and services and supplies are anticipated to decrease by \$39,802 compared to 2021/2022.

User rates are not expected to increase during the year ending June 30, 2023.

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, 2022

ASSETS

| | |
|----------------------|------------------|
| Cash and investments | \$ 2,151,823 |
| Accounts receivable | 350,484 |
| Prepays | <u>79,600</u> |
| Total current assets | <u>2,581,907</u> |

OTHER ASSETS

| | |
|---|------------------|
| Restricted assets - cash | 397,091 |
| Capital assets, net of allowance for depreciation | <u>8,280,282</u> |

| | |
|--------------------|------------------|
| Total other assets | <u>8,677,373</u> |
|--------------------|------------------|

| | |
|--------------|--------------------------|
| Total assets | <u><u>11,259,280</u></u> |
|--------------|--------------------------|

LIABILITIES

| | |
|--------------------------------------|---------------|
| Accounts payable and accrued expense | 1,640,527 |
| Customer deposits payable | <u>42,066</u> |

| | |
|---------------------------|------------------|
| Total current liabilities | <u>1,682,593</u> |
|---------------------------|------------------|

NONCURRENT LIABILITIES

| | |
|---------------------------|------------------|
| Due within one year | 196,492 |
| Due in more than one year | <u>2,225,254</u> |

| | |
|------------------------------|------------------|
| Total Noncurrent liabilities | <u>2,421,746</u> |
|------------------------------|------------------|

NET POSITION

| | |
|---|----------------|
| Net investment in capital assets, net of related debt | 5,858,536 |
| Restricted | 397,091 |
| Unrestricted | <u>899,314</u> |

| | |
|--------------------|------------------|
| Total net position | <u>7,154,941</u> |
|--------------------|------------------|

| | |
|------------------------------------|-----------------------------|
| Total Liabilities and Net Position | <u><u>\$ 11,259,280</u></u> |
|------------------------------------|-----------------------------|

MALAGA COUNTY WATER DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2022

BUSINESS-TYPE ACTIVITIES

| | | |
|------------------------------------|----------------|---------------------|
| Operating revenue | | |
| Charges for services | | \$ 3,111,463 |
| Other | | <u>102,949</u> |
| Total operating revenues | | 3,214,412 |
| Operating expense | | |
| Waste disposal utility activities | \$ 1,956,249 | |
| Water utility activities | 1,431,059 | |
| Solid waste activities | 499,231 | |
| Community recreation activities | <u>665,709</u> | |
| Total operating expense | | <u>4,552,248</u> |
| Net operating income/(loss) | | (1,337,836) |
| Net nonoperating revenue/(expense) | | <u>732,373</u> |
| Change in net position | | (605,463) |
| Net position, beginning of year | | <u>7,760,404</u> |
| Net position, end of year | | <u>\$ 7,154,941</u> |

**MALAGA COUNTY WATER DISTRICT
COMPARATIVE STATEMENT OF NET POSITION
PROPRIETARY FUNDS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

| | Business-Type Activities - Enterprise Funds | | | | | 2021 Total |
|---|---|---------------------|-----------------------|-------------------|---------------------|---------------------|
| | 2022 | | | | | |
| | Water | Waste Disposal | Recreation | Solid Waste | Total | |
| ASSETS | | | | | | |
| Current assets | | | | | | |
| Cash and cash equivalents | \$ 1,105,792 | \$ 621,130 | \$ 366,232 | \$ 58,669 | \$ 2,151,823 | \$ 1,477,622 |
| Accounts receivable | 90,406 | 185,365 | 1,762 | - | 277,533 | 304,365 |
| Prepaid expense | 11,003 | 12,829 | 2,518 | 53,250 | 79,600 | 88,205 |
| Total current assets | <u>1,207,201</u> | <u>819,324</u> | <u>370,512</u> | <u>111,919</u> | <u>2,508,956</u> | <u>1,870,192</u> |
| Other assets | | | | | | |
| Restricted cash and investments | - | - | 397,091 | - | 397,091 | 540,859 |
| Advances to other activities | 3,360,400 | - | - | - | 3,360,400 | 3,720,560 |
| Capital assets, net of accumulated depreciation | 3,601,353 | 3,352,612 | 1,326,317 | - | 8,280,282 | 8,602,271 |
| Total non-current assets | <u>6,961,753</u> | <u>3,352,612</u> | <u>1,723,408</u> | <u>-</u> | <u>12,037,773</u> | <u>12,863,690</u> |
| Total assets | <u>8,168,954</u> | <u>4,171,936</u> | <u>2,093,920</u> | <u>111,919</u> | <u>14,546,729</u> | <u>14,733,882</u> |
| LIABILITIES | | | | | | |
| Current liabilities | | | | | | |
| Accounts payable and accrued expenses | 244,279 | 1,286,852 | 110,099 | - | 1,641,230 | 521,121 |
| Customer deposits payable | 3,714 | 20,127 | 18,225 | - | 42,066 | 42,066 |
| Current portion of long-term debt | 121,221 | 15,771 | 59,500 | - | 196,492 | 170,306 |
| Total current liabilities | <u>369,214</u> | <u>1,322,750</u> | <u>187,824</u> | <u>-</u> | <u>1,879,788</u> | <u>733,493</u> |
| Other liabilities | | | | | | |
| Advances from other activities | - | 665,095 | 2,621,651 | - | 3,286,746 | 3,720,530 |
| Non-current liabilities | | | | | | |
| Notes payable, less current portion | 574,014 | 879,240 | 772,000 | - | 2,225,254 | 2,348,794 |
| Total liabilities | <u>943,228</u> | <u>2,867,085</u> | <u>3,581,475</u> | <u>-</u> | <u>7,391,788</u> | <u>6,802,817</u> |
| NET POSITION | | | | | | |
| Net investment in capital assets | 2,906,118 | 2,457,601 | 494,817 | - | 5,858,536 | 6,083,171 |
| Nonspendable | 2,561,166 | - | - | - | 2,561,166 | 2,561,166 |
| Restricted | - | - | 397,091 | - | 397,091 | 540,859 |
| Unrestricted / (deficit) | 1,758,442 | (1,152,750) | (2,379,463) | 111,919 | (1,661,852) | (1,254,131) |
| Total net position | <u>\$ 7,225,726</u> | <u>\$ 1,304,851</u> | <u>\$ (1,487,555)</u> | <u>\$ 111,919</u> | <u>\$ 7,154,941</u> | <u>\$ 7,931,065</u> |

MALAGA COUNTY WATER DISTRICT
COMPARATIVE STATEMENT OF REVENUE, EXPENSE, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

| | Business-Type Activities - Enterprise Funds | | | | | 2021 |
|---|--|-----------------------|-----------------------|--------------------|---------------------|---------------------|
| | 2022 | | | | | |
| | Water | Waste Disposal | Recreation | Solid Waste | Total | |
| Operating Revenue | | | | | | |
| Charges for services | \$ 1,270,193 | \$ 1,286,064 | \$ 23,718 | \$ 531,488 | \$ 3,111,463 | \$ 3,143,493 |
| Other | 34,487 | 57,362 | 10,355 | 745 | 102,949 | 90,224 |
| Total operating revenue | <u>1,304,680</u> | <u>1,343,426</u> | <u>34,073</u> | <u>532,233</u> | <u>3,214,412</u> | <u>3,233,717</u> |
| Operating Expense | | | | | | |
| Salaries and wages | 307,986 | 539,065 | 105,149 | - | 952,200 | 849,682 |
| Employee benefits | 239,821 | 302,105 | 36,755 | - | 578,681 | 412,440 |
| Refuse collection and disposal | 5,660 | 8,394 | 3,646 | 499,231 | 516,931 | 474,381 |
| Depreciation | 146,260 | 219,390 | 64,526 | - | 430,176 | 380,449 |
| Utilities | 220,711 | 171,469 | 73,026 | - | 465,206 | 436,738 |
| Professional services | 119,249 | 165,498 | - | - | 284,747 | 221,299 |
| Repairs and maintenance | 58,360 | 94,200 | 181,220 | - | 333,780 | 209,573 |
| Board of directors | 22,271 | 21,410 | - | - | 43,681 | 210,087 |
| Contract services | 22,814 | 24,453 | 10,919 | - | 58,186 | 67,265 |
| Insurance | 61,639 | 84,666 | 42,928 | - | 189,233 | 116,175 |
| Supplies and small tools | 22,889 | 87,310 | 83,958 | - | 194,157 | 79,157 |
| Dues and memberships | 50,109 | 46,493 | 754 | - | 97,356 | 76,545 |
| Other | 77,657 | 10,830 | 5,692 | - | 94,179 | 76,889 |
| Telephone | 13,604 | 30,869 | 8,641 | - | 53,114 | 47,657 |
| Testing | 6,401 | 32,379 | - | - | 38,780 | 36,158 |
| Travel, meetings and education | 17,022 | 11,239 | 3,037 | - | 31,298 | 3,928 |
| Fuel and oil | 12,489 | 14,336 | 1,161 | - | 27,986 | 20,311 |
| Bank charges | 3,853 | 1,216 | 934 | - | 6,003 | 7,267 |
| Office supplies and postage | 7,757 | 10,438 | 170 | - | 18,365 | 13,231 |
| Rents and leases | 1,547 | 14,026 | 8,330 | - | 23,903 | 8,133 |
| Education and training | 2,113 | 1,619 | 690 | - | 4,422 | 3,015 |
| Total operating expense | <u>1,420,212</u> | <u>1,891,405</u> | <u>631,536</u> | <u>499,231</u> | <u>4,442,384</u> | <u>3,750,380</u> |
| Net operating income/(loss) | <u>(115,532)</u> | <u>(547,979)</u> | <u>(597,463)</u> | <u>33,002</u> | <u>(1,227,972)</u> | <u>(516,663)</u> |
| Nonoperating Revenues/(Expenses) | | | | | | |
| Grant revenue | 67,869 | - | - | - | 67,869 | - |
| Taxes and assessments | - | - | 373,426 | - | 373,426 | 387,539 |
| Other | 97,213 | (32,437) | 124,305 | 95,725 | 284,806 | 54,276 |
| Interest and use of property | 3,153 | 701 | 2,418 | - | 6,272 | 7,579 |
| Interest expense | (10,847) | (64,844) | (34,173) | - | (109,864) | (61,913) |
| Net nonoperating revenues/(expenses) | <u>157,388</u> | <u>(96,580)</u> | <u>465,976</u> | <u>95,725</u> | <u>622,509</u> | <u>387,481</u> |
| Other Financing Sources/(Uses) | | | | | | |
| Transfers in | - | - | - | - | - | 34,127 |
| Transfers out | - | - | - | - | - | (34,127) |
| Net other financing sources / (uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Change in net position | 41,856 | (644,559) | (131,487) | 128,727 | (605,463) | (129,182) |
| Net Position - beginning of year | <u>7,226,536</u> | <u>2,050,953</u> | <u>(1,329,616)</u> | <u>(16,808)</u> | <u>7,931,065</u> | <u>8,060,247</u> |
| Prior Period Adjustment | (42,666) | (101,543) | (26,452) | - | (170,661) | |
| Net Position - beginning of year (restated) | <u>7,183,870</u> | <u>1,949,410</u> | <u>(1,356,068)</u> | <u>(16,808)</u> | <u>7,760,404</u> | |
| Net Position, End of Year | <u>\$ 7,225,726</u> | <u>\$ 1,304,851</u> | <u>\$ (1,487,555)</u> | <u>\$ 111,919</u> | <u>\$ 7,154,941</u> | <u>\$ 7,931,065</u> |

The accompanying notes are an integral part of the financial statements.

**MALAGA COUNTY WATER DISTRICT
COMPARATIVE STATEMENT OF CASH FLOW
PROPRIETARY FUNDS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

| | Business-Type Activities - Enterprise Funds | | | | | 2021 Total |
|---|--|-----------------------|-------------------|--------------------|---------------------|-----------------------|
| | 2022 | | | | | |
| | Water | Waset Disposal | Recreation | Solid Waste | Total | |
| Operating Activities | | | | | | |
| Received from customers | \$ 1,302,764 | \$ 1,372,174 | \$ 34,073 | \$ 532,233 | \$ 3,241,244 | \$ 3,233,717 |
| Payments to suppliers | (610,409) | 273,159 | (445,564) | (499,231) | (1,282,045) | (2,001,969) |
| Payments to employees | (590,473) | (942,713) | (168,356) | - | (1,701,542) | (1,262,122) |
| Net cash provided by (used in) operating activities | <u>101,882</u> | <u>702,620</u> | <u>(579,847)</u> | <u>33,002</u> | <u>257,657</u> | <u>(30,374)</u> |
| Non-capital Financing Activities | | | | | | |
| Advances (to)/from other funds | 360,160 | (433,784) | - | - | (73,624) | (30) |
| Property taxes and other nonoperating revenue | <u>97,213</u> | <u>(32,437)</u> | <u>497,731</u> | <u>95,725</u> | <u>658,232</u> | <u>441,815</u> |
| Net cash provided by (used in) noncapital financing activities | <u>457,373</u> | <u>(466,221)</u> | <u>497,731</u> | <u>95,725</u> | <u>584,608</u> | <u>441,785</u> |
| Capital and Related Financing Activities | | | | | | |
| Grant revenue | 67,869 | - | - | - | 67,869 | - |
| Proceeds from construction loan | - | - | - | - | - | - |
| Principal paid on notes payable | (445,146) | 405,292 | (57,500) | - | (97,354) | (225,031) |
| Interest paid on notes payable | (10,847) | (64,844) | (34,173) | (70,568) | (180,432) | (61,913) |
| Disposition of capital assets | - | - | - | - | - | - |
| Transfers in / (out) | - | - | - | - | - | - |
| Purchase of capital assets | (24,075) | (24,075) | (60,037) | - | (108,187) | (158,584) |
| Net cash provided (used) in capital and related financing activities | <u>(412,199)</u> | <u>316,373</u> | <u>(151,710)</u> | <u>(70,568)</u> | <u>(318,104)</u> | <u>(445,528)</u> |
| Investing Activities | | | | | | |
| Interest and use of property | <u>3,153</u> | <u>701</u> | <u>2,418</u> | <u>-</u> | <u>6,272</u> | <u>24,987</u> |
| Net Increase / (Decrease) in Cash | 150,209 | 553,473 | (231,408) | 58,159 | 530,433 | (9,130) |
| Cash and Investments | | | | | | |
| Beginning of year | <u>955,583</u> | <u>67,657</u> | <u>994,731</u> | <u>510</u> | <u>2,018,481</u> | <u>2,027,611</u> |
| End of year | <u>\$ 1,105,792</u> | <u>\$ 621,130</u> | <u>\$ 763,323</u> | <u>\$ 58,669</u> | <u>\$ 2,548,914</u> | <u>\$ 2,018,481</u> |

**MALAGA COUNTY WATER DISTRICT
COMPARATIVE STATEMENT OF CASH FLOW
PROPRIETARY FUNDS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

Business-Type Activities - Enterprise Funds

| | 2022 | | | | | 2021 |
|--|---------------------|-------------------|---------------------|------------------|---------------------|---------------------|
| | Water | Waste Disposal | Recreation | Solid Waste | Total | Total |
| Reconciliation of Operating Income (Loss) to Net Cash Provided By/(Used) for Operating Activities | | | | | | |
| Operating income (loss) | \$ (115,532) | \$ (547,979) | \$ (597,463) | \$ 33,002 | \$ (1,227,972) | \$ (516,663) |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | | | | |
| Depreciation | 146,260 | 219,390 | 64,526 | - | 430,176 | 380,449 |
| Changes in assets and liabilities: | | | | | | |
| (Increase) Decrease in accounts receivable | (1,916) | 28,748 | - | - | 26,832 | - |
| (Increase) Decrease in prepaid expense | 17,021 | 30,872 | 13,962 | - | 61,855 | 53,385 |
| Increase (Decrease) in accounts payable and accrued expense | 56,049 | 971,589 | (60,872) | - | 966,766 | 55,489 |
| (Increase) Decrease in deposits | - | - | - | - | - | (3,034) |
| Net Cash Provided/(Used) by Operating Activities | <u>\$ 101,882</u> | <u>\$ 702,620</u> | <u>\$ (579,847)</u> | <u>\$ 33,002</u> | <u>\$ 257,657</u> | <u>\$ (30,374)</u> |
| Summary of cash balances, end of year | | | | | | |
| Cash and cash equivalents | 1,105,792 | 621,130 | 366,232 | 58,669 | 2,151,823 | 1,477,622 |
| Restricted cash | - | - | 397,091 | - | 397,091 | 540,859 |
| | <u>\$ 1,105,792</u> | <u>\$ 621,130</u> | <u>\$ 763,323</u> | <u>\$ 58,669</u> | <u>\$ 2,548,914</u> | <u>\$ 2,018,481</u> |

MALAGA COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

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).

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.

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, 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.

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 FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

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.

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 FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

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:

Nonspendable – Amounts that are not in spendable form (such as inventory) or are required either legally or contractually to be maintained intact. 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 capital assets, net of related debt.

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.

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.

Budgets and Budgetary Accounting

The District established a budget for its governmental fund for the year ended June 30, 2022. The budget is adopted on a basis consistent with generally accepted accounting principles (GAAP).

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.

Statement Reclassifications

Certain reclassifications may have been made in the prior year's amounts to conform with current year financial statement presentation.

MALAGA COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

Note 2: Cash and Investments

The District's deposits as of June 30, 2022, 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, 2022:

| | Bank Balance Category * | | | Carrying Amount |
|------------------------------|-------------------------|--------------------|-------------|--------------------|
| | 1 | 2 | 3 | |
| Cash on hand | \$ 42,635 | \$ - | \$ - | \$ 42,635 |
| Cash in bank | 1,462,122 | 511,285 | - | 1,973,407 |
| Fresno County Treasury | - | 28,997 | - | 28,997 |
| Local Agency Investment Fund | - | 503,875 | - | 503,875 |
| Total cash and investments | <u>\$1,504,757</u> | <u>\$1,044,157</u> | <u>\$ -</u> | <u>\$2,548,914</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, 2022:

| | Beginning Balance | Additions/ Completions | Disposals/ Adjustments | Ending Balance |
|----------------------------|---------------------|------------------------|------------------------|---------------------|
| Land* | \$ 299,264 | \$ - | \$ - | \$ 299,264 |
| Water system | 8,228,829 | - | - | 8,228,829 |
| Sewer system | 7,388,123 | - | - | 7,388,123 |
| Buildings | 1,169,276 | - | - | 1,169,276 |
| Construction in progress* | 713,110 | 60,037 | - | 773,147 |
| Park development | 1,055,306 | - | - | 1,055,306 |
| Equipment | 615,072 | 48,150 | - | 663,222 |
| Total | 19,468,980 | 108,187 | - | 19,577,167 |
| Allowance for depreciation | <u>(10,866,709)</u> | <u>(430,176)</u> | <u>-</u> | <u>(11,296,885)</u> |
| | <u>8,602,271</u> | <u>(321,989)</u> | <u>-</u> | <u>8,280,282</u> |

* Not currently being depreciated.

MALAGA COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

Note 4: Noncurrent Liabilities

The following is a summary of deferred liabilities (long-term debt) for the year ended June 30, 2022:

| | Beginning Balance | Additions | Deletions | Ending Balance | Classification | |
|--|-------------------------|-----------------|-------------------------|-------------------------|------------------------|-------------------------|
| | | | | | Due Within One Year | Due After One Year |
| Note payable | | | | | | |
| Water and sewer systems improvements | \$ 889,805 | \$ 72,951 | \$ (75,756) | \$ 887,000 | \$ 99,000 | \$ 788,000 |
| Parks and recreation improvements | 889,000 | - | (57,500) | 831,500 | 59,500 | 772,000 |
| Wastewater treatment plant improvements | 347,974 | - | (23,038) | 324,936 | 23,980 | 300,956 |
| Safe drinking water | 392,322 | - | (14,012) | 378,310 | 14,012 | 364,298 |
| Total long-term debt | <u>\$ 2,519,101</u> | <u>\$ -</u> | <u>\$ (170,306)</u> | <u>\$ 2,421,746</u> | <u>\$ 196,492</u> | <u>\$ 2,225,254</u> |

Note 5: Note Payables

Water and Sewer Systems Improvements

This debt was incurred to refinance the construction of water well number eight and improvements to the sewer system. The total amount of the debt was \$887,000 and provides for interest at the rate of 2 percent per annum. Semi-annual payments of principal and interest began July 2022, 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 35.73 percent of the payments due and the Waste Disposal Fund finances 64.27 percent of the payments. Interest paid on this loan for the year ended June 30, 2022, was \$42,248.

Future payments of the bonds are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|-------------------------|-------------------|------------------|---------------------|
| 2023 | \$ 99,000 | \$ 15,432 | \$ 114,432 |
| 2024 | 98,000 | 15,270 | 113,270 |
| 2025 | 100,000 | 13,300 | 113,300 |
| 2026 | 102,000 | 11,290 | 113,290 |
| 2027 - 2031 | 488,000 | 24,660 | 512,660 |
| | <u>\$ 887,000</u> | <u>\$ 79,952</u> | <u>\$ 1,003,035</u> |

MALAGA COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

Note 5: Note Payables (continued)

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, 2022, was \$13,862.

Future payments of the bonds are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|-------------------------|-------------------|------------------|-------------------|
| 2023 | \$ 23,980 | \$ 12,920 | \$ 36,900 |
| 2024 | 24,961 | 11,939 | 36,900 |
| 2025 | 25,982 | 10,917 | 36,899 |
| 2026 | 27,045 | 9,855 | 36,900 |
| 2027 - 2031 | 152,757 | 31,743 | 184,500 |
| 2032 - 2035 | 70,211 | 3,590 | 73,801 |
| | <u>\$ 324,936</u> | <u>\$ 80,964</u> | <u>\$ 405,900</u> |

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 for the year ended June 30, 2022, was \$32,278.

Future payments of the bonds are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|-------------------------|-------------------|-------------------|---------------------|
| 2023 | \$ 59,500 | \$ 30,138 | \$ 89,638 |
| 2024 | 61,500 | 27,924 | 89,424 |
| 2025 | 63,500 | 25,636 | 89,136 |
| 2026 | 66,000 | 23,275 | 89,275 |
| 2027 - 2031 | 451,500 | 77,601 | 529,101 |
| 2032 - 2035 | 129,500 | 4,806 | 134,306 |
| | <u>\$ 831,500</u> | <u>\$ 189,380</u> | <u>\$ 1,020,880</u> |

MALAGA COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

Note 5: Note Payables (continued)

Safe Drinking Water

This debt was incurred to finance water meters for safe drinking water. The total amount of the debt was \$403,417 and provides for interest at the rate of 0 percent per annum. Semi-annual payments of principal began January 2021, and continue until paid. Full repayment of the loan is scheduled to occur in January 2049. The Water Fund finances this debt. Interest paid on this for the year ended June 30, 2022, was \$0.

Future payments of the bonds are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|-------------------------|-------------------|-------------|-------------------|
| 2023 | \$ 14,012 | \$ - | \$ 14,012 |
| 2024 | 14,012 | - | 14,012 |
| 2025 | 14,012 | - | 14,012 |
| 2026 | 14,012 | - | 14,012 |
| 2027 - 2031 | 70,058 | - | 70,058 |
| 2032 - 2036 | 70,058 | - | 70,058 |
| Thereafter | 182,146 | - | 182,146 |
| | <u>\$ 378,310</u> | <u>\$ -</u> | <u>\$ 378,310</u> |

Note 6: Restricted Assets – Cash

As of June 30, 2022, \$397,091 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, 2022.

Note 7: 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, 2022 was \$849,682 with covered payroll equaling \$813,908. The pensions cost to the District is 10 percent of the participants’ compensation. Required and accrued contributions to the plan for the year ended June 30, 2022 were \$79,428.

MALAGA COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

Note 8: Restatement

The following prior period adjustments were made to correct the beginning net position balances:

| | <u>Water</u> | <u>Sewer</u> | <u>Recreation</u> | <u>Solid Waste</u> | <u>Total</u> |
|--|--------------------|--------------------|----------------------|------------------------|--------------------|
| Beginning net position | \$7,226,536 | \$2,050,953 | \$(1,329,616) | \$ (16,808) | \$7,931,065 |
| Prior period adjustment - to record pension plan payments | <u>(42,666)</u> | <u>(101,543)</u> | <u>(26,452)</u> | <u>-</u> | <u>(170,661)</u> |
| Beginning net position, as restated | <u>\$7,183,870</u> | <u>\$1,949,410</u> | <u>\$(1,356,068)</u> | <u>\$ (16,808)</u> | <u>\$7,760,404</u> |

Note 9: Subsequent Events

In compliance with accounting standards, subsequent events were evaluated through July 17, 2023, which is the date the financial statements were available to be issued. Management has determined that no events require disclosure in accordance with the accounting standards subsequent to June 30, 2022.

MALAGA COUNTY WATER DISTRICT
COMBINING STATEMENT OF REVENUE AND EXPENSE
WASTE DISPOSAL FUND
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

| | Business-Type Activities - Waste Disposal Fund | | | | |
|------------------------------------|--|--------------------|-------------------|---------------------|---------------------|
| | 2022 | | | | 2021 |
| | Sewer | Pretreatment | Solid Waste | Total | Total |
| OPERATING REVENUE | | | | | |
| Charges for services | \$ 1,286,064 | \$ 153,863 | \$ 531,488 | \$ 1,971,415 | \$ 1,811,107 |
| Other | <u>57,362</u> | <u>21,358</u> | <u>745</u> | <u>79,465</u> | <u>75,138</u> |
| Total operating revenue | <u>1,343,426</u> | <u>175,221</u> | <u>532,233</u> | <u>2,050,880</u> | <u>1,886,245</u> |
| OPERATING EXPENSE | | | | | |
| Salaries and wages | 539,065 | 91,662 | - | 630,727 | 558,272 |
| Employee benefits | 302,105 | 34,214 | - | 336,319 | 230,450 |
| Refuse collection and disposal | 8,394 | - | 499,230 | 507,624 | 463,911 |
| Depreciation | 219,390 | - | - | 219,390 | 194,029 |
| Utilities | 171,469 | - | - | 171,469 | 157,955 |
| Professional services | 165,498 | 17,493 | - | 182,991 | 110,475 |
| Repairs and maintenance | 94,200 | 8,369 | - | 102,569 | 111,917 |
| Board of directors | 21,410 | - | - | 21,410 | 105,029 |
| Contract services | 24,453 | 4,437 | - | 28,890 | 38,061 |
| Insurance | 84,666 | 11,040 | - | 95,706 | 52,586 |
| Supplies and small tools | 87,310 | - | - | 87,310 | 37,377 |
| Dues and memberships | 46,493 | 1,063 | - | 47,556 | 46,017 |
| Other | 10,830 | 2,921 | - | 13,751 | 54,961 |
| Telephone | 30,869 | 4,648 | - | 35,517 | 28,486 |
| Testing | 32,379 | 3,684 | - | 36,063 | 27,162 |
| Travel, meetings and education | 11,239 | 351 | - | 11,590 | 1,279 |
| Fuel and oil | 14,336 | 2,553 | - | 16,889 | 9,879 |
| Bank charges | 1,216 | 106 | - | 1,322 | 3,396 |
| Office supplies and postage | 10,438 | 2,123 | - | 12,561 | 8,048 |
| Rents and leases | 14,026 | 248 | - | 14,274 | 4,306 |
| Education and training | <u>1,619</u> | <u>279</u> | <u>-</u> | <u>1,898</u> | <u>1,670</u> |
| Total operating expense | <u>1,891,405</u> | <u>185,191</u> | <u>499,230</u> | <u>2,575,826</u> | <u>2,245,266</u> |
| Net operating income | (547,979) | (9,970) | 33,003 | (524,946) | (359,021) |
| Nonoperating revenue/(expense) | | | | | |
| Grant revenue | - | - | - | - | - |
| Taxes and assessments | - | - | - | - | 7,653 |
| Other | (32,437) | (37,482) | 95,725 | 25,806 | 4,808 |
| Interest and use of property | 701 | - | - | 701 | 2,110 |
| Interest expense | <u>(64,844)</u> | <u>-</u> | <u>-</u> | <u>(64,844)</u> | <u>(36,786)</u> |
| Net nonoperating revenue/(expense) | <u>(96,580)</u> | <u>(37,482)</u> | <u>95,725</u> | <u>(38,337)</u> | <u>(22,215)</u> |
| Change in net position | <u>\$ (644,559)</u> | <u>\$ (47,452)</u> | <u>\$ 128,728</u> | <u>\$ (563,283)</u> | <u>\$ (381,236)</u> |



Jaribu W. Nelson, CPA

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

To the Board of Directors
Malaga County Water District

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities and each major fund of the Malaga County Water District (District), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated July 17, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 opinion 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 a 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* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did identify any deficiencies in internal control that we consider to be material weaknesses. These findings are identified as finding 22-01.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Malaga County Water District's financial statements are free from 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 this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jaribu W. Nelson, CPA

July 17, 2023

MALAGA COUNTY WATER DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2022

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

| | | | | |
|--|-------------------------------------|-----|-------------------------------------|-----|
| Type of auditor’s report issued: | Unmodified | | | |
| Internal control over financial reporting: | | | | |
| • Material weaknesses identified? | <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No |
| • Significant deficiency(ies) identified? | <input checked="" type="checkbox"/> | Yes | <input type="checkbox"/> | Yes |
| Non-compliance material to financial statements noted? | <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No |

SECTION II – FINANCIAL STATEMENT FINDINGS

There was one (1) financial statement finding to be reported in accordance with *Generally Accepted Government Auditing Standards (GAGAS)*. See Finding 2022-01

SECTION III – FEDERAL AWARDS FINDINGS

There are no federal award findings in accordance with *GAGAS* and the Compliance Supplement.

MALAGA COUNTY WATER DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2022

FINANCIAL STATEMENT FINDINGS

Finding 2022-01

Improve the preparation of the financial statements

Criteria:

Internal controls should be in place which will provide assurance that the financial statements along with preparation of the notes to the financial statements and supplementary information, are prepared accurately on a timely basis at year-end.

Condition:

During the course of performing our audit procedures, we noted that many proposed adjusting journal entries were to reclassify amounts to their proper account. We noted the pension plan has been unfunded for the prior 2 years and current year of this financial statement.

Cause:

Management did not perform its closing procedures to ensure all ledger account balances were properly classified to the appropriate fund on a timely basis at year-end. The in-house bookkeeper failed to timely make payments on the pension plan.

Effect:

There is a risk that a material financial statement may exist and not be prevented or detected by the District's system of internal control. The total dollar effect of the amounts not recorded totaled \$246,647.

Recommendation:

We recommend that the review of all year-end account balances include an accounting professional to validate the accuracy of all accounts. We recommend that the District make payment arrangements to bring the plan into compliance.

District Response:

The District will work with external CPA to provide accurate and timely financial reporting to minimize the misstatements that could occur. The District is currently engaging an external CPA to complete the current year financial statements in a more timely manner.

MALAGA COUNTY WATER DISTRICT

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2021

Finding 2021-01

Improve the preparation of the financial statements

Recommendation:

We recommend that the review of all year-end account balances include an accounting professional to validate the accuracy of all accounts.

Status:

Partially implemented, the District was able to procure an accounting professional. However, transactions were being presented inaccurately in the Recreation Fund and the Solid Waste Fund.



MALAGA COUNTY WATER DISTRICT

**INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS
JUNE 30, 2022**

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**MALAGA COUNTY WATER DISTRICT
BOARD OF DIRECTORS AND ADMINISTRATION
JUNE 30, 2022**

Board of Directors

Charles E. Garabedian Jr. President

Salvador Cerrillo Jr. Vice-President

Irma Castaneda Director

Frank A. Cerrillo, Jr. Director

Carlos Tovar, Jr. Director

Administration

Moises Ortiz General Manager

Norma Melendez Clerk



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Malaga County Water District

Opinion

We have audited the accompanying financial statements of the business-type activities and each major fund of the Malaga County Water District (District) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the District as of June 30, 2022, and the respective changes in financial position, and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Malaga County Water District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Malaga County Water District's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not

detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Malaga County Water District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Malaga County Water District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on page 5-8 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the 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.

Management has omitted the budgetary comparison information that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 17, 2023, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Malaga County Water District's 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 Malaga County Water District's internal control over financial reporting and compliance.

Jaribu W. Nelson, CPA

Clovis, California

July 17, 2023

MALAGA COUNTY WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2022

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, 2022. 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, 2022, by \$7,154,941. Of this amount, unrestricted net position of \$899,314 may be used to meet the District's ongoing obligations to customers and creditors. As of June 30, 2021, assets exceeded liabilities by \$7,931,065 with unrestricted net position equaling \$1,307,035.
- Total net position decreased by \$605,463 for the year ended June 30, 2022. For the year ended June 30, 2021, total net position decreased by \$129,182.
- During the current year, the District's fixed assets increased by a net of \$108,187. 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 \$430,176 for the current year. Prior year depreciation was \$380,449.
- Total debt decreased by a net of \$97,354 during the current year. The decrease was mostly attributable to the debt service payments. During the prior year, total debt increased by a net of \$225,029. This was mostly attributable to the acquisition of a loan to finance improvements to safe water drinking.

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.

**MALAGA COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
YEAR ENDED JUNE 30, 2022**

Financial Highlights (continued)

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 four proprietary funds, the Water Fund, the Waste Disposal Fund, the Recreation Fund, and the Solid Waste.

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, 2022, the District's assets exceeded liabilities by \$7,154,941. A significant portion of the District's net position (83 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 \$397,091 in net position (two 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
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
YEAR ENDED JUNE 30, 2022**

Malaga County Water District's Net Position

| | Business-Type Activities | Total | Prior Year Total |
|---|-----------------------------|---------------------|---------------------|
| ASSETS | | | |
| Current assets | \$ 2,581,907 | \$ 2,581,907 | \$ 1,870,192 |
| Other assets | 8,677,373 | 8,677,373 | 9,143,130 |
| Total assets | <u>11,259,280</u> | <u>11,259,280</u> | <u>11,013,322</u> |
| LIABILITIES | | | |
| Current liabilities | 1,682,593 | 1,682,593 | 563,157 |
| Deferred liabilities | <u>2,421,746</u> | <u>2,421,746</u> | <u>2,519,100</u> |
| Total liabilities | <u>4,104,339</u> | <u>4,104,339</u> | <u>3,082,257</u> |
| NET POSITION | | | |
| Net investment in capital assets, net of related debt | 5,858,536 | 5,858,536 | 6,083,171 |
| Restricted | 397,091 | 397,091 | 540,859 |
| Unrestricted | <u>899,314</u> | <u>899,314</u> | <u>1,307,035</u> |
| Total net position | <u>\$ 7,154,941</u> | <u>\$ 7,154,941</u> | <u>\$ 7,931,065</u> |

Malaga County Water District's Changes in Net Position

| | Business-Type Activities | Current Year Total | Prior Year Total (as restated) |
|-------------------------------------|-----------------------------|-----------------------|--------------------------------------|
| REVENUE | | | |
| Program revenue | | | |
| Charges for services | \$ 3,111,463 | \$ 3,111,463 | \$ 3,143,493 |
| Other | <u>102,949</u> | <u>102,949</u> | <u>90,224</u> |
| Total Revenues | <u>3,214,412</u> | <u>3,214,412</u> | <u>3,233,717</u> |
| EXPENSE | | | |
| Waste disposal utility activities | 1,956,249 | 1,956,249 | 1,643,970 |
| Water utility activities | 1,431,059 | 1,431,059 | 1,388,990 |
| Solid waste activities | 499,231 | 499,231 | 457,333 |
| Community recreation activities | <u>665,709</u> | <u>665,709</u> | <u>322,000</u> |
| Total Expenses | <u>4,552,248</u> | <u>4,552,248</u> | <u>3,812,293</u> |
| Net operating income/(loss) | (1,337,836) | (1,337,836) | (578,576) |
| Net nonoperating revenue/(expense) | <u>732,373</u> | <u>732,373</u> | <u>449,394</u> |
| Increase/(decrease) in net position | (605,463) | (605,463) | (129,182) |
| Net position, beginning of year | <u>7,760,404</u> | <u>7,760,404</u> | <u>8,060,247</u> |
| Net position, end of year | <u>\$ 7,154,941</u> | <u>\$ 7,154,941</u> | <u>\$ 7,931,065</u> |

**MALAGA COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
YEAR ENDED JUNE 30, 2022**

Business-type activities. Business-type activities decreased the District's net position by \$605,463, accounting for 100 percent of the total decrease 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, 2022, the District's proprietary funds reported a combined ending fund balance of \$7,154,941, an decrease of \$605,463, and a restatement of beginning net position totaling \$170,661. Of the entire ending fund balance, \$899,314 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, 2022, amounted to \$8,280,282 (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 \$2,421,746 as of June 30, 2022. Of this total amount, \$196,492 is due and payable during the year ending June 30, 2023. The remainder, referred to as deferred liabilities, is due and payable over the next 21 years.

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

Economic Factors and Next Year's Budgets and Rates

The budget for the year ending June 30, 2023, projects a surplus of \$192,525. Revenue is anticipated to decrease by \$38,098 compared to 2021/2022, while expenses are expected to decrease by \$13,401. Charges for services are anticipated to decrease by \$17,347, while non-operating revenue is expected to increase by \$24,811. Salaries, wages and employee benefits are expected to decrease by \$53,203 and services and supplies are anticipated to decrease by \$39,802 compared to 2021/2022.

User rates are not expected to increase during the year ending June 30, 2023.

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, 2022

ASSETS

| | |
|----------------------|------------------|
| Cash and investments | \$ 2,151,823 |
| Accounts receivable | 350,484 |
| Prepays | <u>79,600</u> |
| Total current assets | <u>2,581,907</u> |

OTHER ASSETS

| | |
|---|------------------|
| Restricted assets - cash | 397,091 |
| Capital assets, net of allowance for depreciation | <u>8,280,282</u> |
| Total other assets | <u>8,677,373</u> |

Total assets 11,259,280

LIABILITIES

| | |
|--------------------------------------|------------------|
| Accounts payable and accrued expense | 1,640,527 |
| Customer deposits payable | <u>42,066</u> |
| Total current liabilities | <u>1,682,593</u> |

NONCURRENT LIABILITIES

| | |
|------------------------------|------------------|
| Due within one year | 196,492 |
| Due in more than one year | <u>2,225,254</u> |
| Total Noncurrent liabilities | <u>2,421,746</u> |

NET POSITION

| | |
|---|------------------|
| Net investment in capital assets, net of related debt | 5,858,536 |
| Restricted | 397,091 |
| Unrestricted | <u>899,314</u> |
| Total net position | <u>7,154,941</u> |

Total Liabilities and Net Position \$ 11,259,280

MALAGA COUNTY WATER DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2022

BUSINESS-TYPE ACTIVITIES

| | | |
|------------------------------------|----------------|---------------------|
| Operating revenue | | |
| Charges for services | | \$ 3,111,463 |
| Other | | <u>102,949</u> |
| Total operating revenues | | 3,214,412 |
| Operating expense | | |
| Waste disposal utility activities | \$ 1,956,249 | |
| Water utility activities | 1,431,059 | |
| Solid waste activities | 499,231 | |
| Community recreation activities | <u>665,709</u> | |
| Total operating expense | | <u>4,552,248</u> |
| Net operating income/(loss) | | (1,337,836) |
| Net nonoperating revenue/(expense) | | <u>732,373</u> |
| Change in net position | | (605,463) |
| Net position, beginning of year | | <u>7,760,404</u> |
| Net position, end of year | | <u>\$ 7,154,941</u> |

**MALAGA COUNTY WATER DISTRICT
COMPARATIVE STATEMENT OF NET POSITION
PROPRIETARY FUNDS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

| | Business-Type Activities - Enterprise Funds | | | | | 2021 Total |
|---|---|---------------------|-----------------------|-------------------|---------------------|---------------------|
| | 2022 | | | | | |
| | Water | Waste Disposal | Recreation | Solid Waste | Total | |
| ASSETS | | | | | | |
| Current assets | | | | | | |
| Cash and cash equivalents | \$ 1,105,792 | \$ 621,130 | \$ 366,232 | \$ 58,669 | \$ 2,151,823 | \$ 1,477,622 |
| Accounts receivable | 90,406 | 185,365 | 1,762 | - | 277,533 | 304,365 |
| Prepaid expense | 11,003 | 12,829 | 2,518 | 53,250 | 79,600 | 88,205 |
| Total current assets | <u>1,207,201</u> | <u>819,324</u> | <u>370,512</u> | <u>111,919</u> | <u>2,508,956</u> | <u>1,870,192</u> |
| Other assets | | | | | | |
| Restricted cash and investments | - | - | 397,091 | - | 397,091 | 540,859 |
| Advances to other activities | 3,360,400 | - | - | - | 3,360,400 | 3,720,560 |
| Capital assets, net of accumulated depreciation | 3,601,353 | 3,352,612 | 1,326,317 | - | 8,280,282 | 8,602,271 |
| Total non-current assets | <u>6,961,753</u> | <u>3,352,612</u> | <u>1,723,408</u> | <u>-</u> | <u>12,037,773</u> | <u>12,863,690</u> |
| Total assets | <u>8,168,954</u> | <u>4,171,936</u> | <u>2,093,920</u> | <u>111,919</u> | <u>14,546,729</u> | <u>14,733,882</u> |
| LIABILITIES | | | | | | |
| Current liabilities | | | | | | |
| Accounts payable and accrued expenses | 244,279 | 1,286,852 | 110,099 | - | 1,641,230 | 521,121 |
| Customer deposits payable | 3,714 | 20,127 | 18,225 | - | 42,066 | 42,066 |
| Current portion of long-term debt | 121,221 | 15,771 | 59,500 | - | 196,492 | 170,306 |
| Total current liabilities | <u>369,214</u> | <u>1,322,750</u> | <u>187,824</u> | <u>-</u> | <u>1,879,788</u> | <u>733,493</u> |
| Other liabilities | | | | | | |
| Advances from other activities | - | 665,095 | 2,621,651 | - | 3,286,746 | 3,720,530 |
| Non-current liabilities | | | | | | |
| Notes payable, less current portion | 574,014 | 879,240 | 772,000 | - | 2,225,254 | 2,348,794 |
| Total liabilities | <u>943,228</u> | <u>2,867,085</u> | <u>3,581,475</u> | <u>-</u> | <u>7,391,788</u> | <u>6,802,817</u> |
| NET POSITION | | | | | | |
| Net investment in capital assets | 2,906,118 | 2,457,601 | 494,817 | - | 5,858,536 | 6,083,171 |
| Nonspendable | 2,561,166 | - | - | - | 2,561,166 | 2,561,166 |
| Restricted | - | - | 397,091 | - | 397,091 | 540,859 |
| Unrestricted / (deficit) | 1,758,442 | (1,152,750) | (2,379,463) | 111,919 | (1,661,852) | (1,254,131) |
| Total net position | <u>\$ 7,225,726</u> | <u>\$ 1,304,851</u> | <u>\$ (1,487,555)</u> | <u>\$ 111,919</u> | <u>\$ 7,154,941</u> | <u>\$ 7,931,065</u> |

MALAGA COUNTY WATER DISTRICT
COMPARATIVE STATEMENT OF REVENUE, EXPENSE, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

| | Business-Type Activities - Enterprise Funds | | | | | 2021 |
|---|--|-----------------------|-----------------------|--------------------|---------------------|---------------------|
| | 2022 | | | | | |
| | Water | Waste Disposal | Recreation | Solid Waste | Total | |
| Operating Revenue | | | | | | |
| Charges for services | \$ 1,270,193 | \$ 1,286,064 | \$ 23,718 | \$ 531,488 | \$ 3,111,463 | \$ 3,143,493 |
| Other | 34,487 | 57,362 | 10,355 | 745 | 102,949 | 90,224 |
| Total operating revenue | <u>1,304,680</u> | <u>1,343,426</u> | <u>34,073</u> | <u>532,233</u> | <u>3,214,412</u> | <u>3,233,717</u> |
| Operating Expense | | | | | | |
| Salaries and wages | 307,986 | 539,065 | 105,149 | - | 952,200 | 849,682 |
| Employee benefits | 239,821 | 302,105 | 36,755 | - | 578,681 | 412,440 |
| Refuse collection and disposal | 5,660 | 8,394 | 3,646 | 499,231 | 516,931 | 474,381 |
| Depreciation | 146,260 | 219,390 | 64,526 | - | 430,176 | 380,449 |
| Utilities | 220,711 | 171,469 | 73,026 | - | 465,206 | 436,738 |
| Professional services | 119,249 | 165,498 | - | - | 284,747 | 221,299 |
| Repairs and maintenance | 58,360 | 94,200 | 181,220 | - | 333,780 | 209,573 |
| Board of directors | 22,271 | 21,410 | - | - | 43,681 | 210,087 |
| Contract services | 22,814 | 24,453 | 10,919 | - | 58,186 | 67,265 |
| Insurance | 61,639 | 84,666 | 42,928 | - | 189,233 | 116,175 |
| Supplies and small tools | 22,889 | 87,310 | 83,958 | - | 194,157 | 79,157 |
| Dues and memberships | 50,109 | 46,493 | 754 | - | 97,356 | 76,545 |
| Other | 77,657 | 10,830 | 5,692 | - | 94,179 | 76,889 |
| Telephone | 13,604 | 30,869 | 8,641 | - | 53,114 | 47,657 |
| Testing | 6,401 | 32,379 | - | - | 38,780 | 36,158 |
| Travel, meetings and education | 17,022 | 11,239 | 3,037 | - | 31,298 | 3,928 |
| Fuel and oil | 12,489 | 14,336 | 1,161 | - | 27,986 | 20,311 |
| Bank charges | 3,853 | 1,216 | 934 | - | 6,003 | 7,267 |
| Office supplies and postage | 7,757 | 10,438 | 170 | - | 18,365 | 13,231 |
| Rents and leases | 1,547 | 14,026 | 8,330 | - | 23,903 | 8,133 |
| Education and training | 2,113 | 1,619 | 690 | - | 4,422 | 3,015 |
| Total operating expense | <u>1,420,212</u> | <u>1,891,405</u> | <u>631,536</u> | <u>499,231</u> | <u>4,442,384</u> | <u>3,750,380</u> |
| Net operating income/(loss) | <u>(115,532)</u> | <u>(547,979)</u> | <u>(597,463)</u> | <u>33,002</u> | <u>(1,227,972)</u> | <u>(516,663)</u> |
| Nonoperating Revenues/(Expenses) | | | | | | |
| Grant revenue | 67,869 | - | - | - | 67,869 | - |
| Taxes and assessments | - | - | 373,426 | - | 373,426 | 387,539 |
| Other | 97,213 | (32,437) | 124,305 | 95,725 | 284,806 | 54,276 |
| Interest and use of property | 3,153 | 701 | 2,418 | - | 6,272 | 7,579 |
| Interest expense | (10,847) | (64,844) | (34,173) | - | (109,864) | (61,913) |
| Net nonoperating revenues/(expenses) | <u>157,388</u> | <u>(96,580)</u> | <u>465,976</u> | <u>95,725</u> | <u>622,509</u> | <u>387,481</u> |
| Other Financing Sources/(Uses) | | | | | | |
| Transfers in | - | - | - | - | - | 34,127 |
| Transfers out | - | - | - | - | - | (34,127) |
| Net other financing sources / (uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Change in net position | 41,856 | (644,559) | (131,487) | 128,727 | (605,463) | (129,182) |
| Net Position - beginning of year | 7,226,536 | 2,050,953 | (1,329,616) | (16,808) | 7,931,065 | 8,060,247 |
| Prior Period Adjustment | (42,666) | (101,543) | (26,452) | - | (170,661) | |
| Net Position - beginning of year (restated) | 7,183,870 | 1,949,410 | (1,356,068) | (16,808) | 7,760,404 | |
| Net Position, End of Year | <u>\$ 7,225,726</u> | <u>\$ 1,304,851</u> | <u>\$ (1,487,555)</u> | <u>\$ 111,919</u> | <u>\$ 7,154,941</u> | <u>\$ 7,931,065</u> |

The accompanying notes are an integral part of the financial statements.

**MALAGA COUNTY WATER DISTRICT
COMPARATIVE STATEMENT OF CASH FLOW
PROPRIETARY FUNDS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

| | Business-Type Activities - Enterprise Funds | | | | | 2021 Total |
|---|--|-----------------------|-------------------|--------------------|---------------------|-----------------------|
| | 2022 | | | | | |
| | Water | Waset Disposal | Recreation | Solid Waste | Total | |
| Operating Activities | | | | | | |
| Received from customers | \$ 1,302,764 | \$ 1,372,174 | \$ 34,073 | \$ 532,233 | \$ 3,241,244 | \$ 3,233,717 |
| Payments to suppliers | (610,409) | 273,159 | (445,564) | (499,231) | (1,282,045) | (2,001,969) |
| Payments to employees | (590,473) | (942,713) | (168,356) | - | (1,701,542) | (1,262,122) |
| Net cash provided by (used in) operating activities | <u>101,882</u> | <u>702,620</u> | <u>(579,847)</u> | <u>33,002</u> | <u>257,657</u> | <u>(30,374)</u> |
| Non-capital Financing Activities | | | | | | |
| Advances (to)/from other funds | 360,160 | (433,784) | - | - | (73,624) | (30) |
| Property taxes and other nonoperating revenue | <u>97,213</u> | <u>(32,437)</u> | <u>497,731</u> | <u>95,725</u> | <u>658,232</u> | <u>441,815</u> |
| Net cash provided by (used in) noncapital financing activities | <u>457,373</u> | <u>(466,221)</u> | <u>497,731</u> | <u>95,725</u> | <u>584,608</u> | <u>441,785</u> |
| Capital and Related Financing Activities | | | | | | |
| Grant revenue | 67,869 | - | - | - | 67,869 | - |
| Proceeds from construction loan | - | - | - | - | - | - |
| Principal paid on notes payable | (445,146) | 405,292 | (57,500) | - | (97,354) | (225,031) |
| Interest paid on notes payable | (10,847) | (64,844) | (34,173) | (70,568) | (180,432) | (61,913) |
| Disposition of capital assets | - | - | - | - | - | - |
| Transfers in / (out) | - | - | - | - | - | - |
| Purchase of capital assets | (24,075) | (24,075) | (60,037) | - | (108,187) | (158,584) |
| Net cash provided (used) in capital and related financing activities | <u>(412,199)</u> | <u>316,373</u> | <u>(151,710)</u> | <u>(70,568)</u> | <u>(318,104)</u> | <u>(445,528)</u> |
| Investing Activities | | | | | | |
| Interest and use of property | <u>3,153</u> | <u>701</u> | <u>2,418</u> | <u>-</u> | <u>6,272</u> | <u>24,987</u> |
| Net Increase / (Decrease) in Cash | 150,209 | 553,473 | (231,408) | 58,159 | 530,433 | (9,130) |
| Cash and Investments | | | | | | |
| Beginning of year | <u>955,583</u> | <u>67,657</u> | <u>994,731</u> | <u>510</u> | <u>2,018,481</u> | <u>2,027,611</u> |
| End of year | <u>\$ 1,105,792</u> | <u>\$ 621,130</u> | <u>\$ 763,323</u> | <u>\$ 58,669</u> | <u>\$ 2,548,914</u> | <u>\$ 2,018,481</u> |

**MALAGA COUNTY WATER DISTRICT
COMPARATIVE STATEMENT OF CASH FLOW
PROPRIETARY FUNDS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

| | Business-Type Activities - Enterprise Funds | | | | | 2021 Total |
|--|---|-------------------|---------------------|------------------|---------------------|---------------------|
| | 2022 | | | | | |
| | Water | Waste Disposal | Recreation | Solid Waste | Total | |
| Reconciliation of Operating Income (Loss) to Net Cash Provided By/(Used) for Operating Activities | | | | | | |
| Operating income (loss) | \$ (115,532) | \$ (547,979) | \$ (597,463) | \$ 33,002 | \$ (1,227,972) | \$ (516,663) |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | | | | |
| Depreciation | 146,260 | 219,390 | 64,526 | - | 430,176 | 380,449 |
| Changes in assets and liabilities: | | | | | | |
| (Increase) Decrease in accounts receivable | (1,916) | 28,748 | - | - | 26,832 | - |
| (Increase) Decrease in prepaid expense | 17,021 | 30,872 | 13,962 | - | 61,855 | 53,385 |
| Increase (Decrease) in accounts payable and accrued expense | 56,049 | 971,589 | (60,872) | - | 966,766 | 55,489 |
| (Increase) Decrease in deposits | - | - | - | - | - | (3,034) |
| Net Cash Provided/(Used) by Operating Activities | <u>\$ 101,882</u> | <u>\$ 702,620</u> | <u>\$ (579,847)</u> | <u>\$ 33,002</u> | <u>\$ 257,657</u> | <u>\$ (30,374)</u> |
| Summary of cash balances, end of year | | | | | | |
| Cash and cash equivalents | 1,105,792 | 621,130 | 366,232 | 58,669 | 2,151,823 | 1,477,622 |
| Restricted cash | - | - | 397,091 | - | 397,091 | 540,859 |
| | <u>\$ 1,105,792</u> | <u>\$ 621,130</u> | <u>\$ 763,323</u> | <u>\$ 58,669</u> | <u>\$ 2,548,914</u> | <u>\$ 2,018,481</u> |

MALAGA COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

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).

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.

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, 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.

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 FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

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.

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 FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

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:

Nonspendable – Amounts that are not in spendable form (such as inventory) or are required either legally or contractually to be maintained intact. 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 capital assets, net of related debt.

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.

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.

Budgets and Budgetary Accounting

The District established a budget for its governmental fund for the year ended June 30, 2022. The budget is adopted on a basis consistent with generally accepted accounting principles (GAAP).

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.

Statement Reclassifications

Certain reclassifications may have been made in the prior year's amounts to conform with current year financial statement presentation.

MALAGA COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

Note 2: Cash and Investments

The District's deposits as of June 30, 2022, 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, 2022:

| | Bank Balance Category * | | | Carrying Amount |
|------------------------------|-------------------------|--------------------|-------------|--------------------|
| | 1 | 2 | 3 | |
| Cash on hand | \$ 42,635 | \$ - | \$ - | \$ 42,635 |
| Cash in bank | 1,462,122 | 511,285 | - | 1,973,407 |
| Fresno County Treasury | - | 28,997 | - | 28,997 |
| Local Agency Investment Fund | - | 503,875 | - | 503,875 |
| Total cash and investments | <u>\$1,504,757</u> | <u>\$1,044,157</u> | <u>\$ -</u> | <u>\$2,548,914</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, 2022:

| | Beginning Balance | Additions/ Completions | Disposals/ Adjustments | Ending Balance |
|----------------------------|----------------------|---------------------------|---------------------------|---------------------|
| Land* | \$ 299,264 | \$ - | \$ - | \$ 299,264 |
| Water system | 8,228,829 | - | - | 8,228,829 |
| Sewer system | 7,388,123 | - | - | 7,388,123 |
| Buildings | 1,169,276 | - | - | 1,169,276 |
| Construction in progress* | 713,110 | 60,037 | - | 773,147 |
| Park development | 1,055,306 | - | - | 1,055,306 |
| Equipment | 615,072 | 48,150 | - | 663,222 |
| Total | 19,468,980 | 108,187 | - | 19,577,167 |
| Allowance for depreciation | <u>(10,866,709)</u> | <u>(430,176)</u> | <u>-</u> | <u>(11,296,885)</u> |
| | <u>8,602,271</u> | <u>(321,989)</u> | <u>-</u> | <u>8,280,282</u> |

* Not currently being depreciated.

MALAGA COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

Note 4: Noncurrent Liabilities

The following is a summary of deferred liabilities (long-term debt) for the year ended June 30, 2022:

| | Beginning Balance | Additions | Deletions | Ending Balance | Classification | |
|--|-------------------------|-----------------|-------------------------|-------------------------|------------------------|-------------------------|
| | | | | | Due Within One Year | Due After One Year |
| Note payable | | | | | | |
| Water and sewer systems improvements | \$ 889,805 | \$ 72,951 | \$ (75,756) | \$ 887,000 | \$ 99,000 | \$ 788,000 |
| Parks and recreation improvements | 889,000 | - | (57,500) | 831,500 | 59,500 | 772,000 |
| Wastewater treatment plant improvements | 347,974 | - | (23,038) | 324,936 | 23,980 | 300,956 |
| Safe drinking water | 392,322 | - | (14,012) | 378,310 | 14,012 | 364,298 |
| Total long-term debt | <u>\$ 2,519,101</u> | <u>\$ -</u> | <u>\$ (170,306)</u> | <u>\$ 2,421,746</u> | <u>\$ 196,492</u> | <u>\$ 2,225,254</u> |

Note 5: Note Payables

Water and Sewer Systems Improvements

This debt was incurred to refinance the construction of water well number eight and improvements to the sewer system. The total amount of the debt was \$887,000 and provides for interest at the rate of 2 percent per annum. Semi-annual payments of principal and interest began July 2022, 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 35.73 percent of the payments due and the Waste Disposal Fund finances 64.27 percent of the payments. Interest paid on this loan for the year ended June 30, 2022, was \$42,248.

Future payments of the bonds are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|-------------------------|-------------------|------------------|---------------------|
| 2023 | \$ 99,000 | \$ 15,432 | \$ 114,432 |
| 2024 | 98,000 | 15,270 | 113,270 |
| 2025 | 100,000 | 13,300 | 113,300 |
| 2026 | 102,000 | 11,290 | 113,290 |
| 2027 - 2031 | 488,000 | 24,660 | 512,660 |
| | <u>\$ 887,000</u> | <u>\$ 79,952</u> | <u>\$ 1,003,035</u> |

MALAGA COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

Note 5: Note Payables (continued)

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, 2022, was \$13,862.

Future payments of the bonds are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|-------------------------|-------------------|------------------|-------------------|
| 2023 | \$ 23,980 | \$ 12,920 | \$ 36,900 |
| 2024 | 24,961 | 11,939 | 36,900 |
| 2025 | 25,982 | 10,917 | 36,899 |
| 2026 | 27,045 | 9,855 | 36,900 |
| 2027 - 2031 | 152,757 | 31,743 | 184,500 |
| 2032 - 2035 | 70,211 | 3,590 | 73,801 |
| | <u>\$ 324,936</u> | <u>\$ 80,964</u> | <u>\$ 405,900</u> |

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 for the year ended June 30, 2022, was \$32,278.

Future payments of the bonds are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|-------------------------|-------------------|-------------------|---------------------|
| 2023 | \$ 59,500 | \$ 30,138 | \$ 89,638 |
| 2024 | 61,500 | 27,924 | 89,424 |
| 2025 | 63,500 | 25,636 | 89,136 |
| 2026 | 66,000 | 23,275 | 89,275 |
| 2027 - 2031 | 451,500 | 77,601 | 529,101 |
| 2032 - 2035 | 129,500 | 4,806 | 134,306 |
| | <u>\$ 831,500</u> | <u>\$ 189,380</u> | <u>\$ 1,020,880</u> |

MALAGA COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

Note 5: Note Payables (continued)

Safe Drinking Water

This debt was incurred to finance water meters for safe drinking water. The total amount of the debt was \$403,417 and provides for interest at the rate of 0 percent per annum. Semi-annual payments of principal began January 2021, and continue until paid. Full repayment of the loan is scheduled to occur in January 2049. The Water Fund finances this debt. Interest paid on this for the year ended June 30, 2022, was \$0.

Future payments of the bonds are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|-------------------------|-------------------|-------------|-------------------|
| 2023 | \$ 14,012 | \$ - | \$ 14,012 |
| 2024 | 14,012 | - | 14,012 |
| 2025 | 14,012 | - | 14,012 |
| 2026 | 14,012 | - | 14,012 |
| 2027 - 2031 | 70,058 | - | 70,058 |
| 2032 - 2036 | 70,058 | - | 70,058 |
| Thereafter | 182,146 | - | 182,146 |
| | <u>\$ 378,310</u> | <u>\$ -</u> | <u>\$ 378,310</u> |

Note 6: Restricted Assets – Cash

As of June 30, 2022, \$397,091 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, 2022.

Note 7: 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, 2022 was \$849,682 with covered payroll equaling \$813,908. The pensions cost to the District is 10 percent of the participants’ compensation. Required and accrued contributions to the plan for the year ended June 30, 2022 were \$79,428.

MALAGA COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

Note 8: Restatement

The following prior period adjustments were made to correct the beginning net position balances:

| | <u>Water</u> | <u>Sewer</u> | <u>Recreation</u> | <u>Solid Waste</u> | <u>Total</u> |
|--|--------------------|--------------------|----------------------|------------------------|--------------------|
| Beginning net position | \$7,226,536 | \$2,050,953 | \$(1,329,616) | \$ (16,808) | \$7,931,065 |
| Prior period adjustment - to record pension plan payments | <u>(42,666)</u> | <u>(101,543)</u> | <u>(26,452)</u> | <u>-</u> | <u>(170,661)</u> |
| Beginning net position, as restated | <u>\$7,183,870</u> | <u>\$1,949,410</u> | <u>\$(1,356,068)</u> | <u>\$ (16,808)</u> | <u>\$7,760,404</u> |

Note 9: Subsequent Events

In compliance with accounting standards, subsequent events were evaluated through July 17, 2023, which is the date the financial statements were available to be issued. Management has determined that no events require disclosure in accordance with the accounting standards subsequent to June 30, 2022.

MALAGA COUNTY WATER DISTRICT
COMBINING STATEMENT OF REVENUE AND EXPENSE
WASTE DISPOSAL FUND
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

| | Business-Type Activities - Waste Disposal Fund | | | | |
|------------------------------------|--|--------------------|-------------------|---------------------|---------------------|
| | 2022 | | | | 2021 |
| | Sewer | Pretreatment | Solid Waste | Total | Total |
| OPERATING REVENUE | | | | | |
| Charges for services | \$ 1,286,064 | \$ 153,863 | \$ 531,488 | \$ 1,971,415 | \$ 1,811,107 |
| Other | <u>57,362</u> | <u>21,358</u> | <u>745</u> | <u>79,465</u> | <u>75,138</u> |
| Total operating revenue | <u>1,343,426</u> | <u>175,221</u> | <u>532,233</u> | <u>2,050,880</u> | <u>1,886,245</u> |
| OPERATING EXPENSE | | | | | |
| Salaries and wages | 539,065 | 91,662 | - | 630,727 | 558,272 |
| Employee benefits | 302,105 | 34,214 | - | 336,319 | 230,450 |
| Refuse collection and disposal | 8,394 | - | 499,230 | 507,624 | 463,911 |
| Depreciation | 219,390 | - | - | 219,390 | 194,029 |
| Utilities | 171,469 | - | - | 171,469 | 157,955 |
| Professional services | 165,498 | 17,493 | - | 182,991 | 110,475 |
| Repairs and maintenance | 94,200 | 8,369 | - | 102,569 | 111,917 |
| Board of directors | 21,410 | - | - | 21,410 | 105,029 |
| Contract services | 24,453 | 4,437 | - | 28,890 | 38,061 |
| Insurance | 84,666 | 11,040 | - | 95,706 | 52,586 |
| Supplies and small tools | 87,310 | - | - | 87,310 | 37,377 |
| Dues and memberships | 46,493 | 1,063 | - | 47,556 | 46,017 |
| Other | 10,830 | 2,921 | - | 13,751 | 54,961 |
| Telephone | 30,869 | 4,648 | - | 35,517 | 28,486 |
| Testing | 32,379 | 3,684 | - | 36,063 | 27,162 |
| Travel, meetings and education | 11,239 | 351 | - | 11,590 | 1,279 |
| Fuel and oil | 14,336 | 2,553 | - | 16,889 | 9,879 |
| Bank charges | 1,216 | 106 | - | 1,322 | 3,396 |
| Office supplies and postage | 10,438 | 2,123 | - | 12,561 | 8,048 |
| Rents and leases | 14,026 | 248 | - | 14,274 | 4,306 |
| Education and training | <u>1,619</u> | <u>279</u> | <u>-</u> | <u>1,898</u> | <u>1,670</u> |
| Total operating expense | <u>1,891,405</u> | <u>185,191</u> | <u>499,230</u> | <u>2,575,826</u> | <u>2,245,266</u> |
| Net operating income | (547,979) | (9,970) | 33,003 | (524,946) | (359,021) |
| Nonoperating revenue/(expense) | | | | | |
| Grant revenue | - | - | - | - | - |
| Taxes and assessments | - | - | - | - | 7,653 |
| Other | (32,437) | (37,482) | 95,725 | 25,806 | 4,808 |
| Interest and use of property | 701 | - | - | 701 | 2,110 |
| Interest expense | <u>(64,844)</u> | <u>-</u> | <u>-</u> | <u>(64,844)</u> | <u>(36,786)</u> |
| Net nonoperating revenue/(expense) | <u>(96,580)</u> | <u>(37,482)</u> | <u>95,725</u> | <u>(38,337)</u> | <u>(22,215)</u> |
| Change in net position | <u>\$ (644,559)</u> | <u>\$ (47,452)</u> | <u>\$ 128,728</u> | <u>\$ (563,283)</u> | <u>\$ (381,236)</u> |



Jaribu W. Nelson, CPA

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

To the Board of Directors
Malaga County Water District

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities and each major fund of the Malaga County Water District (District), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated July 17, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 opinion 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 a 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* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did identify any deficiencies in internal control that we consider to be material weaknesses. These findings are identified as finding 22-01.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Malaga County Water District's financial statements are free from 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 this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jaribu W. Nelson, CPA

July 17, 2023

MALAGA COUNTY WATER DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2022

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

| | | | | |
|--|-------------------------------------|-----|-------------------------------------|-----|
| Type of auditor’s report issued: | Unmodified | | | |
| Internal control over financial reporting: | | | | |
| • Material weaknesses identified? | <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No |
| • Significant deficiency(ies) identified? | <input checked="" type="checkbox"/> | Yes | <input type="checkbox"/> | Yes |
| Non-compliance material to financial statements noted? | <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No |

SECTION II – FINANCIAL STATEMENT FINDINGS

There was one (1) financial statement finding to be reported in accordance with *Generally Accepted Government Auditing Standards (GAGAS)*. See Finding 2022-01

SECTION III – FEDERAL AWARDS FINDINGS

There are no federal award findings in accordance with *GAGAS* and the Compliance Supplement.

MALAGA COUNTY WATER DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2022

FINANCIAL STATEMENT FINDINGS

Finding 2022-01

Improve the preparation of the financial statements

Criteria:

Internal controls should be in place which will provide assurance that the financial statements along with preparation of the notes to the financial statements and supplementary information, are prepared accurately on a timely basis at year-end.

Condition:

During the course of performing our audit procedures, we noted that many proposed adjusting journal entries were to reclassify amounts to their proper account. We noted the pension plan has been unfunded for the prior 2 years and current year of this financial statement.

Cause:

Management did not perform its closing procedures to ensure all ledger account balances were properly classified to the appropriate fund on a timely basis at year-end. The in-house bookkeeper failed to timely make payments on the pension plan.

Effect:

There is a risk that a material financial statement may exist and not be prevented or detected by the District's system of internal control. The total dollar effect of the amounts not recorded totaled \$246,647.

Recommendation:

We recommend that the review of all year-end account balances include an accounting professional to validate the accuracy of all accounts. We recommend that the District make payment arrangements to bring the plan into compliance.

District Response:

The District will work with external CPA to provide accurate and timely financial reporting to minimize the misstatements that could occur. The District is currently engaging an external CPA to complete the current year financial statements in a more timely manner.

MALAGA COUNTY WATER DISTRICT

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2021

Finding 2021-01

Improve the preparation of the financial statements

Recommendation:

We recommend that the review of all year-end account balances include an accounting professional to validate the accuracy of all accounts.

Status:

Partially implemented, the District was able to procure an accounting professional. However, transactions were being presented inaccurately in the Recreation Fund and the Solid Waste Fund.



MALAGA COUNTY WATER DISTRICT

**INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS
JUNE 30, 2022**

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**MALAGA COUNTY WATER DISTRICT
BOARD OF DIRECTORS AND ADMINISTRATION
JUNE 30, 2022**

Board of Directors

Charles E. Garabedian Jr. President

Salvador Cerrillo Jr. Vice-President

Irma Castaneda Director

Frank A. Cerrillo, Jr. Director

Carlos Tovar, Jr. Director

Administration

Moises Ortiz General Manager

Norma Melendez Clerk



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Malaga County Water District

Opinion

We have audited the accompanying financial statements of the business-type activities and each major fund of the Malaga County Water District (District) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the District as of June 30, 2022, and the respective changes in financial position, and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Malaga County Water District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Malaga County Water District's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not

detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Malaga County Water District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Malaga County Water District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on page 5-8 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the 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.

Management has omitted the budgetary comparison information that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 17, 2023, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Malaga County Water District's 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 Malaga County Water District's internal control over financial reporting and compliance.

Jaribu W. Nelson, CPA

Clovis, California

July 17, 2023

MALAGA COUNTY WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2022

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, 2022. 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, 2022, by \$7,154,941. Of this amount, unrestricted net position of \$899,314 may be used to meet the District's ongoing obligations to customers and creditors. As of June 30, 2021, assets exceeded liabilities by \$7,931,065 with unrestricted net position equaling \$1,307,035.
- Total net position decreased by \$605,463 for the year ended June 30, 2022. For the year ended June 30, 2021, total net position decreased by \$129,182.
- During the current year, the District's fixed assets increased by a net of \$108,187. 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 \$430,176 for the current year. Prior year depreciation was \$380,449.
- Total debt decreased by a net of \$97,354 during the current year. The decrease was mostly attributable to the debt service payments. During the prior year, total debt increased by a net of \$225,029. This was mostly attributable to the acquisition of a loan to finance improvements to safe water drinking.

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.

**MALAGA COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
YEAR ENDED JUNE 30, 2022**

Financial Highlights (continued)

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 four proprietary funds, the Water Fund, the Waste Disposal Fund, the Recreation Fund, and the Solid Waste.

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, 2022, the District's assets exceeded liabilities by \$7,154,941. A significant portion of the District's net position (83 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 \$397,091 in net position (two 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
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
YEAR ENDED JUNE 30, 2022**

Malaga County Water District's Net Position

| | Business-Type Activities | Total | Prior Year Total |
|---|-----------------------------|---------------------|---------------------|
| ASSETS | | | |
| Current assets | \$ 2,581,907 | \$ 2,581,907 | \$ 1,870,192 |
| Other assets | 8,677,373 | 8,677,373 | 9,143,130 |
| Total assets | <u>11,259,280</u> | <u>11,259,280</u> | <u>11,013,322</u> |
| LIABILITIES | | | |
| Current liabilities | 1,682,593 | 1,682,593 | 563,157 |
| Deferred liabilities | <u>2,421,746</u> | <u>2,421,746</u> | <u>2,519,100</u> |
| Total liabilities | <u>4,104,339</u> | <u>4,104,339</u> | <u>3,082,257</u> |
| NET POSITION | | | |
| Net investment in capital assets, net of related debt | 5,858,536 | 5,858,536 | 6,083,171 |
| Restricted | 397,091 | 397,091 | 540,859 |
| Unrestricted | <u>899,314</u> | <u>899,314</u> | <u>1,307,035</u> |
| Total net position | <u>\$ 7,154,941</u> | <u>\$ 7,154,941</u> | <u>\$ 7,931,065</u> |

Malaga County Water District's Changes in Net Position

| | Business-Type Activities | Current Year Total | Prior Year Total (as restated) |
|-------------------------------------|-----------------------------|-----------------------|--------------------------------------|
| REVENUE | | | |
| Program revenue | | | |
| Charges for services | \$ 3,111,463 | \$ 3,111,463 | \$ 3,143,493 |
| Other | <u>102,949</u> | <u>102,949</u> | <u>90,224</u> |
| Total Revenues | <u>3,214,412</u> | <u>3,214,412</u> | <u>3,233,717</u> |
| EXPENSE | | | |
| Waste disposal utility activities | 1,956,249 | 1,956,249 | 1,643,970 |
| Water utility activities | 1,431,059 | 1,431,059 | 1,388,990 |
| Solid waste activities | 499,231 | 499,231 | 457,333 |
| Community recreation activities | <u>665,709</u> | <u>665,709</u> | <u>322,000</u> |
| Total Expenses | <u>4,552,248</u> | <u>4,552,248</u> | <u>3,812,293</u> |
| Net operating income/(loss) | (1,337,836) | (1,337,836) | (578,576) |
| Net nonoperating revenue/(expense) | <u>732,373</u> | <u>732,373</u> | <u>449,394</u> |
| Increase/(decrease) in net position | (605,463) | (605,463) | (129,182) |
| Net position, beginning of year | <u>7,760,404</u> | <u>7,760,404</u> | <u>8,060,247</u> |
| Net position, end of year | <u>\$ 7,154,941</u> | <u>\$ 7,154,941</u> | <u>\$ 7,931,065</u> |

**MALAGA COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
YEAR ENDED JUNE 30, 2022**

Business-type activities. Business-type activities decreased the District's net position by \$605,463, accounting for 100 percent of the total decrease 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, 2022, the District's proprietary funds reported a combined ending fund balance of \$7,154,941, an decrease of \$605,463, and a restatement of beginning net position totaling \$170,661. Of the entire ending fund balance, \$899,314 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, 2022, amounted to \$8,280,282 (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 \$2,421,746 as of June 30, 2022. Of this total amount, \$196,492 is due and payable during the year ending June 30, 2023. The remainder, referred to as deferred liabilities, is due and payable over the next 21 years.

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

Economic Factors and Next Year's Budgets and Rates

The budget for the year ending June 30, 2023, projects a surplus of \$192,525. Revenue is anticipated to decrease by \$38,098 compared to 2021/2022, while expenses are expected to decrease by \$13,401. Charges for services are anticipated to decrease by \$17,347, while non-operating revenue is expected to increase by \$24,811. Salaries, wages and employee benefits are expected to decrease by \$53,203 and services and supplies are anticipated to decrease by \$39,802 compared to 2021/2022.

User rates are not expected to increase during the year ending June 30, 2023.

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, 2022

ASSETS

| | |
|----------------------|------------------|
| Cash and investments | \$ 2,151,823 |
| Accounts receivable | 350,484 |
| Prepays | <u>79,600</u> |
| Total current assets | <u>2,581,907</u> |

OTHER ASSETS

| | |
|---|------------------|
| Restricted assets - cash | 397,091 |
| Capital assets, net of allowance for depreciation | <u>8,280,282</u> |
| Total other assets | <u>8,677,373</u> |

Total assets 11,259,280

LIABILITIES

| | |
|--------------------------------------|------------------|
| Accounts payable and accrued expense | 1,640,527 |
| Customer deposits payable | <u>42,066</u> |
| Total current liabilities | <u>1,682,593</u> |

NONCURRENT LIABILITIES

| | |
|------------------------------|------------------|
| Due within one year | 196,492 |
| Due in more than one year | <u>2,225,254</u> |
| Total Noncurrent liabilities | <u>2,421,746</u> |

NET POSITION

| | |
|---|------------------|
| Net investment in capital assets, net of related debt | 5,858,536 |
| Restricted | 397,091 |
| Unrestricted | <u>899,314</u> |
| Total net position | <u>7,154,941</u> |

Total Liabilities and Net Position \$ 11,259,280

MALAGA COUNTY WATER DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2022

BUSINESS-TYPE ACTIVITIES

| | | |
|------------------------------------|----------------|---------------------|
| Operating revenue | | |
| Charges for services | | \$ 3,111,463 |
| Other | | <u>102,949</u> |
| Total operating revenues | | 3,214,412 |
| Operating expense | | |
| Waste disposal utility activities | \$ 1,956,249 | |
| Water utility activities | 1,431,059 | |
| Solid waste activities | 499,231 | |
| Community recreation activities | <u>665,709</u> | |
| Total operating expense | | <u>4,552,248</u> |
| Net operating income/(loss) | | (1,337,836) |
| Net nonoperating revenue/(expense) | | <u>732,373</u> |
| Change in net position | | (605,463) |
| Net position, beginning of year | | <u>7,760,404</u> |
| Net position, end of year | | <u>\$ 7,154,941</u> |

**MALAGA COUNTY WATER DISTRICT
COMPARATIVE STATEMENT OF NET POSITION
PROPRIETARY FUNDS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

| | Business-Type Activities - Enterprise Funds | | | | | 2021 Total |
|---|---|---------------------|-----------------------|-------------------|---------------------|---------------------|
| | 2022 | | | | | |
| | Water | Waste Disposal | Recreation | Solid Waste | Total | |
| ASSETS | | | | | | |
| Current assets | | | | | | |
| Cash and cash equivalents | \$ 1,105,792 | \$ 621,130 | \$ 366,232 | \$ 58,669 | \$ 2,151,823 | \$ 1,477,622 |
| Accounts receivable | 90,406 | 185,365 | 1,762 | - | 277,533 | 304,365 |
| Prepaid expense | 11,003 | 12,829 | 2,518 | 53,250 | 79,600 | 88,205 |
| Total current assets | <u>1,207,201</u> | <u>819,324</u> | <u>370,512</u> | <u>111,919</u> | <u>2,508,956</u> | <u>1,870,192</u> |
| Other assets | | | | | | |
| Restricted cash and investments | - | - | 397,091 | - | 397,091 | 540,859 |
| Advances to other activities | 3,360,400 | - | - | - | 3,360,400 | 3,720,560 |
| Capital assets, net of accumulated depreciation | 3,601,353 | 3,352,612 | 1,326,317 | - | 8,280,282 | 8,602,271 |
| Total non-current assets | <u>6,961,753</u> | <u>3,352,612</u> | <u>1,723,408</u> | <u>-</u> | <u>12,037,773</u> | <u>12,863,690</u> |
| Total assets | <u>8,168,954</u> | <u>4,171,936</u> | <u>2,093,920</u> | <u>111,919</u> | <u>14,546,729</u> | <u>14,733,882</u> |
| LIABILITIES | | | | | | |
| Current liabilities | | | | | | |
| Accounts payable and accrued expenses | 244,279 | 1,286,852 | 110,099 | - | 1,641,230 | 521,121 |
| Customer deposits payable | 3,714 | 20,127 | 18,225 | - | 42,066 | 42,066 |
| Current portion of long-term debt | 121,221 | 15,771 | 59,500 | - | 196,492 | 170,306 |
| Total current liabilities | <u>369,214</u> | <u>1,322,750</u> | <u>187,824</u> | <u>-</u> | <u>1,879,788</u> | <u>733,493</u> |
| Other liabilities | | | | | | |
| Advances from other activities | - | 665,095 | 2,621,651 | - | 3,286,746 | 3,720,530 |
| Non-current liabilities | | | | | | |
| Notes payable, less current portion | 574,014 | 879,240 | 772,000 | - | 2,225,254 | 2,348,794 |
| Total liabilities | <u>943,228</u> | <u>2,867,085</u> | <u>3,581,475</u> | <u>-</u> | <u>7,391,788</u> | <u>6,802,817</u> |
| NET POSITION | | | | | | |
| Net investment in capital assets | 2,906,118 | 2,457,601 | 494,817 | - | 5,858,536 | 6,083,171 |
| Nonspendable | 2,561,166 | - | - | - | 2,561,166 | 2,561,166 |
| Restricted | - | - | 397,091 | - | 397,091 | 540,859 |
| Unrestricted / (deficit) | 1,758,442 | (1,152,750) | (2,379,463) | 111,919 | (1,661,852) | (1,254,131) |
| Total net position | <u>\$ 7,225,726</u> | <u>\$ 1,304,851</u> | <u>\$ (1,487,555)</u> | <u>\$ 111,919</u> | <u>\$ 7,154,941</u> | <u>\$ 7,931,065</u> |

MALAGA COUNTY WATER DISTRICT
COMPARATIVE STATEMENT OF REVENUE, EXPENSE, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

| | Business-Type Activities - Enterprise Funds | | | | | 2021 Total |
|---|--|-----------------------|-----------------------|--------------------|---------------------|-----------------------------|
| | 2022 | | | | | |
| | Water | Waste Disposal | Recreation | Solid Waste | Total | |
| Operating Revenue | | | | | | |
| Charges for services | \$ 1,270,193 | \$ 1,286,064 | \$ 23,718 | \$ 531,488 | \$ 3,111,463 | \$ 3,143,493 |
| Other | 34,487 | 57,362 | 10,355 | 745 | 102,949 | 90,224 |
| Total operating revenue | <u>1,304,680</u> | <u>1,343,426</u> | <u>34,073</u> | <u>532,233</u> | <u>3,214,412</u> | <u>3,233,717</u> |
| Operating Expense | | | | | | |
| Salaries and wages | 307,986 | 539,065 | 105,149 | - | 952,200 | 849,682 |
| Employee benefits | 239,821 | 302,105 | 36,755 | - | 578,681 | 412,440 |
| Refuse collection and disposal | 5,660 | 8,394 | 3,646 | 499,231 | 516,931 | 474,381 |
| Depreciation | 146,260 | 219,390 | 64,526 | - | 430,176 | 380,449 |
| Utilities | 220,711 | 171,469 | 73,026 | - | 465,206 | 436,738 |
| Professional services | 119,249 | 165,498 | - | - | 284,747 | 221,299 |
| Repairs and maintenance | 58,360 | 94,200 | 181,220 | - | 333,780 | 209,573 |
| Board of directors | 22,271 | 21,410 | - | - | 43,681 | 210,087 |
| Contract services | 22,814 | 24,453 | 10,919 | - | 58,186 | 67,265 |
| Insurance | 61,639 | 84,666 | 42,928 | - | 189,233 | 116,175 |
| Supplies and small tools | 22,889 | 87,310 | 83,958 | - | 194,157 | 79,157 |
| Dues and memberships | 50,109 | 46,493 | 754 | - | 97,356 | 76,545 |
| Other | 77,657 | 10,830 | 5,692 | - | 94,179 | 76,889 |
| Telephone | 13,604 | 30,869 | 8,641 | - | 53,114 | 47,657 |
| Testing | 6,401 | 32,379 | - | - | 38,780 | 36,158 |
| Travel, meetings and education | 17,022 | 11,239 | 3,037 | - | 31,298 | 3,928 |
| Fuel and oil | 12,489 | 14,336 | 1,161 | - | 27,986 | 20,311 |
| Bank charges | 3,853 | 1,216 | 934 | - | 6,003 | 7,267 |
| Office supplies and postage | 7,757 | 10,438 | 170 | - | 18,365 | 13,231 |
| Rents and leases | 1,547 | 14,026 | 8,330 | - | 23,903 | 8,133 |
| Education and training | 2,113 | 1,619 | 690 | - | 4,422 | 3,015 |
| Total operating expense | <u>1,420,212</u> | <u>1,891,405</u> | <u>631,536</u> | <u>499,231</u> | <u>4,442,384</u> | <u>3,750,380</u> |
| Net operating income/(loss) | <u>(115,532)</u> | <u>(547,979)</u> | <u>(597,463)</u> | <u>33,002</u> | <u>(1,227,972)</u> | <u>(516,663)</u> |
| Nonoperating Revenues/(Expenses) | | | | | | |
| Grant revenue | 67,869 | - | - | - | 67,869 | - |
| Taxes and assessments | - | - | 373,426 | - | 373,426 | 387,539 |
| Other | 97,213 | (32,437) | 124,305 | 95,725 | 284,806 | 54,276 |
| Interest and use of property | 3,153 | 701 | 2,418 | - | 6,272 | 7,579 |
| Interest expense | (10,847) | (64,844) | (34,173) | - | (109,864) | (61,913) |
| Net nonoperating revenues/(expenses) | <u>157,388</u> | <u>(96,580)</u> | <u>465,976</u> | <u>95,725</u> | <u>622,509</u> | <u>387,481</u> |
| Other Financing Sources/(Uses) | | | | | | |
| Transfers in | - | - | - | - | - | 34,127 |
| Transfers out | - | - | - | - | - | (34,127) |
| Net other financing sources / (uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Change in net position | 41,856 | (644,559) | (131,487) | 128,727 | (605,463) | (129,182) |
| Net Position - beginning of year | <u>7,226,536</u> | <u>2,050,953</u> | <u>(1,329,616)</u> | <u>(16,808)</u> | <u>7,931,065</u> | <u>8,060,247</u> |
| Prior Period Adjustment | (42,666) | (101,543) | (26,452) | - | (170,661) | |
| Net Position - beginning of year (restated) | <u>7,183,870</u> | <u>1,949,410</u> | <u>(1,356,068)</u> | <u>(16,808)</u> | <u>7,760,404</u> | |
| Net Position, End of Year | <u>\$ 7,225,726</u> | <u>\$ 1,304,851</u> | <u>\$ (1,487,555)</u> | <u>\$ 111,919</u> | <u>\$ 7,154,941</u> | <u>\$ 7,931,065</u> |

The accompanying notes are an integral part of the financial statements.

**MALAGA COUNTY WATER DISTRICT
COMPARATIVE STATEMENT OF CASH FLOW
PROPRIETARY FUNDS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

| | Business-Type Activities - Enterprise Funds | | | | | 2021 Total |
|---|--|-----------------------|-------------------|--------------------|---------------------|-----------------------|
| | Water | Waset Disposal | Recreation | Solid Waste | Total | |
| Operating Activities | | | | | | |
| Received from customers | \$ 1,302,764 | \$ 1,372,174 | \$ 34,073 | \$ 532,233 | \$ 3,241,244 | \$ 3,233,717 |
| Payments to suppliers | (610,409) | 273,159 | (445,564) | (499,231) | (1,282,045) | (2,001,969) |
| Payments to employees | (590,473) | (942,713) | (168,356) | - | (1,701,542) | (1,262,122) |
| Net cash provided by (used in) operating activities | <u>101,882</u> | <u>702,620</u> | <u>(579,847)</u> | <u>33,002</u> | <u>257,657</u> | <u>(30,374)</u> |
| Non-capital Financing Activities | | | | | | |
| Advances (to)/from other funds | 360,160 | (433,784) | - | - | (73,624) | (30) |
| Property taxes and other nonoperating revenue | <u>97,213</u> | <u>(32,437)</u> | <u>497,731</u> | <u>95,725</u> | <u>658,232</u> | <u>441,815</u> |
| Net cash provided by (used in) noncapital financing activities | <u>457,373</u> | <u>(466,221)</u> | <u>497,731</u> | <u>95,725</u> | <u>584,608</u> | <u>441,785</u> |
| Capital and Related Financing Activities | | | | | | |
| Grant revenue | 67,869 | - | - | - | 67,869 | - |
| Proceeds from construction loan | - | - | - | - | - | - |
| Principal paid on notes payable | (445,146) | 405,292 | (57,500) | - | (97,354) | (225,031) |
| Interest paid on notes payable | (10,847) | (64,844) | (34,173) | (70,568) | (180,432) | (61,913) |
| Disposition of capital assets | - | - | - | - | - | - |
| Transfers in / (out) | - | - | - | - | - | - |
| Purchase of capital assets | (24,075) | (24,075) | (60,037) | - | (108,187) | (158,584) |
| Net cash provided (used) in capital and related financing activities | <u>(412,199)</u> | <u>316,373</u> | <u>(151,710)</u> | <u>(70,568)</u> | <u>(318,104)</u> | <u>(445,528)</u> |
| Investing Activities | | | | | | |
| Interest and use of property | <u>3,153</u> | <u>701</u> | <u>2,418</u> | <u>-</u> | <u>6,272</u> | <u>24,987</u> |
| Net Increase / (Decrease) in Cash | 150,209 | 553,473 | (231,408) | 58,159 | 530,433 | (9,130) |
| Cash and Investments | | | | | | |
| Beginning of year | <u>955,583</u> | <u>67,657</u> | <u>994,731</u> | <u>510</u> | <u>2,018,481</u> | <u>2,027,611</u> |
| End of year | <u>\$ 1,105,792</u> | <u>\$ 621,130</u> | <u>\$ 763,323</u> | <u>\$ 58,669</u> | <u>\$ 2,548,914</u> | <u>\$ 2,018,481</u> |

**MALAGA COUNTY WATER DISTRICT
COMPARATIVE STATEMENT OF CASH FLOW
PROPRIETARY FUNDS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

| | Business-Type Activities - Enterprise Funds | | | | | 2021 Total |
|--|---|-------------------|---------------------|------------------|---------------------|---------------------|
| | 2022 | | | | | |
| | Water | Waste Disposal | Recreation | Solid Waste | Total | |
| Reconciliation of Operating Income (Loss) to Net Cash Provided By/(Used) for Operating Activities | | | | | | |
| Operating income (loss) | \$ (115,532) | \$ (547,979) | \$ (597,463) | \$ 33,002 | \$ (1,227,972) | \$ (516,663) |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | | | | |
| Depreciation | 146,260 | 219,390 | 64,526 | - | 430,176 | 380,449 |
| Changes in assets and liabilities: | | | | | | |
| (Increase) Decrease in accounts receivable | (1,916) | 28,748 | - | - | 26,832 | - |
| (Increase) Decrease in prepaid expense | 17,021 | 30,872 | 13,962 | - | 61,855 | 53,385 |
| Increase (Decrease) in accounts payable and accrued expense | 56,049 | 971,589 | (60,872) | - | 966,766 | 55,489 |
| (Increase) Decrease in deposits | - | - | - | - | - | (3,034) |
| Net Cash Provided/(Used) by Operating Activities | <u>\$ 101,882</u> | <u>\$ 702,620</u> | <u>\$ (579,847)</u> | <u>\$ 33,002</u> | <u>\$ 257,657</u> | <u>\$ (30,374)</u> |
| Summary of cash balances, end of year | | | | | | |
| Cash and cash equivalents | 1,105,792 | 621,130 | 366,232 | 58,669 | 2,151,823 | 1,477,622 |
| Restricted cash | - | - | 397,091 | - | 397,091 | 540,859 |
| | <u>\$ 1,105,792</u> | <u>\$ 621,130</u> | <u>\$ 763,323</u> | <u>\$ 58,669</u> | <u>\$ 2,548,914</u> | <u>\$ 2,018,481</u> |

MALAGA COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

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).

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.

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, 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.

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 FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

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.

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 FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

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:

Nonspendable – Amounts that are not in spendable form (such as inventory) or are required either legally or contractually to be maintained intact. 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 capital assets, net of related debt.

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.

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.

Budgets and Budgetary Accounting

The District established a budget for its governmental fund for the year ended June 30, 2022. The budget is adopted on a basis consistent with generally accepted accounting principles (GAAP).

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.

Statement Reclassifications

Certain reclassifications may have been made in the prior year's amounts to conform with current year financial statement presentation.

MALAGA COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

Note 2: Cash and Investments

The District's deposits as of June 30, 2022, 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, 2022:

| | Bank Balance Category * | | | Carrying Amount |
|------------------------------|-------------------------|--------------------|-------------|--------------------|
| | 1 | 2 | 3 | |
| Cash on hand | \$ 42,635 | \$ - | \$ - | \$ 42,635 |
| Cash in bank | 1,462,122 | 511,285 | - | 1,973,407 |
| Fresno County Treasury | - | 28,997 | - | 28,997 |
| Local Agency Investment Fund | - | 503,875 | - | 503,875 |
| Total cash and investments | <u>\$1,504,757</u> | <u>\$1,044,157</u> | <u>\$ -</u> | <u>\$2,548,914</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, 2022:

| | Beginning Balance | Additions/ Completions | Disposals/ Adjustments | Ending Balance |
|----------------------------|----------------------|---------------------------|---------------------------|---------------------|
| Land* | \$ 299,264 | \$ - | \$ - | \$ 299,264 |
| Water system | 8,228,829 | - | - | 8,228,829 |
| Sewer system | 7,388,123 | - | - | 7,388,123 |
| Buildings | 1,169,276 | - | - | 1,169,276 |
| Construction in progress* | 713,110 | 60,037 | - | 773,147 |
| Park development | 1,055,306 | - | - | 1,055,306 |
| Equipment | 615,072 | 48,150 | - | 663,222 |
| Total | 19,468,980 | 108,187 | - | 19,577,167 |
| Allowance for depreciation | <u>(10,866,709)</u> | <u>(430,176)</u> | <u>-</u> | <u>(11,296,885)</u> |
| | <u>8,602,271</u> | <u>(321,989)</u> | <u>-</u> | <u>8,280,282</u> |

* Not currently being depreciated.

MALAGA COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

Note 4: Noncurrent Liabilities

The following is a summary of deferred liabilities (long-term debt) for the year ended June 30, 2022:

| | Beginning Balance | Additions | Deletions | Ending Balance | Classification | |
|--|-------------------------|-----------------|-------------------------|-------------------------|------------------------|-------------------------|
| | | | | | Due Within One Year | Due After One Year |
| Note payable | | | | | | |
| Water and sewer systems improvements | \$ 889,805 | \$ 72,951 | \$ (75,756) | \$ 887,000 | \$ 99,000 | \$ 788,000 |
| Parks and recreation improvements | 889,000 | - | (57,500) | 831,500 | 59,500 | 772,000 |
| Wastewater treatment plant improvements | 347,974 | - | (23,038) | 324,936 | 23,980 | 300,956 |
| Safe drinking water | 392,322 | - | (14,012) | 378,310 | 14,012 | 364,298 |
| Total long-term debt | <u>\$ 2,519,101</u> | <u>\$ -</u> | <u>\$ (170,306)</u> | <u>\$ 2,421,746</u> | <u>\$ 196,492</u> | <u>\$ 2,225,254</u> |

Note 5: Note Payables

Water and Sewer Systems Improvements

This debt was incurred to refinance the construction of water well number eight and improvements to the sewer system. The total amount of the debt was \$887,000 and provides for interest at the rate of 2 percent per annum. Semi-annual payments of principal and interest began July 2022, 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 35.73 percent of the payments due and the Waste Disposal Fund finances 64.27 percent of the payments. Interest paid on this loan for the year ended June 30, 2022, was \$42,248.

Future payments of the bonds are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|-------------------------|-------------------|------------------|---------------------|
| 2023 | \$ 99,000 | \$ 15,432 | \$ 114,432 |
| 2024 | 98,000 | 15,270 | 113,270 |
| 2025 | 100,000 | 13,300 | 113,300 |
| 2026 | 102,000 | 11,290 | 113,290 |
| 2027 - 2031 | 488,000 | 24,660 | 512,660 |
| | <u>\$ 887,000</u> | <u>\$ 79,952</u> | <u>\$ 1,003,035</u> |

MALAGA COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

Note 5: Note Payables (continued)

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, 2022, was \$13,862.

Future payments of the bonds are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|-------------------------|-------------------|------------------|-------------------|
| 2023 | \$ 23,980 | \$ 12,920 | \$ 36,900 |
| 2024 | 24,961 | 11,939 | 36,900 |
| 2025 | 25,982 | 10,917 | 36,899 |
| 2026 | 27,045 | 9,855 | 36,900 |
| 2027 - 2031 | 152,757 | 31,743 | 184,500 |
| 2032 - 2035 | 70,211 | 3,590 | 73,801 |
| | <u>\$ 324,936</u> | <u>\$ 80,964</u> | <u>\$ 405,900</u> |

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 for the year ended June 30, 2022, was \$32,278.

Future payments of the bonds are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|-------------------------|-------------------|-------------------|---------------------|
| 2023 | \$ 59,500 | \$ 30,138 | \$ 89,638 |
| 2024 | 61,500 | 27,924 | 89,424 |
| 2025 | 63,500 | 25,636 | 89,136 |
| 2026 | 66,000 | 23,275 | 89,275 |
| 2027 - 2031 | 451,500 | 77,601 | 529,101 |
| 2032 - 2035 | 129,500 | 4,806 | 134,306 |
| | <u>\$ 831,500</u> | <u>\$ 189,380</u> | <u>\$ 1,020,880</u> |

MALAGA COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

Note 5: Note Payables (continued)

Safe Drinking Water

This debt was incurred to finance water meters for safe drinking water. The total amount of the debt was \$403,417 and provides for interest at the rate of 0 percent per annum. Semi-annual payments of principal began January 2021, and continue until paid. Full repayment of the loan is scheduled to occur in January 2049. The Water Fund finances this debt. Interest paid on this for the year ended June 30, 2022, was \$0.

Future payments of the bonds are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|-------------------------|-------------------|-------------|-------------------|
| 2023 | \$ 14,012 | \$ - | \$ 14,012 |
| 2024 | 14,012 | - | 14,012 |
| 2025 | 14,012 | - | 14,012 |
| 2026 | 14,012 | - | 14,012 |
| 2027 - 2031 | 70,058 | - | 70,058 |
| 2032 - 2036 | 70,058 | - | 70,058 |
| Thereafter | 182,146 | - | 182,146 |
| | <u>\$ 378,310</u> | <u>\$ -</u> | <u>\$ 378,310</u> |

Note 6: Restricted Assets – Cash

As of June 30, 2022, \$397,091 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, 2022.

Note 7: 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, 2022 was \$849,682 with covered payroll equaling \$813,908. The pensions cost to the District is 10 percent of the participants’ compensation. Required and accrued contributions to the plan for the year ended June 30, 2022 were \$79,428.

MALAGA COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

Note 8: Restatement

The following prior period adjustments were made to correct the beginning net position balances:

| | <u>Water</u> | <u>Sewer</u> | <u>Recreation</u> | <u>Solid Waste</u> | <u>Total</u> |
|--|--------------------|--------------------|----------------------|------------------------|--------------------|
| Beginning net position | \$7,226,536 | \$2,050,953 | \$(1,329,616) | \$ (16,808) | \$7,931,065 |
| Prior period adjustment - to record pension plan payments | <u>(42,666)</u> | <u>(101,543)</u> | <u>(26,452)</u> | <u>-</u> | <u>(170,661)</u> |
| Beginning net position, as restated | <u>\$7,183,870</u> | <u>\$1,949,410</u> | <u>\$(1,356,068)</u> | <u>\$ (16,808)</u> | <u>\$7,760,404</u> |

Note 9: Subsequent Events

In compliance with accounting standards, subsequent events were evaluated through July 17, 2023, which is the date the financial statements were available to be issued. Management has determined that no events require disclosure in accordance with the accounting standards subsequent to June 30, 2022.

MALAGA COUNTY WATER DISTRICT
COMBINING STATEMENT OF REVENUE AND EXPENSE
WASTE DISPOSAL FUND
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

| | Business-Type Activities - Waste Disposal Fund | | | | |
|------------------------------------|--|--------------------|-------------------|---------------------|---------------------|
| | 2022 | | | | 2021 |
| | Sewer | Pretreatment | Solid Waste | Total | Total |
| OPERATING REVENUE | | | | | |
| Charges for services | \$ 1,286,064 | \$ 153,863 | \$ 531,488 | \$ 1,971,415 | \$ 1,811,107 |
| Other | <u>57,362</u> | <u>21,358</u> | <u>745</u> | <u>79,465</u> | <u>75,138</u> |
| Total operating revenue | <u>1,343,426</u> | <u>175,221</u> | <u>532,233</u> | <u>2,050,880</u> | <u>1,886,245</u> |
| OPERATING EXPENSE | | | | | |
| Salaries and wages | 539,065 | 91,662 | - | 630,727 | 558,272 |
| Employee benefits | 302,105 | 34,214 | - | 336,319 | 230,450 |
| Refuse collection and disposal | 8,394 | - | 499,230 | 507,624 | 463,911 |
| Depreciation | 219,390 | - | - | 219,390 | 194,029 |
| Utilities | 171,469 | - | - | 171,469 | 157,955 |
| Professional services | 165,498 | 17,493 | - | 182,991 | 110,475 |
| Repairs and maintenance | 94,200 | 8,369 | - | 102,569 | 111,917 |
| Board of directors | 21,410 | - | - | 21,410 | 105,029 |
| Contract services | 24,453 | 4,437 | - | 28,890 | 38,061 |
| Insurance | 84,666 | 11,040 | - | 95,706 | 52,586 |
| Supplies and small tools | 87,310 | - | - | 87,310 | 37,377 |
| Dues and memberships | 46,493 | 1,063 | - | 47,556 | 46,017 |
| Other | 10,830 | 2,921 | - | 13,751 | 54,961 |
| Telephone | 30,869 | 4,648 | - | 35,517 | 28,486 |
| Testing | 32,379 | 3,684 | - | 36,063 | 27,162 |
| Travel, meetings and education | 11,239 | 351 | - | 11,590 | 1,279 |
| Fuel and oil | 14,336 | 2,553 | - | 16,889 | 9,879 |
| Bank charges | 1,216 | 106 | - | 1,322 | 3,396 |
| Office supplies and postage | 10,438 | 2,123 | - | 12,561 | 8,048 |
| Rents and leases | 14,026 | 248 | - | 14,274 | 4,306 |
| Education and training | <u>1,619</u> | <u>279</u> | <u>-</u> | <u>1,898</u> | <u>1,670</u> |
| Total operating expense | <u>1,891,405</u> | <u>185,191</u> | <u>499,230</u> | <u>2,575,826</u> | <u>2,245,266</u> |
| Net operating income | (547,979) | (9,970) | 33,003 | (524,946) | (359,021) |
| Nonoperating revenue/(expense) | | | | | |
| Grant revenue | - | - | - | - | - |
| Taxes and assessments | - | - | - | - | 7,653 |
| Other | (32,437) | (37,482) | 95,725 | 25,806 | 4,808 |
| Interest and use of property | 701 | - | - | 701 | 2,110 |
| Interest expense | <u>(64,844)</u> | <u>-</u> | <u>-</u> | <u>(64,844)</u> | <u>(36,786)</u> |
| Net nonoperating revenue/(expense) | <u>(96,580)</u> | <u>(37,482)</u> | <u>95,725</u> | <u>(38,337)</u> | <u>(22,215)</u> |
| Change in net position | <u>\$ (644,559)</u> | <u>\$ (47,452)</u> | <u>\$ 128,728</u> | <u>\$ (563,283)</u> | <u>\$ (381,236)</u> |



Jaribu W. Nelson, CPA

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

To the Board of Directors
Malaga County Water District

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities and each major fund of the Malaga County Water District (District), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated July 17, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 opinion 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 a 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* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did identify any deficiencies in internal control that we consider to be material weaknesses. These findings are identified as finding 22-01.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Malaga County Water District's financial statements are free from 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 this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jaribu W. Nelson, CPA

July 17, 2023

MALAGA COUNTY WATER DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2022

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

| | | | | |
|--|-------------------------------------|-----|-------------------------------------|-----|
| Type of auditor’s report issued: | Unmodified | | | |
| Internal control over financial reporting: | | | | |
| • Material weaknesses identified? | <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No |
| • Significant deficiency(ies) identified? | <input checked="" type="checkbox"/> | Yes | <input type="checkbox"/> | Yes |
| Non-compliance material to financial statements noted? | <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No |

SECTION II – FINANCIAL STATEMENT FINDINGS

There was one (1) financial statement finding to be reported in accordance with *Generally Accepted Government Auditing Standards (GAGAS)*. See Finding 2022-01

SECTION III – FEDERAL AWARDS FINDINGS

There are no federal award findings in accordance with *GAGAS* and the Compliance Supplement.

MALAGA COUNTY WATER DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2022

FINANCIAL STATEMENT FINDINGS

Finding 2022-01

Improve the preparation of the financial statements

Criteria:

Internal controls should be in place which will provide assurance that the financial statements along with preparation of the notes to the financial statements and supplementary information, are prepared accurately on a timely basis at year-end.

Condition:

During the course of performing our audit procedures, we noted that many proposed adjusting journal entries were to reclassify amounts to their proper account. We noted the pension plan has been unfunded for the prior 2 years and current year of this financial statement.

Cause:

Management did not perform its closing procedures to ensure all ledger account balances were properly classified to the appropriate fund on a timely basis at year-end. The in-house bookkeeper failed to timely make payments on the pension plan.

Effect:

There is a risk that a material financial statement may exist and not be prevented or detected by the District's system of internal control. The total dollar effect of the amounts not recorded totaled \$246,647.

Recommendation:

We recommend that the review of all year-end account balances include an accounting professional to validate the accuracy of all accounts. We recommend that the District make payment arrangements to bring the plan into compliance.

District Response:

The District will work with external CPA to provide accurate and timely financial reporting to minimize the misstatements that could occur. The District is currently engaging an external CPA to complete the current year financial statements in a more timely manner.

MALAGA COUNTY WATER DISTRICT

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2021

Finding 2021-01

Improve the preparation of the financial statements

Recommendation:

We recommend that the review of all year-end account balances include an accounting professional to validate the accuracy of all accounts.

Status:

Partially implemented, the District was able to procure an accounting professional. However, transactions were being presented inaccurately in the Recreation Fund and the Solid Waste Fund.



MALAGA COUNTY WATER DISTRICT

**INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS
JUNE 30, 2022**

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**MALAGA COUNTY WATER DISTRICT
BOARD OF DIRECTORS AND ADMINISTRATION
JUNE 30, 2022**

Board of Directors

Charles E. Garabedian Jr. President

Salvador Cerrillo Jr. Vice-President

Irma Castaneda Director

Frank A. Cerrillo, Jr. Director

Carlos Tovar, Jr. Director

Administration

Moises Ortiz General Manager

Norma Melendez Clerk



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Malaga County Water District

Opinion

We have audited the accompanying financial statements of the business-type activities and each major fund of the Malaga County Water District (District) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the District as of June 30, 2022, and the respective changes in financial position, and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Malaga County Water District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Malaga County Water District's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not

detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Malaga County Water District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Malaga County Water District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on page 5-8 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the 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.

Management has omitted the budgetary comparison information that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 17, 2023, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Malaga County Water District's 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 Malaga County Water District's internal control over financial reporting and compliance.

Jaribu W. Nelson, CPA

Clovis, California

July 17, 2023

MALAGA COUNTY WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2022

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, 2022. 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, 2022, by \$7,154,941. Of this amount, unrestricted net position of \$899,314 may be used to meet the District's ongoing obligations to customers and creditors. As of June 30, 2021, assets exceeded liabilities by \$7,931,065 with unrestricted net position equaling \$1,307,035.
- Total net position decreased by \$605,463 for the year ended June 30, 2022. For the year ended June 30, 2021, total net position decreased by \$129,182.
- During the current year, the District's fixed assets increased by a net of \$108,187. 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 \$430,176 for the current year. Prior year depreciation was \$380,449.
- Total debt decreased by a net of \$97,354 during the current year. The decrease was mostly attributable to the debt service payments. During the prior year, total debt increased by a net of \$225,029. This was mostly attributable to the acquisition of a loan to finance improvements to safe water drinking.

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.

**MALAGA COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
YEAR ENDED JUNE 30, 2022**

Financial Highlights (continued)

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 four proprietary funds, the Water Fund, the Waste Disposal Fund, the Recreation Fund, and the Solid Waste.

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, 2022, the District's assets exceeded liabilities by \$7,154,941. A significant portion of the District's net position (83 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 \$397,091 in net position (two 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
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
YEAR ENDED JUNE 30, 2022**

Malaga County Water District's Net Position

| | Business-Type Activities | Total | Prior Year Total |
|---|-----------------------------|---------------------|---------------------|
| ASSETS | | | |
| Current assets | \$ 2,581,907 | \$ 2,581,907 | \$ 1,870,192 |
| Other assets | 8,677,373 | 8,677,373 | 9,143,130 |
| Total assets | <u>11,259,280</u> | <u>11,259,280</u> | <u>11,013,322</u> |
| LIABILITIES | | | |
| Current liabilities | 1,682,593 | 1,682,593 | 563,157 |
| Deferred liabilities | <u>2,421,746</u> | <u>2,421,746</u> | <u>2,519,100</u> |
| Total liabilities | <u>4,104,339</u> | <u>4,104,339</u> | <u>3,082,257</u> |
| NET POSITION | | | |
| Net investment in capital assets, net of related debt | 5,858,536 | 5,858,536 | 6,083,171 |
| Restricted | 397,091 | 397,091 | 540,859 |
| Unrestricted | <u>899,314</u> | <u>899,314</u> | <u>1,307,035</u> |
| Total net position | <u>\$ 7,154,941</u> | <u>\$ 7,154,941</u> | <u>\$ 7,931,065</u> |

Malaga County Water District's Changes in Net Position

| | Business-Type Activities | Current Year Total | Prior Year Total (as restated) |
|-------------------------------------|-----------------------------|-----------------------|--------------------------------------|
| REVENUE | | | |
| Program revenue | | | |
| Charges for services | \$ 3,111,463 | \$ 3,111,463 | \$ 3,143,493 |
| Other | <u>102,949</u> | <u>102,949</u> | <u>90,224</u> |
| Total Revenues | <u>3,214,412</u> | <u>3,214,412</u> | <u>3,233,717</u> |
| EXPENSE | | | |
| Waste disposal utility activities | 1,956,249 | 1,956,249 | 1,643,970 |
| Water utility activities | 1,431,059 | 1,431,059 | 1,388,990 |
| Solid waste activities | 499,231 | 499,231 | 457,333 |
| Community recreation activities | <u>665,709</u> | <u>665,709</u> | <u>322,000</u> |
| Total Expenses | <u>4,552,248</u> | <u>4,552,248</u> | <u>3,812,293</u> |
| Net operating income/(loss) | (1,337,836) | (1,337,836) | (578,576) |
| Net nonoperating revenue/(expense) | <u>732,373</u> | <u>732,373</u> | <u>449,394</u> |
| Increase/(decrease) in net position | (605,463) | (605,463) | (129,182) |
| Net position, beginning of year | <u>7,760,404</u> | <u>7,760,404</u> | <u>8,060,247</u> |
| Net position, end of year | <u>\$ 7,154,941</u> | <u>\$ 7,154,941</u> | <u>\$ 7,931,065</u> |

**MALAGA COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
YEAR ENDED JUNE 30, 2022**

Business-type activities. Business-type activities decreased the District's net position by \$605,463, accounting for 100 percent of the total decrease 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, 2022, the District's proprietary funds reported a combined ending fund balance of \$7,154,941, an decrease of \$605,463, and a restatement of beginning net position totaling \$170,661. Of the entire ending fund balance, \$899,314 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, 2022, amounted to \$8,280,282 (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 \$2,421,746 as of June 30, 2022. Of this total amount, \$196,492 is due and payable during the year ending June 30, 2023. The remainder, referred to as deferred liabilities, is due and payable over the next 21 years.

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

Economic Factors and Next Year's Budgets and Rates

The budget for the year ending June 30, 2023, projects a surplus of \$192,525. Revenue is anticipated to decrease by \$38,098 compared to 2021/2022, while expenses are expected to decrease by \$13,401. Charges for services are anticipated to decrease by \$17,347, while non-operating revenue is expected to increase by \$24,811. Salaries, wages and employee benefits are expected to decrease by \$53,203 and services and supplies are anticipated to decrease by \$39,802 compared to 2021/2022.

User rates are not expected to increase during the year ending June 30, 2023.

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, 2022

ASSETS

| | |
|----------------------|------------------|
| Cash and investments | \$ 2,151,823 |
| Accounts receivable | 350,484 |
| Prepays | <u>79,600</u> |
| Total current assets | <u>2,581,907</u> |

OTHER ASSETS

| | |
|---|------------------|
| Restricted assets - cash | 397,091 |
| Capital assets, net of allowance for depreciation | <u>8,280,282</u> |
| Total other assets | <u>8,677,373</u> |

Total assets 11,259,280

LIABILITIES

| | |
|--------------------------------------|------------------|
| Accounts payable and accrued expense | 1,640,527 |
| Customer deposits payable | <u>42,066</u> |
| Total current liabilities | <u>1,682,593</u> |

NONCURRENT LIABILITIES

| | |
|------------------------------|------------------|
| Due within one year | 196,492 |
| Due in more than one year | <u>2,225,254</u> |
| Total Noncurrent liabilities | <u>2,421,746</u> |

NET POSITION

| | |
|---|------------------|
| Net investment in capital assets, net of related debt | 5,858,536 |
| Restricted | 397,091 |
| Unrestricted | <u>899,314</u> |
| Total net position | <u>7,154,941</u> |

Total Liabilities and Net Position \$ 11,259,280

MALAGA COUNTY WATER DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2022

BUSINESS-TYPE ACTIVITIES

| | | |
|------------------------------------|----------------|---------------------|
| Operating revenue | | |
| Charges for services | | \$ 3,111,463 |
| Other | | <u>102,949</u> |
| Total operating revenues | | 3,214,412 |
| Operating expense | | |
| Waste disposal utility activities | \$ 1,956,249 | |
| Water utility activities | 1,431,059 | |
| Solid waste activities | 499,231 | |
| Community recreation activities | <u>665,709</u> | |
| Total operating expense | | <u>4,552,248</u> |
| Net operating income/(loss) | | (1,337,836) |
| Net nonoperating revenue/(expense) | | <u>732,373</u> |
| Change in net position | | (605,463) |
| Net position, beginning of year | | <u>7,760,404</u> |
| Net position, end of year | | <u>\$ 7,154,941</u> |

**MALAGA COUNTY WATER DISTRICT
COMPARATIVE STATEMENT OF NET POSITION
PROPRIETARY FUNDS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

| | Business-Type Activities - Enterprise Funds | | | | | 2021 Total |
|---|---|----------------|----------------|-------------|--------------|---------------|
| | 2022 | | | | | |
| | Water | Waste Disposal | Recreation | Solid Waste | Total | |
| ASSETS | | | | | | |
| Current assets | | | | | | |
| Cash and cash equivalents | \$ 1,105,792 | \$ 621,130 | \$ 366,232 | \$ 58,669 | \$ 2,151,823 | \$ 1,477,622 |
| Accounts receivable | 90,406 | 185,365 | 1,762 | - | 277,533 | 304,365 |
| Prepaid expense | 11,003 | 12,829 | 2,518 | 53,250 | 79,600 | 88,205 |
| Total current assets | 1,207,201 | 819,324 | 370,512 | 111,919 | 2,508,956 | 1,870,192 |
| Other assets | | | | | | |
| Restricted cash and investments | - | - | 397,091 | - | 397,091 | 540,859 |
| Advances to other activities | 3,360,400 | - | - | - | 3,360,400 | 3,720,560 |
| Capital assets, net of accumulated depreciation | 3,601,353 | 3,352,612 | 1,326,317 | - | 8,280,282 | 8,602,271 |
| Total non-current assets | 6,961,753 | 3,352,612 | 1,723,408 | - | 12,037,773 | 12,863,690 |
| Total assets | 8,168,954 | 4,171,936 | 2,093,920 | 111,919 | 14,546,729 | 14,733,882 |
| LIABILITIES | | | | | | |
| Current liabilities | | | | | | |
| Accounts payable and accrued expenses | 244,279 | 1,286,852 | 110,099 | - | 1,641,230 | 521,121 |
| Customer deposits payable | 3,714 | 20,127 | 18,225 | - | 42,066 | 42,066 |
| Current portion of long-term debt | 121,221 | 15,771 | 59,500 | - | 196,492 | 170,306 |
| Total current liabilities | 369,214 | 1,322,750 | 187,824 | - | 1,879,788 | 733,493 |
| Other liabilities | | | | | | |
| Advances from other activities | - | 665,095 | 2,621,651 | - | 3,286,746 | 3,720,530 |
| Non-current liabilities | | | | | | |
| Notes payable, less current portion | 574,014 | 879,240 | 772,000 | - | 2,225,254 | 2,348,794 |
| Total liabilities | 943,228 | 2,867,085 | 3,581,475 | - | 7,391,788 | 6,802,817 |
| NET POSITION | | | | | | |
| Net investment in capital assets | 2,906,118 | 2,457,601 | 494,817 | - | 5,858,536 | 6,083,171 |
| Nonspendable | 2,561,166 | - | - | - | 2,561,166 | 2,561,166 |
| Restricted | - | - | 397,091 | - | 397,091 | 540,859 |
| Unrestricted / (deficit) | 1,758,442 | (1,152,750) | (2,379,463) | 111,919 | (1,661,852) | (1,254,131) |
| Total net position | \$ 7,225,726 | \$ 1,304,851 | \$ (1,487,555) | \$ 111,919 | \$ 7,154,941 | \$ 7,931,065 |

MALAGA COUNTY WATER DISTRICT
COMPARATIVE STATEMENT OF REVENUE, EXPENSE, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

| | Business-Type Activities - Enterprise Funds | | | | | 2021 Total |
|---|--|-----------------------|-----------------------|--------------------|---------------------|-----------------------------|
| | 2022 | | | | | |
| | Water | Waste Disposal | Recreation | Solid Waste | Total | |
| Operating Revenue | | | | | | |
| Charges for services | \$ 1,270,193 | \$ 1,286,064 | \$ 23,718 | \$ 531,488 | \$ 3,111,463 | \$ 3,143,493 |
| Other | 34,487 | 57,362 | 10,355 | 745 | 102,949 | 90,224 |
| Total operating revenue | <u>1,304,680</u> | <u>1,343,426</u> | <u>34,073</u> | <u>532,233</u> | <u>3,214,412</u> | <u>3,233,717</u> |
| Operating Expense | | | | | | |
| Salaries and wages | 307,986 | 539,065 | 105,149 | - | 952,200 | 849,682 |
| Employee benefits | 239,821 | 302,105 | 36,755 | - | 578,681 | 412,440 |
| Refuse collection and disposal | 5,660 | 8,394 | 3,646 | 499,231 | 516,931 | 474,381 |
| Depreciation | 146,260 | 219,390 | 64,526 | - | 430,176 | 380,449 |
| Utilities | 220,711 | 171,469 | 73,026 | - | 465,206 | 436,738 |
| Professional services | 119,249 | 165,498 | - | - | 284,747 | 221,299 |
| Repairs and maintenance | 58,360 | 94,200 | 181,220 | - | 333,780 | 209,573 |
| Board of directors | 22,271 | 21,410 | - | - | 43,681 | 210,087 |
| Contract services | 22,814 | 24,453 | 10,919 | - | 58,186 | 67,265 |
| Insurance | 61,639 | 84,666 | 42,928 | - | 189,233 | 116,175 |
| Supplies and small tools | 22,889 | 87,310 | 83,958 | - | 194,157 | 79,157 |
| Dues and memberships | 50,109 | 46,493 | 754 | - | 97,356 | 76,545 |
| Other | 77,657 | 10,830 | 5,692 | - | 94,179 | 76,889 |
| Telephone | 13,604 | 30,869 | 8,641 | - | 53,114 | 47,657 |
| Testing | 6,401 | 32,379 | - | - | 38,780 | 36,158 |
| Travel, meetings and education | 17,022 | 11,239 | 3,037 | - | 31,298 | 3,928 |
| Fuel and oil | 12,489 | 14,336 | 1,161 | - | 27,986 | 20,311 |
| Bank charges | 3,853 | 1,216 | 934 | - | 6,003 | 7,267 |
| Office supplies and postage | 7,757 | 10,438 | 170 | - | 18,365 | 13,231 |
| Rents and leases | 1,547 | 14,026 | 8,330 | - | 23,903 | 8,133 |
| Education and training | 2,113 | 1,619 | 690 | - | 4,422 | 3,015 |
| Total operating expense | <u>1,420,212</u> | <u>1,891,405</u> | <u>631,536</u> | <u>499,231</u> | <u>4,442,384</u> | <u>3,750,380</u> |
| Net operating income/(loss) | <u>(115,532)</u> | <u>(547,979)</u> | <u>(597,463)</u> | <u>33,002</u> | <u>(1,227,972)</u> | <u>(516,663)</u> |
| Nonoperating Revenues/(Expenses) | | | | | | |
| Grant revenue | 67,869 | - | - | - | 67,869 | - |
| Taxes and assessments | - | - | 373,426 | - | 373,426 | 387,539 |
| Other | 97,213 | (32,437) | 124,305 | 95,725 | 284,806 | 54,276 |
| Interest and use of property | 3,153 | 701 | 2,418 | - | 6,272 | 7,579 |
| Interest expense | (10,847) | (64,844) | (34,173) | - | (109,864) | (61,913) |
| Net nonoperating revenues/(expenses) | <u>157,388</u> | <u>(96,580)</u> | <u>465,976</u> | <u>95,725</u> | <u>622,509</u> | <u>387,481</u> |
| Other Financing Sources/(Uses) | | | | | | |
| Transfers in | - | - | - | - | - | 34,127 |
| Transfers out | - | - | - | - | - | (34,127) |
| Net other financing sources / (uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Change in net position | 41,856 | (644,559) | (131,487) | 128,727 | (605,463) | (129,182) |
| Net Position - beginning of year | <u>7,226,536</u> | <u>2,050,953</u> | <u>(1,329,616)</u> | <u>(16,808)</u> | <u>7,931,065</u> | <u>8,060,247</u> |
| Prior Period Adjustment | (42,666) | (101,543) | (26,452) | - | (170,661) | |
| Net Position - beginning of year (restated) | <u>7,183,870</u> | <u>1,949,410</u> | <u>(1,356,068)</u> | <u>(16,808)</u> | <u>7,760,404</u> | |
| Net Position, End of Year | <u>\$ 7,225,726</u> | <u>\$ 1,304,851</u> | <u>\$ (1,487,555)</u> | <u>\$ 111,919</u> | <u>\$ 7,154,941</u> | <u>\$ 7,931,065</u> |

The accompanying notes are an integral part of the financial statements.

**MALAGA COUNTY WATER DISTRICT
COMPARATIVE STATEMENT OF CASH FLOW
PROPRIETARY FUNDS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

| | Business-Type Activities - Enterprise Funds | | | | | 2021 Total |
|---|--|-----------------------|-------------------|--------------------|---------------------|-----------------------|
| | 2022 | | | | | |
| | Water | Waset Disposal | Recreation | Solid Waste | Total | |
| Operating Activities | | | | | | |
| Received from customers | \$ 1,302,764 | \$ 1,372,174 | \$ 34,073 | \$ 532,233 | \$ 3,241,244 | \$ 3,233,717 |
| Payments to suppliers | (610,409) | 273,159 | (445,564) | (499,231) | (1,282,045) | (2,001,969) |
| Payments to employees | (590,473) | (942,713) | (168,356) | - | (1,701,542) | (1,262,122) |
| Net cash provided by (used in) operating activities | <u>101,882</u> | <u>702,620</u> | <u>(579,847)</u> | <u>33,002</u> | <u>257,657</u> | <u>(30,374)</u> |
| Non-capital Financing Activities | | | | | | |
| Advances (to)/from other funds | 360,160 | (433,784) | - | - | (73,624) | (30) |
| Property taxes and other nonoperating revenue | <u>97,213</u> | <u>(32,437)</u> | <u>497,731</u> | <u>95,725</u> | <u>658,232</u> | <u>441,815</u> |
| Net cash provided by (used in) noncapital financing activities | <u>457,373</u> | <u>(466,221)</u> | <u>497,731</u> | <u>95,725</u> | <u>584,608</u> | <u>441,785</u> |
| Capital and Related Financing Activities | | | | | | |
| Grant revenue | 67,869 | - | - | - | 67,869 | - |
| Proceeds from construction loan | - | - | - | - | - | - |
| Principal paid on notes payable | (445,146) | 405,292 | (57,500) | - | (97,354) | (225,031) |
| Interest paid on notes payable | (10,847) | (64,844) | (34,173) | (70,568) | (180,432) | (61,913) |
| Disposition of capital assets | - | - | - | - | - | - |
| Transfers in / (out) | - | - | - | - | - | - |
| Purchase of capital assets | (24,075) | (24,075) | (60,037) | - | (108,187) | (158,584) |
| Net cash provided (used) in capital and related financing activities | <u>(412,199)</u> | <u>316,373</u> | <u>(151,710)</u> | <u>(70,568)</u> | <u>(318,104)</u> | <u>(445,528)</u> |
| Investing Activities | | | | | | |
| Interest and use of property | <u>3,153</u> | <u>701</u> | <u>2,418</u> | <u>-</u> | <u>6,272</u> | <u>24,987</u> |
| Net Increase / (Decrease) in Cash | 150,209 | 553,473 | (231,408) | 58,159 | 530,433 | (9,130) |
| Cash and Investments | | | | | | |
| Beginning of year | <u>955,583</u> | <u>67,657</u> | <u>994,731</u> | <u>510</u> | <u>2,018,481</u> | <u>2,027,611</u> |
| End of year | <u>\$ 1,105,792</u> | <u>\$ 621,130</u> | <u>\$ 763,323</u> | <u>\$ 58,669</u> | <u>\$ 2,548,914</u> | <u>\$ 2,018,481</u> |

**MALAGA COUNTY WATER DISTRICT
COMPARATIVE STATEMENT OF CASH FLOW
PROPRIETARY FUNDS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

| | Business-Type Activities - Enterprise Funds | | | | | 2021 Total |
|--|---|-------------------|---------------------|------------------|---------------------|---------------------|
| | 2022 | | | | | |
| | Water | Waste Disposal | Recreation | Solid Waste | Total | |
| Reconciliation of Operating Income (Loss) to Net Cash Provided By/(Used) for Operating Activities | | | | | | |
| Operating income (loss) | \$ (115,532) | \$ (547,979) | \$ (597,463) | \$ 33,002 | \$ (1,227,972) | \$ (516,663) |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | | | | |
| Depreciation | 146,260 | 219,390 | 64,526 | - | 430,176 | 380,449 |
| Changes in assets and liabilities: | | | | | | |
| (Increase) Decrease in accounts receivable | (1,916) | 28,748 | - | - | 26,832 | - |
| (Increase) Decrease in prepaid expense | 17,021 | 30,872 | 13,962 | - | 61,855 | 53,385 |
| Increase (Decrease) in accounts payable and accrued expense | 56,049 | 971,589 | (60,872) | - | 966,766 | 55,489 |
| (Increase) Decrease in deposits | - | - | - | - | - | (3,034) |
| Net Cash Provided/(Used) by Operating Activities | <u>\$ 101,882</u> | <u>\$ 702,620</u> | <u>\$ (579,847)</u> | <u>\$ 33,002</u> | <u>\$ 257,657</u> | <u>\$ (30,374)</u> |
| Summary of cash balances, end of year | | | | | | |
| Cash and cash equivalents | 1,105,792 | 621,130 | 366,232 | 58,669 | 2,151,823 | 1,477,622 |
| Restricted cash | - | - | 397,091 | - | 397,091 | 540,859 |
| | <u>\$ 1,105,792</u> | <u>\$ 621,130</u> | <u>\$ 763,323</u> | <u>\$ 58,669</u> | <u>\$ 2,548,914</u> | <u>\$ 2,018,481</u> |

MALAGA COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

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).

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.

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, 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.

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 FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

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.

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 FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

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:

Nonspendable – Amounts that are not in spendable form (such as inventory) or are required either legally or contractually to be maintained intact. 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 capital assets, net of related debt.

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.

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.

Budgets and Budgetary Accounting

The District established a budget for its governmental fund for the year ended June 30, 2022. The budget is adopted on a basis consistent with generally accepted accounting principles (GAAP).

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.

Statement Reclassifications

Certain reclassifications may have been made in the prior year's amounts to conform with current year financial statement presentation.

MALAGA COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

Note 2: Cash and Investments

The District's deposits as of June 30, 2022, 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, 2022:

| | Bank Balance Category * | | | Carrying Amount |
|------------------------------|-------------------------|--------------------|-------------|--------------------|
| | 1 | 2 | 3 | |
| Cash on hand | \$ 42,635 | \$ - | \$ - | \$ 42,635 |
| Cash in bank | 1,462,122 | 511,285 | - | 1,973,407 |
| Fresno County Treasury | - | 28,997 | - | 28,997 |
| Local Agency Investment Fund | - | 503,875 | - | 503,875 |
| Total cash and investments | <u>\$1,504,757</u> | <u>\$1,044,157</u> | <u>\$ -</u> | <u>\$2,548,914</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, 2022:

| | Beginning Balance | Additions/ Completions | Disposals/ Adjustments | Ending Balance |
|----------------------------|-------------------|------------------------|------------------------|------------------|
| Land* | \$ 299,264 | \$ - | \$ - | \$ 299,264 |
| Water system | 8,228,829 | - | - | 8,228,829 |
| Sewer system | 7,388,123 | - | - | 7,388,123 |
| Buildings | 1,169,276 | - | - | 1,169,276 |
| Construction in progress* | 713,110 | 60,037 | - | 773,147 |
| Park development | 1,055,306 | - | - | 1,055,306 |
| Equipment | 615,072 | 48,150 | - | 663,222 |
| Total | 19,468,980 | 108,187 | - | 19,577,167 |
| Allowance for depreciation | (10,866,709) | (430,176) | - | (11,296,885) |
| | <u>8,602,271</u> | <u>(321,989)</u> | <u>-</u> | <u>8,280,282</u> |

* Not currently being depreciated.

MALAGA COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

Note 4: Noncurrent Liabilities

The following is a summary of deferred liabilities (long-term debt) for the year ended June 30, 2022:

| | Beginning Balance | Additions | Deletions | Ending Balance | Classification | |
|--|-------------------------|-----------------|-------------------------|-------------------------|------------------------|-------------------------|
| | | | | | Due Within One Year | Due After One Year |
| Note payable | | | | | | |
| Water and sewer systems improvements | \$ 889,805 | \$ 72,951 | \$ (75,756) | \$ 887,000 | \$ 99,000 | \$ 788,000 |
| Parks and recreation improvements | 889,000 | - | (57,500) | 831,500 | 59,500 | 772,000 |
| Wastewater treatment plant improvements | 347,974 | - | (23,038) | 324,936 | 23,980 | 300,956 |
| Safe drinking water | <u>392,322</u> | <u>-</u> | <u>(14,012)</u> | <u>378,310</u> | <u>14,012</u> | <u>364,298</u> |
| Total long-term debt | <u>\$ 2,519,101</u> | <u>\$ -</u> | <u>\$ (170,306)</u> | <u>\$ 2,421,746</u> | <u>\$ 196,492</u> | <u>\$ 2,225,254</u> |

Note 5: Note Payables

Water and Sewer Systems Improvements

This debt was incurred to refinance the construction of water well number eight and improvements to the sewer system. The total amount of the debt was \$887,000 and provides for interest at the rate of 2 percent per annum. Semi-annual payments of principal and interest began July 2022, 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 35.73 percent of the payments due and the Waste Disposal Fund finances 64.27 percent of the payments. Interest paid on this loan for the year ended June 30, 2022, was \$42,248.

Future payments of the bonds are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|-------------------------|-------------------|------------------|---------------------|
| 2023 | \$ 99,000 | \$ 15,432 | \$ 114,432 |
| 2024 | 98,000 | 15,270 | 113,270 |
| 2025 | 100,000 | 13,300 | 113,300 |
| 2026 | 102,000 | 11,290 | 113,290 |
| 2027 - 2031 | <u>488,000</u> | <u>24,660</u> | <u>512,660</u> |
| | <u>\$ 887,000</u> | <u>\$ 79,952</u> | <u>\$ 1,003,035</u> |

MALAGA COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

Note 5: Note Payables (continued)

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, 2022, was \$13,862.

Future payments of the bonds are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|-------------------------|-------------------|------------------|-------------------|
| 2023 | \$ 23,980 | \$ 12,920 | \$ 36,900 |
| 2024 | 24,961 | 11,939 | 36,900 |
| 2025 | 25,982 | 10,917 | 36,899 |
| 2026 | 27,045 | 9,855 | 36,900 |
| 2027 - 2031 | 152,757 | 31,743 | 184,500 |
| 2032 - 2035 | 70,211 | 3,590 | 73,801 |
| | <u>\$ 324,936</u> | <u>\$ 80,964</u> | <u>\$ 405,900</u> |

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 for the year ended June 30, 2022, was \$32,278.

Future payments of the bonds are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|-------------------------|-------------------|-------------------|---------------------|
| 2023 | \$ 59,500 | \$ 30,138 | \$ 89,638 |
| 2024 | 61,500 | 27,924 | 89,424 |
| 2025 | 63,500 | 25,636 | 89,136 |
| 2026 | 66,000 | 23,275 | 89,275 |
| 2027 - 2031 | 451,500 | 77,601 | 529,101 |
| 2032 - 2035 | 129,500 | 4,806 | 134,306 |
| | <u>\$ 831,500</u> | <u>\$ 189,380</u> | <u>\$ 1,020,880</u> |

MALAGA COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

Note 5: Note Payables (continued)

Safe Drinking Water

This debt was incurred to finance water meters for safe drinking water. The total amount of the debt was \$403,417 and provides for interest at the rate of 0 percent per annum. Semi-annual payments of principal began January 2021, and continue until paid. Full repayment of the loan is scheduled to occur in January 2049. The Water Fund finances this debt. Interest paid on this for the year ended June 30, 2022, was \$0.

Future payments of the bonds are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|-------------------------|-------------------|-------------|-------------------|
| 2023 | \$ 14,012 | \$ - | \$ 14,012 |
| 2024 | 14,012 | - | 14,012 |
| 2025 | 14,012 | - | 14,012 |
| 2026 | 14,012 | - | 14,012 |
| 2027 - 2031 | 70,058 | - | 70,058 |
| 2032 - 2036 | 70,058 | - | 70,058 |
| Thereafter | 182,146 | - | 182,146 |
| | <u>\$ 378,310</u> | <u>\$ -</u> | <u>\$ 378,310</u> |

Note 6: Restricted Assets – Cash

As of June 30, 2022, \$397,091 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, 2022.

Note 7: 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, 2022 was \$849,682 with covered payroll equaling \$813,908. The pensions cost to the District is 10 percent of the participants’ compensation. Required and accrued contributions to the plan for the year ended June 30, 2022 were \$79,428.

MALAGA COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

Note 8: Restatement

The following prior period adjustments were made to correct the beginning net position balances:

| | <u>Water</u> | <u>Sewer</u> | <u>Recreation</u> | <u>Solid Waste</u> | <u>Total</u> |
|--|--------------------|--------------------|----------------------|------------------------|--------------------|
| Beginning net position | \$7,226,536 | \$2,050,953 | \$(1,329,616) | \$ (16,808) | \$7,931,065 |
| Prior period adjustment - to record pension plan payments | <u>(42,666)</u> | <u>(101,543)</u> | <u>(26,452)</u> | <u>-</u> | <u>(170,661)</u> |
| Beginning net position, as restated | <u>\$7,183,870</u> | <u>\$1,949,410</u> | <u>\$(1,356,068)</u> | <u>\$ (16,808)</u> | <u>\$7,760,404</u> |

Note 9: Subsequent Events

In compliance with accounting standards, subsequent events were evaluated through July 17, 2023, which is the date the financial statements were available to be issued. Management has determined that no events require disclosure in accordance with the accounting standards subsequent to June 30, 2022.

MALAGA COUNTY WATER DISTRICT
COMBINING STATEMENT OF REVENUE AND EXPENSE
WASTE DISPOSAL FUND
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

| | Business-Type Activities - Waste Disposal Fund | | | | |
|------------------------------------|--|--------------------|-------------------|---------------------|---------------------|
| | 2022 | | | | 2021 |
| | Sewer | Pretreatment | Solid Waste | Total | Total |
| OPERATING REVENUE | | | | | |
| Charges for services | \$ 1,286,064 | \$ 153,863 | \$ 531,488 | \$ 1,971,415 | \$ 1,811,107 |
| Other | <u>57,362</u> | <u>21,358</u> | <u>745</u> | <u>79,465</u> | <u>75,138</u> |
| Total operating revenue | <u>1,343,426</u> | <u>175,221</u> | <u>532,233</u> | <u>2,050,880</u> | <u>1,886,245</u> |
| OPERATING EXPENSE | | | | | |
| Salaries and wages | 539,065 | 91,662 | - | 630,727 | 558,272 |
| Employee benefits | 302,105 | 34,214 | - | 336,319 | 230,450 |
| Refuse collection and disposal | 8,394 | - | 499,230 | 507,624 | 463,911 |
| Depreciation | 219,390 | - | - | 219,390 | 194,029 |
| Utilities | 171,469 | - | - | 171,469 | 157,955 |
| Professional services | 165,498 | 17,493 | - | 182,991 | 110,475 |
| Repairs and maintenance | 94,200 | 8,369 | - | 102,569 | 111,917 |
| Board of directors | 21,410 | - | - | 21,410 | 105,029 |
| Contract services | 24,453 | 4,437 | - | 28,890 | 38,061 |
| Insurance | 84,666 | 11,040 | - | 95,706 | 52,586 |
| Supplies and small tools | 87,310 | - | - | 87,310 | 37,377 |
| Dues and memberships | 46,493 | 1,063 | - | 47,556 | 46,017 |
| Other | 10,830 | 2,921 | - | 13,751 | 54,961 |
| Telephone | 30,869 | 4,648 | - | 35,517 | 28,486 |
| Testing | 32,379 | 3,684 | - | 36,063 | 27,162 |
| Travel, meetings and education | 11,239 | 351 | - | 11,590 | 1,279 |
| Fuel and oil | 14,336 | 2,553 | - | 16,889 | 9,879 |
| Bank charges | 1,216 | 106 | - | 1,322 | 3,396 |
| Office supplies and postage | 10,438 | 2,123 | - | 12,561 | 8,048 |
| Rents and leases | 14,026 | 248 | - | 14,274 | 4,306 |
| Education and training | <u>1,619</u> | <u>279</u> | <u>-</u> | <u>1,898</u> | <u>1,670</u> |
| Total operating expense | <u>1,891,405</u> | <u>185,191</u> | <u>499,230</u> | <u>2,575,826</u> | <u>2,245,266</u> |
| Net operating income | (547,979) | (9,970) | 33,003 | (524,946) | (359,021) |
| Nonoperating revenue/(expense) | | | | | |
| Grant revenue | - | - | - | - | - |
| Taxes and assessments | - | - | - | - | 7,653 |
| Other | (32,437) | (37,482) | 95,725 | 25,806 | 4,808 |
| Interest and use of property | 701 | - | - | 701 | 2,110 |
| Interest expense | <u>(64,844)</u> | <u>-</u> | <u>-</u> | <u>(64,844)</u> | <u>(36,786)</u> |
| Net nonoperating revenue/(expense) | <u>(96,580)</u> | <u>(37,482)</u> | <u>95,725</u> | <u>(38,337)</u> | <u>(22,215)</u> |
| Change in net position | <u>\$ (644,559)</u> | <u>\$ (47,452)</u> | <u>\$ 128,728</u> | <u>\$ (563,283)</u> | <u>\$ (381,236)</u> |



Jaribu W. Nelson, CPA

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

To the Board of Directors
Malaga County Water District

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities and each major fund of the Malaga County Water District (District), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated July 17, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 opinion 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 a 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* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did identify any deficiencies in internal control that we consider to be material weaknesses. These findings are identified as finding 22-01.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Malaga County Water District's financial statements are free from 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 this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jaribu W. Nelson, CPA

July 17, 2023

MALAGA COUNTY WATER DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2022

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

| | | | | |
|--|-------------------------------------|-----|-------------------------------------|-----|
| Type of auditor’s report issued: | Unmodified | | | |
| Internal control over financial reporting: | | | | |
| • Material weaknesses identified? | <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No |
| • Significant deficiency(ies) identified? | <input checked="" type="checkbox"/> | Yes | <input type="checkbox"/> | Yes |
| Non-compliance material to financial statements noted? | <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No |

SECTION II – FINANCIAL STATEMENT FINDINGS

There was one (1) financial statement finding to be reported in accordance with *Generally Accepted Government Auditing Standards (GAGAS)*. See Finding 2022-01

SECTION III – FEDERAL AWARDS FINDINGS

There are no federal award findings in accordance with *GAGAS* and the Compliance Supplement.

MALAGA COUNTY WATER DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2022

FINANCIAL STATEMENT FINDINGS

Finding 2022-01

Improve the preparation of the financial statements

Criteria:

Internal controls should be in place which will provide assurance that the financial statements along with preparation of the notes to the financial statements and supplementary information, are prepared accurately on a timely basis at year-end.

Condition:

During the course of performing our audit procedures, we noted that many proposed adjusting journal entries were to reclassify amounts to their proper account. We noted the pension plan has been unfunded for the prior 2 years and current year of this financial statement.

Cause:

Management did not perform its closing procedures to ensure all ledger account balances were properly classified to the appropriate fund on a timely basis at year-end. The in-house bookkeeper failed to timely make payments on the pension plan.

Effect:

There is a risk that a material financial statement may exist and not be prevented or detected by the District's system of internal control. The total dollar effect of the amounts not recorded totaled \$246,647.

Recommendation:

We recommend that the review of all year-end account balances include an accounting professional to validate the accuracy of all accounts. We recommend that the District make payment arrangements to bring the plan into compliance.

District Response:

The District will work with external CPA to provide accurate and timely financial reporting to minimize the misstatements that could occur. The District is currently engaging an external CPA to complete the current year financial statements in a more timely manner.

MALAGA COUNTY WATER DISTRICT

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2021

Finding 2021-01

Improve the preparation of the financial statements

Recommendation:

We recommend that the review of all year-end account balances include an accounting professional to validate the accuracy of all accounts.

Status:

Partially implemented, the District was able to procure an accounting professional. However, transactions were being presented inaccurately in the Recreation Fund and the Solid Waste Fund.



MALAGA COUNTY WATER DISTRICT

**INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS
JUNE 30, 2022**

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**MALAGA COUNTY WATER DISTRICT
BOARD OF DIRECTORS AND ADMINISTRATION
JUNE 30, 2022**

Board of Directors

Charles E. Garabedian Jr. President

Salvador Cerrillo Jr. Vice-President

Irma Castaneda Director

Frank A. Cerrillo, Jr. Director

Carlos Tovar, Jr. Director

Administration

Moises Ortiz General Manager

Norma Melendez Clerk



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Malaga County Water District

Opinion

We have audited the accompanying financial statements of the business-type activities and each major fund of the Malaga County Water District (District) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the District as of June 30, 2022, and the respective changes in financial position, and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Malaga County Water District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Malaga County Water District's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not

detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Malaga County Water District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Malaga County Water District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on page 5-8 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the 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.

Management has omitted the budgetary comparison information that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 17, 2023, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Malaga County Water District's 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 Malaga County Water District's internal control over financial reporting and compliance.

Jaribu W. Nelson, CPA

Clovis, California

July 17, 2023

MALAGA COUNTY WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2022

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, 2022. 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, 2022, by \$7,154,941. Of this amount, unrestricted net position of \$899,314 may be used to meet the District's ongoing obligations to customers and creditors. As of June 30, 2021, assets exceeded liabilities by \$7,931,065 with unrestricted net position equaling \$1,307,035.
- Total net position decreased by \$605,463 for the year ended June 30, 2022. For the year ended June 30, 2021, total net position decreased by \$129,182.
- During the current year, the District's fixed assets increased by a net of \$108,187. 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 \$430,176 for the current year. Prior year depreciation was \$380,449.
- Total debt decreased by a net of \$97,354 during the current year. The decrease was mostly attributable to the debt service payments. During the prior year, total debt increased by a net of \$225,029. This was mostly attributable to the acquisition of a loan to finance improvements to safe water drinking.

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.

**MALAGA COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
YEAR ENDED JUNE 30, 2022**

Financial Highlights (continued)

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 four proprietary funds, the Water Fund, the Waste Disposal Fund, the Recreation Fund, and the Solid Waste.

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, 2022, the District's assets exceeded liabilities by \$7,154,941. A significant portion of the District's net position (83 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 \$397,091 in net position (two 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
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
YEAR ENDED JUNE 30, 2022**

Malaga County Water District's Net Position

| | Business-Type Activities | Total | Prior Year Total |
|---|-----------------------------|---------------------|---------------------|
| ASSETS | | | |
| Current assets | \$ 2,581,907 | \$ 2,581,907 | \$ 1,870,192 |
| Other assets | 8,677,373 | 8,677,373 | 9,143,130 |
| Total assets | <u>11,259,280</u> | <u>11,259,280</u> | <u>11,013,322</u> |
| LIABILITIES | | | |
| Current liabilities | 1,682,593 | 1,682,593 | 563,157 |
| Deferred liabilities | <u>2,421,746</u> | <u>2,421,746</u> | <u>2,519,100</u> |
| Total liabilities | <u>4,104,339</u> | <u>4,104,339</u> | <u>3,082,257</u> |
| NET POSITION | | | |
| Net investment in capital assets, net of related debt | 5,858,536 | 5,858,536 | 6,083,171 |
| Restricted | 397,091 | 397,091 | 540,859 |
| Unrestricted | <u>899,314</u> | <u>899,314</u> | <u>1,307,035</u> |
| Total net position | <u>\$ 7,154,941</u> | <u>\$ 7,154,941</u> | <u>\$ 7,931,065</u> |

Malaga County Water District's Changes in Net Position

| | Business-Type Activities | Current Year Total | Prior Year Total (as restated) |
|-------------------------------------|-----------------------------|-----------------------|--------------------------------------|
| REVENUE | | | |
| Program revenue | | | |
| Charges for services | \$ 3,111,463 | \$ 3,111,463 | \$ 3,143,493 |
| Other | <u>102,949</u> | <u>102,949</u> | <u>90,224</u> |
| Total Revenues | <u>3,214,412</u> | <u>3,214,412</u> | <u>3,233,717</u> |
| EXPENSE | | | |
| Waste disposal utility activities | 1,956,249 | 1,956,249 | 1,643,970 |
| Water utility activities | 1,431,059 | 1,431,059 | 1,388,990 |
| Solid waste activities | 499,231 | 499,231 | 457,333 |
| Community recreation activities | <u>665,709</u> | <u>665,709</u> | <u>322,000</u> |
| Total Expenses | <u>4,552,248</u> | <u>4,552,248</u> | <u>3,812,293</u> |
| Net operating income/(loss) | (1,337,836) | (1,337,836) | (578,576) |
| Net nonoperating revenue/(expense) | <u>732,373</u> | <u>732,373</u> | <u>449,394</u> |
| Increase/(decrease) in net position | (605,463) | (605,463) | (129,182) |
| Net position, beginning of year | <u>7,760,404</u> | <u>7,760,404</u> | <u>8,060,247</u> |
| Net position, end of year | <u>\$ 7,154,941</u> | <u>\$ 7,154,941</u> | <u>\$ 7,931,065</u> |

**MALAGA COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
YEAR ENDED JUNE 30, 2022**

Business-type activities. Business-type activities decreased the District's net position by \$605,463, accounting for 100 percent of the total decrease 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, 2022, the District's proprietary funds reported a combined ending fund balance of \$7,154,941, an decrease of \$605,463, and a restatement of beginning net position totaling \$170,661. Of the entire ending fund balance, \$899,314 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, 2022, amounted to \$8,280,282 (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 \$2,421,746 as of June 30, 2022. Of this total amount, \$196,492 is due and payable during the year ending June 30, 2023. The remainder, referred to as deferred liabilities, is due and payable over the next 21 years.

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

Economic Factors and Next Year's Budgets and Rates

The budget for the year ending June 30, 2023, projects a surplus of \$192,525. Revenue is anticipated to decrease by \$38,098 compared to 2021/2022, while expenses are expected to decrease by \$13,401. Charges for services are anticipated to decrease by \$17,347, while non-operating revenue is expected to increase by \$24,811. Salaries, wages and employee benefits are expected to decrease by \$53,203 and services and supplies are anticipated to decrease by \$39,802 compared to 2021/2022.

User rates are not expected to increase during the year ending June 30, 2023.

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, 2022

ASSETS

| | |
|----------------------|------------------|
| Cash and investments | \$ 2,151,823 |
| Accounts receivable | 350,484 |
| Prepays | <u>79,600</u> |
| Total current assets | <u>2,581,907</u> |

OTHER ASSETS

| | |
|---|------------------|
| Restricted assets - cash | 397,091 |
| Capital assets, net of allowance for depreciation | <u>8,280,282</u> |
| Total other assets | <u>8,677,373</u> |

Total assets 11,259,280

LIABILITIES

| | |
|--------------------------------------|------------------|
| Accounts payable and accrued expense | 1,640,527 |
| Customer deposits payable | <u>42,066</u> |
| Total current liabilities | <u>1,682,593</u> |

NONCURRENT LIABILITIES

| | |
|------------------------------|------------------|
| Due within one year | 196,492 |
| Due in more than one year | <u>2,225,254</u> |
| Total Noncurrent liabilities | <u>2,421,746</u> |

NET POSITION

| | |
|---|------------------|
| Net investment in capital assets, net of related debt | 5,858,536 |
| Restricted | 397,091 |
| Unrestricted | <u>899,314</u> |
| Total net position | <u>7,154,941</u> |

Total Liabilities and Net Position \$ 11,259,280

MALAGA COUNTY WATER DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2022

BUSINESS-TYPE ACTIVITIES

| | | |
|------------------------------------|----------------|---------------------|
| Operating revenue | | |
| Charges for services | | \$ 3,111,463 |
| Other | | <u>102,949</u> |
| Total operating revenues | | 3,214,412 |
| Operating expense | | |
| Waste disposal utility activities | \$ 1,956,249 | |
| Water utility activities | 1,431,059 | |
| Solid waste activities | 499,231 | |
| Community recreation activities | <u>665,709</u> | |
| Total operating expense | | <u>4,552,248</u> |
| Net operating income/(loss) | | (1,337,836) |
| Net nonoperating revenue/(expense) | | <u>732,373</u> |
| Change in net position | | (605,463) |
| Net position, beginning of year | | <u>7,760,404</u> |
| Net position, end of year | | <u>\$ 7,154,941</u> |

**MALAGA COUNTY WATER DISTRICT
COMPARATIVE STATEMENT OF NET POSITION
PROPRIETARY FUNDS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

| | Business-Type Activities - Enterprise Funds | | | | | 2021 Total |
|---|---|----------------|----------------|-------------|--------------|---------------|
| | 2022 | | | | | |
| | Water | Waste Disposal | Recreation | Solid Waste | Total | |
| ASSETS | | | | | | |
| Current assets | | | | | | |
| Cash and cash equivalents | \$ 1,105,792 | \$ 621,130 | \$ 366,232 | \$ 58,669 | \$ 2,151,823 | \$ 1,477,622 |
| Accounts receivable | 90,406 | 185,365 | 1,762 | - | 277,533 | 304,365 |
| Prepaid expense | 11,003 | 12,829 | 2,518 | 53,250 | 79,600 | 88,205 |
| Total current assets | 1,207,201 | 819,324 | 370,512 | 111,919 | 2,508,956 | 1,870,192 |
| Other assets | | | | | | |
| Restricted cash and investments | - | - | 397,091 | - | 397,091 | 540,859 |
| Advances to other activities | 3,360,400 | - | - | - | 3,360,400 | 3,720,560 |
| Capital assets, net of accumulated depreciation | 3,601,353 | 3,352,612 | 1,326,317 | - | 8,280,282 | 8,602,271 |
| Total non-current assets | 6,961,753 | 3,352,612 | 1,723,408 | - | 12,037,773 | 12,863,690 |
| Total assets | 8,168,954 | 4,171,936 | 2,093,920 | 111,919 | 14,546,729 | 14,733,882 |
| LIABILITIES | | | | | | |
| Current liabilities | | | | | | |
| Accounts payable and accrued expenses | 244,279 | 1,286,852 | 110,099 | - | 1,641,230 | 521,121 |
| Customer deposits payable | 3,714 | 20,127 | 18,225 | - | 42,066 | 42,066 |
| Current portion of long-term debt | 121,221 | 15,771 | 59,500 | - | 196,492 | 170,306 |
| Total current liabilities | 369,214 | 1,322,750 | 187,824 | - | 1,879,788 | 733,493 |
| Other liabilities | | | | | | |
| Advances from other activities | - | 665,095 | 2,621,651 | - | 3,286,746 | 3,720,530 |
| Non-current liabilities | | | | | | |
| Notes payable, less current portion | 574,014 | 879,240 | 772,000 | - | 2,225,254 | 2,348,794 |
| Total liabilities | 943,228 | 2,867,085 | 3,581,475 | - | 7,391,788 | 6,802,817 |
| NET POSITION | | | | | | |
| Net investment in capital assets | 2,906,118 | 2,457,601 | 494,817 | - | 5,858,536 | 6,083,171 |
| Nonspendable | 2,561,166 | - | - | - | 2,561,166 | 2,561,166 |
| Restricted | - | - | 397,091 | - | 397,091 | 540,859 |
| Unrestricted / (deficit) | 1,758,442 | (1,152,750) | (2,379,463) | 111,919 | (1,661,852) | (1,254,131) |
| Total net position | \$ 7,225,726 | \$ 1,304,851 | \$ (1,487,555) | \$ 111,919 | \$ 7,154,941 | \$ 7,931,065 |

MALAGA COUNTY WATER DISTRICT
COMPARATIVE STATEMENT OF REVENUE, EXPENSE, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

| | Business-Type Activities - Enterprise Funds | | | | | 2021 Total |
|---|--|-----------------------|-----------------------|--------------------|---------------------|-----------------------------|
| | 2022 | | | | | |
| | Water | Waste Disposal | Recreation | Solid Waste | Total | |
| Operating Revenue | | | | | | |
| Charges for services | \$ 1,270,193 | \$ 1,286,064 | \$ 23,718 | \$ 531,488 | \$ 3,111,463 | \$ 3,143,493 |
| Other | 34,487 | 57,362 | 10,355 | 745 | 102,949 | 90,224 |
| Total operating revenue | <u>1,304,680</u> | <u>1,343,426</u> | <u>34,073</u> | <u>532,233</u> | <u>3,214,412</u> | <u>3,233,717</u> |
| Operating Expense | | | | | | |
| Salaries and wages | 307,986 | 539,065 | 105,149 | - | 952,200 | 849,682 |
| Employee benefits | 239,821 | 302,105 | 36,755 | - | 578,681 | 412,440 |
| Refuse collection and disposal | 5,660 | 8,394 | 3,646 | 499,231 | 516,931 | 474,381 |
| Depreciation | 146,260 | 219,390 | 64,526 | - | 430,176 | 380,449 |
| Utilities | 220,711 | 171,469 | 73,026 | - | 465,206 | 436,738 |
| Professional services | 119,249 | 165,498 | - | - | 284,747 | 221,299 |
| Repairs and maintenance | 58,360 | 94,200 | 181,220 | - | 333,780 | 209,573 |
| Board of directors | 22,271 | 21,410 | - | - | 43,681 | 210,087 |
| Contract services | 22,814 | 24,453 | 10,919 | - | 58,186 | 67,265 |
| Insurance | 61,639 | 84,666 | 42,928 | - | 189,233 | 116,175 |
| Supplies and small tools | 22,889 | 87,310 | 83,958 | - | 194,157 | 79,157 |
| Dues and memberships | 50,109 | 46,493 | 754 | - | 97,356 | 76,545 |
| Other | 77,657 | 10,830 | 5,692 | - | 94,179 | 76,889 |
| Telephone | 13,604 | 30,869 | 8,641 | - | 53,114 | 47,657 |
| Testing | 6,401 | 32,379 | - | - | 38,780 | 36,158 |
| Travel, meetings and education | 17,022 | 11,239 | 3,037 | - | 31,298 | 3,928 |
| Fuel and oil | 12,489 | 14,336 | 1,161 | - | 27,986 | 20,311 |
| Bank charges | 3,853 | 1,216 | 934 | - | 6,003 | 7,267 |
| Office supplies and postage | 7,757 | 10,438 | 170 | - | 18,365 | 13,231 |
| Rents and leases | 1,547 | 14,026 | 8,330 | - | 23,903 | 8,133 |
| Education and training | 2,113 | 1,619 | 690 | - | 4,422 | 3,015 |
| Total operating expense | <u>1,420,212</u> | <u>1,891,405</u> | <u>631,536</u> | <u>499,231</u> | <u>4,442,384</u> | <u>3,750,380</u> |
| Net operating income/(loss) | <u>(115,532)</u> | <u>(547,979)</u> | <u>(597,463)</u> | <u>33,002</u> | <u>(1,227,972)</u> | <u>(516,663)</u> |
| Nonoperating Revenues/(Expenses) | | | | | | |
| Grant revenue | 67,869 | - | - | - | 67,869 | - |
| Taxes and assessments | - | - | 373,426 | - | 373,426 | 387,539 |
| Other | 97,213 | (32,437) | 124,305 | 95,725 | 284,806 | 54,276 |
| Interest and use of property | 3,153 | 701 | 2,418 | - | 6,272 | 7,579 |
| Interest expense | (10,847) | (64,844) | (34,173) | - | (109,864) | (61,913) |
| Net nonoperating revenues/(expenses) | <u>157,388</u> | <u>(96,580)</u> | <u>465,976</u> | <u>95,725</u> | <u>622,509</u> | <u>387,481</u> |
| Other Financing Sources/(Uses) | | | | | | |
| Transfers in | - | - | - | - | - | 34,127 |
| Transfers out | - | - | - | - | - | (34,127) |
| Net other financing sources / (uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Change in net position | 41,856 | (644,559) | (131,487) | 128,727 | (605,463) | (129,182) |
| Net Position - beginning of year | <u>7,226,536</u> | <u>2,050,953</u> | <u>(1,329,616)</u> | <u>(16,808)</u> | <u>7,931,065</u> | <u>8,060,247</u> |
| Prior Period Adjustment | (42,666) | (101,543) | (26,452) | - | (170,661) | |
| Net Position - beginning of year (restated) | <u>7,183,870</u> | <u>1,949,410</u> | <u>(1,356,068)</u> | <u>(16,808)</u> | <u>7,760,404</u> | |
| Net Position, End of Year | <u>\$ 7,225,726</u> | <u>\$ 1,304,851</u> | <u>\$ (1,487,555)</u> | <u>\$ 111,919</u> | <u>\$ 7,154,941</u> | <u>\$ 7,931,065</u> |

The accompanying notes are an integral part of the financial statements.

**MALAGA COUNTY WATER DISTRICT
COMPARATIVE STATEMENT OF CASH FLOW
PROPRIETARY FUNDS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

| | Business-Type Activities - Enterprise Funds | | | | | 2021 Total |
|---|--|-----------------------|-------------------|--------------------|---------------------|-----------------------|
| | Water | Waset Disposal | Recreation | Solid Waste | Total | |
| Operating Activities | | | | | | |
| Received from customers | \$ 1,302,764 | \$ 1,372,174 | \$ 34,073 | \$ 532,233 | \$ 3,241,244 | \$ 3,233,717 |
| Payments to suppliers | (610,409) | 273,159 | (445,564) | (499,231) | (1,282,045) | (2,001,969) |
| Payments to employees | (590,473) | (942,713) | (168,356) | - | (1,701,542) | (1,262,122) |
| Net cash provided by (used in) operating activities | <u>101,882</u> | <u>702,620</u> | <u>(579,847)</u> | <u>33,002</u> | <u>257,657</u> | <u>(30,374)</u> |
| Non-capital Financing Activities | | | | | | |
| Advances (to)/from other funds | 360,160 | (433,784) | - | - | (73,624) | (30) |
| Property taxes and other nonoperating revenue | <u>97,213</u> | <u>(32,437)</u> | <u>497,731</u> | <u>95,725</u> | <u>658,232</u> | <u>441,815</u> |
| Net cash provided by (used in) noncapital financing activities | <u>457,373</u> | <u>(466,221)</u> | <u>497,731</u> | <u>95,725</u> | <u>584,608</u> | <u>441,785</u> |
| Capital and Related Financing Activities | | | | | | |
| Grant revenue | 67,869 | - | - | - | 67,869 | - |
| Proceeds from construction loan | - | - | - | - | - | - |
| Principal paid on notes payable | (445,146) | 405,292 | (57,500) | - | (97,354) | (225,031) |
| Interest paid on notes payable | (10,847) | (64,844) | (34,173) | (70,568) | (180,432) | (61,913) |
| Disposition of capital assets | - | - | - | - | - | - |
| Transfers in / (out) | - | - | - | - | - | - |
| Purchase of capital assets | (24,075) | (24,075) | (60,037) | - | (108,187) | (158,584) |
| Net cash provided (used) in capital and related financing activities | <u>(412,199)</u> | <u>316,373</u> | <u>(151,710)</u> | <u>(70,568)</u> | <u>(318,104)</u> | <u>(445,528)</u> |
| Investing Activities | | | | | | |
| Interest and use of property | <u>3,153</u> | <u>701</u> | <u>2,418</u> | <u>-</u> | <u>6,272</u> | <u>24,987</u> |
| Net Increase / (Decrease) in Cash | 150,209 | 553,473 | (231,408) | 58,159 | 530,433 | (9,130) |
| Cash and Investments | | | | | | |
| Beginning of year | <u>955,583</u> | <u>67,657</u> | <u>994,731</u> | <u>510</u> | <u>2,018,481</u> | <u>2,027,611</u> |
| End of year | <u>\$ 1,105,792</u> | <u>\$ 621,130</u> | <u>\$ 763,323</u> | <u>\$ 58,669</u> | <u>\$ 2,548,914</u> | <u>\$ 2,018,481</u> |

**MALAGA COUNTY WATER DISTRICT
COMPARATIVE STATEMENT OF CASH FLOW
PROPRIETARY FUNDS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

Business-Type Activities - Enterprise Funds

| | 2022 | | | | | 2021 |
|--|---------------------|-------------------|---------------------|------------------|---------------------|---------------------|
| | Water | Waste Disposal | Recreation | Solid Waste | Total | Total |
| Reconciliation of Operating Income (Loss) to Net Cash Provided By/(Used) for Operating Activities | | | | | | |
| Operating income (loss) | \$ (115,532) | \$ (547,979) | \$ (597,463) | \$ 33,002 | \$ (1,227,972) | \$ (516,663) |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | | | | |
| Depreciation | 146,260 | 219,390 | 64,526 | - | 430,176 | 380,449 |
| Changes in assets and liabilities: | | | | | | |
| (Increase) Decrease in accounts receivable | (1,916) | 28,748 | - | - | 26,832 | - |
| (Increase) Decrease in prepaid expense | 17,021 | 30,872 | 13,962 | - | 61,855 | 53,385 |
| Increase (Decrease) in accounts payable and accrued expense | 56,049 | 971,589 | (60,872) | - | 966,766 | 55,489 |
| (Increase) Decrease in deposits | - | - | - | - | - | (3,034) |
| Net Cash Provided/(Used) by Operating Activities | <u>\$ 101,882</u> | <u>\$ 702,620</u> | <u>\$ (579,847)</u> | <u>\$ 33,002</u> | <u>\$ 257,657</u> | <u>\$ (30,374)</u> |
| Summary of cash balances, end of year | | | | | | |
| Cash and cash equivalents | 1,105,792 | 621,130 | 366,232 | 58,669 | 2,151,823 | 1,477,622 |
| Restricted cash | - | - | 397,091 | - | 397,091 | 540,859 |
| | <u>\$ 1,105,792</u> | <u>\$ 621,130</u> | <u>\$ 763,323</u> | <u>\$ 58,669</u> | <u>\$ 2,548,914</u> | <u>\$ 2,018,481</u> |

MALAGA COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

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).

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.

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, 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.

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 FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

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.

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 FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

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:

Nonspendable – Amounts that are not in spendable form (such as inventory) or are required either legally or contractually to be maintained intact. 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 capital assets, net of related debt.

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.

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.

Budgets and Budgetary Accounting

The District established a budget for its governmental fund for the year ended June 30, 2022. The budget is adopted on a basis consistent with generally accepted accounting principles (GAAP).

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.

Statement Reclassifications

Certain reclassifications may have been made in the prior year's amounts to conform with current year financial statement presentation.

MALAGA COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

Note 2: Cash and Investments

The District's deposits as of June 30, 2022, 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, 2022:

| | Bank Balance Category * | | | Carrying Amount |
|------------------------------|-------------------------|--------------------|-------------|--------------------|
| | 1 | 2 | 3 | |
| Cash on hand | \$ 42,635 | \$ - | \$ - | \$ 42,635 |
| Cash in bank | 1,462,122 | 511,285 | - | 1,973,407 |
| Fresno County Treasury | - | 28,997 | - | 28,997 |
| Local Agency Investment Fund | - | 503,875 | - | 503,875 |
| Total cash and investments | <u>\$1,504,757</u> | <u>\$1,044,157</u> | <u>\$ -</u> | <u>\$2,548,914</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, 2022:

| | Beginning Balance | Additions/ Completions | Disposals/ Adjustments | Ending Balance |
|----------------------------|----------------------|---------------------------|---------------------------|---------------------|
| Land* | \$ 299,264 | \$ - | \$ - | \$ 299,264 |
| Water system | 8,228,829 | - | - | 8,228,829 |
| Sewer system | 7,388,123 | - | - | 7,388,123 |
| Buildings | 1,169,276 | - | - | 1,169,276 |
| Construction in progress* | 713,110 | 60,037 | - | 773,147 |
| Park development | 1,055,306 | - | - | 1,055,306 |
| Equipment | 615,072 | 48,150 | - | 663,222 |
| Total | 19,468,980 | 108,187 | - | 19,577,167 |
| Allowance for depreciation | <u>(10,866,709)</u> | <u>(430,176)</u> | <u>-</u> | <u>(11,296,885)</u> |
| | <u>8,602,271</u> | <u>(321,989)</u> | <u>-</u> | <u>8,280,282</u> |

* Not currently being depreciated.

MALAGA COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

Note 4: Noncurrent Liabilities

The following is a summary of deferred liabilities (long-term debt) for the year ended June 30, 2022:

| | Beginning Balance | Additions | Deletions | Ending Balance | Classification | |
|--|-------------------------|-----------------|-------------------------|-------------------------|------------------------|-------------------------|
| | | | | | Due Within One Year | Due After One Year |
| Note payable | | | | | | |
| Water and sewer systems improvements | \$ 889,805 | \$ 72,951 | \$ (75,756) | \$ 887,000 | \$ 99,000 | \$ 788,000 |
| Parks and recreation improvements | 889,000 | - | (57,500) | 831,500 | 59,500 | 772,000 |
| Wastewater treatment plant improvements | 347,974 | - | (23,038) | 324,936 | 23,980 | 300,956 |
| Safe drinking water | 392,322 | - | (14,012) | 378,310 | 14,012 | 364,298 |
| Total long-term debt | <u>\$ 2,519,101</u> | <u>\$ -</u> | <u>\$ (170,306)</u> | <u>\$ 2,421,746</u> | <u>\$ 196,492</u> | <u>\$ 2,225,254</u> |

Note 5: Note Payables

Water and Sewer Systems Improvements

This debt was incurred to refinance the construction of water well number eight and improvements to the sewer system. The total amount of the debt was \$887,000 and provides for interest at the rate of 2 percent per annum. Semi-annual payments of principal and interest began July 2022, 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 35.73 percent of the payments due and the Waste Disposal Fund finances 64.27 percent of the payments. Interest paid on this loan for the year ended June 30, 2022, was \$42,248.

Future payments of the bonds are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|-------------------------|-------------------|------------------|---------------------|
| 2023 | \$ 99,000 | \$ 15,432 | \$ 114,432 |
| 2024 | 98,000 | 15,270 | 113,270 |
| 2025 | 100,000 | 13,300 | 113,300 |
| 2026 | 102,000 | 11,290 | 113,290 |
| 2027 - 2031 | 488,000 | 24,660 | 512,660 |
| | <u>\$ 887,000</u> | <u>\$ 79,952</u> | <u>\$ 1,003,035</u> |

MALAGA COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

Note 5: Note Payables (continued)

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, 2022, was \$13,862.

Future payments of the bonds are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|-------------------------|-------------------|------------------|-------------------|
| 2023 | \$ 23,980 | \$ 12,920 | \$ 36,900 |
| 2024 | 24,961 | 11,939 | 36,900 |
| 2025 | 25,982 | 10,917 | 36,899 |
| 2026 | 27,045 | 9,855 | 36,900 |
| 2027 - 2031 | 152,757 | 31,743 | 184,500 |
| 2032 - 2035 | 70,211 | 3,590 | 73,801 |
| | <u>\$ 324,936</u> | <u>\$ 80,964</u> | <u>\$ 405,900</u> |

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 for the year ended June 30, 2022, was \$32,278.

Future payments of the bonds are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|-------------------------|-------------------|-------------------|---------------------|
| 2023 | \$ 59,500 | \$ 30,138 | \$ 89,638 |
| 2024 | 61,500 | 27,924 | 89,424 |
| 2025 | 63,500 | 25,636 | 89,136 |
| 2026 | 66,000 | 23,275 | 89,275 |
| 2027 - 2031 | 451,500 | 77,601 | 529,101 |
| 2032 - 2035 | 129,500 | 4,806 | 134,306 |
| | <u>\$ 831,500</u> | <u>\$ 189,380</u> | <u>\$ 1,020,880</u> |

MALAGA COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

Note 5: Note Payables (continued)

Safe Drinking Water

This debt was incurred to finance water meters for safe drinking water. The total amount of the debt was \$403,417 and provides for interest at the rate of 0 percent per annum. Semi-annual payments of principal began January 2021, and continue until paid. Full repayment of the loan is scheduled to occur in January 2049. The Water Fund finances this debt. Interest paid on this for the year ended June 30, 2022, was \$0.

Future payments of the bonds are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|-------------------------|-------------------|-------------|-------------------|
| 2023 | \$ 14,012 | \$ - | \$ 14,012 |
| 2024 | 14,012 | - | 14,012 |
| 2025 | 14,012 | - | 14,012 |
| 2026 | 14,012 | - | 14,012 |
| 2027 - 2031 | 70,058 | - | 70,058 |
| 2032 - 2036 | 70,058 | - | 70,058 |
| Thereafter | 182,146 | - | 182,146 |
| | <u>\$ 378,310</u> | <u>\$ -</u> | <u>\$ 378,310</u> |

Note 6: Restricted Assets – Cash

As of June 30, 2022, \$397,091 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, 2022.

Note 7: 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, 2022 was \$849,682 with covered payroll equaling \$813,908. The pensions cost to the District is 10 percent of the participants’ compensation. Required and accrued contributions to the plan for the year ended June 30, 2022 were \$79,428.

MALAGA COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

Note 8: Restatement

The following prior period adjustments were made to correct the beginning net position balances:

| | <u>Water</u> | <u>Sewer</u> | <u>Recreation</u> | <u>Solid Waste</u> | <u>Total</u> |
|--|--------------------|--------------------|----------------------|------------------------|--------------------|
| Beginning net position | \$7,226,536 | \$2,050,953 | \$(1,329,616) | \$ (16,808) | \$7,931,065 |
| Prior period adjustment - to record pension plan payments | <u>(42,666)</u> | <u>(101,543)</u> | <u>(26,452)</u> | <u>-</u> | <u>(170,661)</u> |
| Beginning net position, as restated | <u>\$7,183,870</u> | <u>\$1,949,410</u> | <u>\$(1,356,068)</u> | <u>\$ (16,808)</u> | <u>\$7,760,404</u> |

Note 9: Subsequent Events

In compliance with accounting standards, subsequent events were evaluated through July 17, 2023, which is the date the financial statements were available to be issued. Management has determined that no events require disclosure in accordance with the accounting standards subsequent to June 30, 2022.

MALAGA COUNTY WATER DISTRICT
COMBINING STATEMENT OF REVENUE AND EXPENSE
WASTE DISPOSAL FUND
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

| | Business-Type Activities - Waste Disposal Fund | | | | |
|------------------------------------|--|--------------------|-------------------|---------------------|---------------------|
| | 2022 | | | | 2021 |
| | Sewer | Pretreatment | Solid Waste | Total | Total |
| OPERATING REVENUE | | | | | |
| Charges for services | \$ 1,286,064 | \$ 153,863 | \$ 531,488 | \$ 1,971,415 | \$ 1,811,107 |
| Other | <u>57,362</u> | <u>21,358</u> | <u>745</u> | <u>79,465</u> | <u>75,138</u> |
| Total operating revenue | <u>1,343,426</u> | <u>175,221</u> | <u>532,233</u> | <u>2,050,880</u> | <u>1,886,245</u> |
| OPERATING EXPENSE | | | | | |
| Salaries and wages | 539,065 | 91,662 | - | 630,727 | 558,272 |
| Employee benefits | 302,105 | 34,214 | - | 336,319 | 230,450 |
| Refuse collection and disposal | 8,394 | - | 499,230 | 507,624 | 463,911 |
| Depreciation | 219,390 | - | - | 219,390 | 194,029 |
| Utilities | 171,469 | - | - | 171,469 | 157,955 |
| Professional services | 165,498 | 17,493 | - | 182,991 | 110,475 |
| Repairs and maintenance | 94,200 | 8,369 | - | 102,569 | 111,917 |
| Board of directors | 21,410 | - | - | 21,410 | 105,029 |
| Contract services | 24,453 | 4,437 | - | 28,890 | 38,061 |
| Insurance | 84,666 | 11,040 | - | 95,706 | 52,586 |
| Supplies and small tools | 87,310 | - | - | 87,310 | 37,377 |
| Dues and memberships | 46,493 | 1,063 | - | 47,556 | 46,017 |
| Other | 10,830 | 2,921 | - | 13,751 | 54,961 |
| Telephone | 30,869 | 4,648 | - | 35,517 | 28,486 |
| Testing | 32,379 | 3,684 | - | 36,063 | 27,162 |
| Travel, meetings and education | 11,239 | 351 | - | 11,590 | 1,279 |
| Fuel and oil | 14,336 | 2,553 | - | 16,889 | 9,879 |
| Bank charges | 1,216 | 106 | - | 1,322 | 3,396 |
| Office supplies and postage | 10,438 | 2,123 | - | 12,561 | 8,048 |
| Rents and leases | 14,026 | 248 | - | 14,274 | 4,306 |
| Education and training | <u>1,619</u> | <u>279</u> | <u>-</u> | <u>1,898</u> | <u>1,670</u> |
| Total operating expense | <u>1,891,405</u> | <u>185,191</u> | <u>499,230</u> | <u>2,575,826</u> | <u>2,245,266</u> |
| Net operating income | (547,979) | (9,970) | 33,003 | (524,946) | (359,021) |
| Nonoperating revenue/(expense) | | | | | |
| Grant revenue | - | - | - | - | - |
| Taxes and assessments | - | - | - | - | 7,653 |
| Other | (32,437) | (37,482) | 95,725 | 25,806 | 4,808 |
| Interest and use of property | 701 | - | - | 701 | 2,110 |
| Interest expense | <u>(64,844)</u> | <u>-</u> | <u>-</u> | <u>(64,844)</u> | <u>(36,786)</u> |
| Net nonoperating revenue/(expense) | <u>(96,580)</u> | <u>(37,482)</u> | <u>95,725</u> | <u>(38,337)</u> | <u>(22,215)</u> |
| Change in net position | <u>\$ (644,559)</u> | <u>\$ (47,452)</u> | <u>\$ 128,728</u> | <u>\$ (563,283)</u> | <u>\$ (381,236)</u> |



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

To the Board of Directors
Malaga County Water District

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities and each major fund of the Malaga County Water District (District), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated July 17, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 opinion 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 a 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* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did identify any deficiencies in internal control that we consider to be material weaknesses. These findings are identified as finding 22-01.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Malaga County Water District's financial statements are free from 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 this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jaribu W. Nelson, CPA

July 17, 2023

MALAGA COUNTY WATER DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2022

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

| | | | | |
|--|-------------------------------------|-----|-------------------------------------|-----|
| Type of auditor’s report issued: | Unmodified | | | |
| Internal control over financial reporting: | | | | |
| • Material weaknesses identified? | <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No |
| • Significant deficiency(ies) identified? | <input checked="" type="checkbox"/> | Yes | <input type="checkbox"/> | Yes |
| Non-compliance material to financial statements noted? | <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No |

SECTION II – FINANCIAL STATEMENT FINDINGS

There was one (1) financial statement finding to be reported in accordance with *Generally Accepted Government Auditing Standards (GAGAS)*. See Finding 2022-01

SECTION III – FEDERAL AWARDS FINDINGS

There are no federal award findings in accordance with *GAGAS* and the Compliance Supplement.

MALAGA COUNTY WATER DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2022

FINANCIAL STATEMENT FINDINGS

Finding 2022-01

Improve the preparation of the financial statements

Criteria:

Internal controls should be in place which will provide assurance that the financial statements along with preparation of the notes to the financial statements and supplementary information, are prepared accurately on a timely basis at year-end.

Condition:

During the course of performing our audit procedures, we noted that many proposed adjusting journal entries were to reclassify amounts to their proper account. We noted the pension plan has been unfunded for the prior 2 years and current year of this financial statement.

Cause:

Management did not perform its closing procedures to ensure all ledger account balances were properly classified to the appropriate fund on a timely basis at year-end. The in-house bookkeeper failed to timely make payments on the pension plan.

Effect:

There is a risk that a material financial statement may exist and not be prevented or detected by the District's system of internal control. The total dollar effect of the amounts not recorded totaled \$246,647.

Recommendation:

We recommend that the review of all year-end account balances include an accounting professional to validate the accuracy of all accounts. We recommend that the District make payment arrangements to bring the plan into compliance.

District Response:

The District will work with external CPA to provide accurate and timely financial reporting to minimize the misstatements that could occur. The District is currently engaging an external CPA to complete the current year financial statements in a more timely manner.

MALAGA COUNTY WATER DISTRICT

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2021

Finding 2021-01

Improve the preparation of the financial statements

Recommendation:

We recommend that the review of all year-end account balances include an accounting professional to validate the accuracy of all accounts.

Status:

Partially implemented, the District was able to procure an accounting professional. However, transactions were being presented inaccurately in the Recreation Fund and the Solid Waste Fund.



MALAGA COUNTY WATER DISTRICT

**INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS
JUNE 30, 2022**

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**MALAGA COUNTY WATER DISTRICT
BOARD OF DIRECTORS AND ADMINISTRATION
JUNE 30, 2022**

Board of Directors

Charles E. Garabedian Jr. President

Salvador Cerrillo Jr. Vice-President

Irma Castaneda Director

Frank A. Cerrillo, Jr. Director

Carlos Tovar, Jr. Director

Administration

Moises Ortiz General Manager

Norma Melendez Clerk



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Malaga County Water District

Opinion

We have audited the accompanying financial statements of the business-type activities and each major fund of the Malaga County Water District (District) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the District as of June 30, 2022, and the respective changes in financial position, and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Malaga County Water District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Malaga County Water District's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not

detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Malaga County Water District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Malaga County Water District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on page 5-8 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the 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.

Management has omitted the budgetary comparison information that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 17, 2023, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Malaga County Water District's 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 Malaga County Water District's internal control over financial reporting and compliance.

Jaribu W. Nelson, CPA

Clovis, California

July 17, 2023

MALAGA COUNTY WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2022

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, 2022. 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, 2022, by \$7,154,941. Of this amount, unrestricted net position of \$899,314 may be used to meet the District's ongoing obligations to customers and creditors. As of June 30, 2021, assets exceeded liabilities by \$7,931,065 with unrestricted net position equaling \$1,307,035.
- Total net position decreased by \$605,463 for the year ended June 30, 2022. For the year ended June 30, 2021, total net position decreased by \$129,182.
- During the current year, the District's fixed assets increased by a net of \$108,187. 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 \$430,176 for the current year. Prior year depreciation was \$380,449.
- Total debt decreased by a net of \$97,354 during the current year. The decrease was mostly attributable to the debt service payments. During the prior year, total debt increased by a net of \$225,029. This was mostly attributable to the acquisition of a loan to finance improvements to safe water drinking.

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.

**MALAGA COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
YEAR ENDED JUNE 30, 2022**

Financial Highlights (continued)

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 four proprietary funds, the Water Fund, the Waste Disposal Fund, the Recreation Fund, and the Solid Waste.

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, 2022, the District's assets exceeded liabilities by \$7,154,941. A significant portion of the District's net position (83 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 \$397,091 in net position (two 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
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
YEAR ENDED JUNE 30, 2022**

Malaga County Water District's Net Position

| | Business-Type Activities | Total | Prior Year Total |
|---|-----------------------------|---------------------|---------------------|
| ASSETS | | | |
| Current assets | \$ 2,581,907 | \$ 2,581,907 | \$ 1,870,192 |
| Other assets | 8,677,373 | 8,677,373 | 9,143,130 |
| Total assets | <u>11,259,280</u> | <u>11,259,280</u> | <u>11,013,322</u> |
| LIABILITIES | | | |
| Current liabilities | 1,682,593 | 1,682,593 | 563,157 |
| Deferred liabilities | <u>2,421,746</u> | <u>2,421,746</u> | <u>2,519,100</u> |
| Total liabilities | <u>4,104,339</u> | <u>4,104,339</u> | <u>3,082,257</u> |
| NET POSITION | | | |
| Net investment in capital assets, net of related debt | 5,858,536 | 5,858,536 | 6,083,171 |
| Restricted | 397,091 | 397,091 | 540,859 |
| Unrestricted | <u>899,314</u> | <u>899,314</u> | <u>1,307,035</u> |
| Total net position | <u>\$ 7,154,941</u> | <u>\$ 7,154,941</u> | <u>\$ 7,931,065</u> |

Malaga County Water District's Changes in Net Position

| | Business-Type Activities | Current Year Total | Prior Year Total (as restated) |
|-------------------------------------|-----------------------------|-----------------------|--------------------------------------|
| REVENUE | | | |
| Program revenue | | | |
| Charges for services | \$ 3,111,463 | \$ 3,111,463 | \$ 3,143,493 |
| Other | <u>102,949</u> | <u>102,949</u> | <u>90,224</u> |
| Total Revenues | <u>3,214,412</u> | <u>3,214,412</u> | <u>3,233,717</u> |
| EXPENSE | | | |
| Waste disposal utility activities | 1,956,249 | 1,956,249 | 1,643,970 |
| Water utility activities | 1,431,059 | 1,431,059 | 1,388,990 |
| Solid waste activities | 499,231 | 499,231 | 457,333 |
| Community recreation activities | <u>665,709</u> | <u>665,709</u> | <u>322,000</u> |
| Total Expenses | <u>4,552,248</u> | <u>4,552,248</u> | <u>3,812,293</u> |
| Net operating income/(loss) | (1,337,836) | (1,337,836) | (578,576) |
| Net nonoperating revenue/(expense) | <u>732,373</u> | <u>732,373</u> | <u>449,394</u> |
| Increase/(decrease) in net position | (605,463) | (605,463) | (129,182) |
| Net position, beginning of year | <u>7,760,404</u> | <u>7,760,404</u> | <u>8,060,247</u> |
| Net position, end of year | <u>\$ 7,154,941</u> | <u>\$ 7,154,941</u> | <u>\$ 7,931,065</u> |

**MALAGA COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
YEAR ENDED JUNE 30, 2022**

Business-type activities. Business-type activities decreased the District's net position by \$605,463, accounting for 100 percent of the total decrease 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, 2022, the District's proprietary funds reported a combined ending fund balance of \$7,154,941, an decrease of \$605,463, and a restatement of beginning net position totaling \$170,661. Of the entire ending fund balance, \$899,314 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, 2022, amounted to \$8,280,282 (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 \$2,421,746 as of June 30, 2022. Of this total amount, \$196,492 is due and payable during the year ending June 30, 2023. The remainder, referred to as deferred liabilities, is due and payable over the next 21 years.

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

Economic Factors and Next Year's Budgets and Rates

The budget for the year ending June 30, 2023, projects a surplus of \$192,525. Revenue is anticipated to decrease by \$38,098 compared to 2021/2022, while expenses are expected to decrease by \$13,401. Charges for services are anticipated to decrease by \$17,347, while non-operating revenue is expected to increase by \$24,811. Salaries, wages and employee benefits are expected to decrease by \$53,203 and services and supplies are anticipated to decrease by \$39,802 compared to 2021/2022.

User rates are not expected to increase during the year ending June 30, 2023.

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, 2022

ASSETS

| | |
|----------------------|------------------|
| Cash and investments | \$ 2,151,823 |
| Accounts receivable | 350,484 |
| Prepays | <u>79,600</u> |
| Total current assets | <u>2,581,907</u> |

OTHER ASSETS

| | |
|---|------------------|
| Restricted assets - cash | 397,091 |
| Capital assets, net of allowance for depreciation | <u>8,280,282</u> |
| Total other assets | <u>8,677,373</u> |

Total assets 11,259,280

LIABILITIES

| | |
|--------------------------------------|------------------|
| Accounts payable and accrued expense | 1,640,527 |
| Customer deposits payable | <u>42,066</u> |
| Total current liabilities | <u>1,682,593</u> |

NONCURRENT LIABILITIES

| | |
|------------------------------|------------------|
| Due within one year | 196,492 |
| Due in more than one year | <u>2,225,254</u> |
| Total Noncurrent liabilities | <u>2,421,746</u> |

NET POSITION

| | |
|---|------------------|
| Net investment in capital assets, net of related debt | 5,858,536 |
| Restricted | 397,091 |
| Unrestricted | <u>899,314</u> |
| Total net position | <u>7,154,941</u> |

Total Liabilities and Net Position \$ 11,259,280

MALAGA COUNTY WATER DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2022

BUSINESS-TYPE ACTIVITIES

| | | |
|------------------------------------|----------------|---------------------|
| Operating revenue | | |
| Charges for services | | \$ 3,111,463 |
| Other | | <u>102,949</u> |
| Total operating revenues | | 3,214,412 |
| Operating expense | | |
| Waste disposal utility activities | \$ 1,956,249 | |
| Water utility activities | 1,431,059 | |
| Solid waste activities | 499,231 | |
| Community recreation activities | <u>665,709</u> | |
| Total operating expense | | <u>4,552,248</u> |
| Net operating income/(loss) | | (1,337,836) |
| Net nonoperating revenue/(expense) | | <u>732,373</u> |
| Change in net position | | (605,463) |
| Net position, beginning of year | | <u>7,760,404</u> |
| Net position, end of year | | <u>\$ 7,154,941</u> |

**MALAGA COUNTY WATER DISTRICT
COMPARATIVE STATEMENT OF NET POSITION
PROPRIETARY FUNDS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

| | Business-Type Activities - Enterprise Funds | | | | | 2021 Total |
|---|---|---------------------|-----------------------|-------------------|---------------------|---------------------|
| | 2022 | | | | | |
| | Water | Waste Disposal | Recreation | Solid Waste | Total | |
| ASSETS | | | | | | |
| Current assets | | | | | | |
| Cash and cash equivalents | \$ 1,105,792 | \$ 621,130 | \$ 366,232 | \$ 58,669 | \$ 2,151,823 | \$ 1,477,622 |
| Accounts receivable | 90,406 | 185,365 | 1,762 | - | 277,533 | 304,365 |
| Prepaid expense | 11,003 | 12,829 | 2,518 | 53,250 | 79,600 | 88,205 |
| Total current assets | <u>1,207,201</u> | <u>819,324</u> | <u>370,512</u> | <u>111,919</u> | <u>2,508,956</u> | <u>1,870,192</u> |
| Other assets | | | | | | |
| Restricted cash and investments | - | - | 397,091 | - | 397,091 | 540,859 |
| Advances to other activities | 3,360,400 | - | - | - | 3,360,400 | 3,720,560 |
| Capital assets, net of accumulated depreciation | 3,601,353 | 3,352,612 | 1,326,317 | - | 8,280,282 | 8,602,271 |
| Total non-current assets | <u>6,961,753</u> | <u>3,352,612</u> | <u>1,723,408</u> | <u>-</u> | <u>12,037,773</u> | <u>12,863,690</u> |
| Total assets | <u>8,168,954</u> | <u>4,171,936</u> | <u>2,093,920</u> | <u>111,919</u> | <u>14,546,729</u> | <u>14,733,882</u> |
| LIABILITIES | | | | | | |
| Current liabilities | | | | | | |
| Accounts payable and accrued expenses | 244,279 | 1,286,852 | 110,099 | - | 1,641,230 | 521,121 |
| Customer deposits payable | 3,714 | 20,127 | 18,225 | - | 42,066 | 42,066 |
| Current portion of long-term debt | 121,221 | 15,771 | 59,500 | - | 196,492 | 170,306 |
| Total current liabilities | <u>369,214</u> | <u>1,322,750</u> | <u>187,824</u> | <u>-</u> | <u>1,879,788</u> | <u>733,493</u> |
| Other liabilities | | | | | | |
| Advances from other activities | - | 665,095 | 2,621,651 | - | 3,286,746 | 3,720,530 |
| Non-current liabilities | | | | | | |
| Notes payable, less current portion | 574,014 | 879,240 | 772,000 | - | 2,225,254 | 2,348,794 |
| Total liabilities | <u>943,228</u> | <u>2,867,085</u> | <u>3,581,475</u> | <u>-</u> | <u>7,391,788</u> | <u>6,802,817</u> |
| NET POSITION | | | | | | |
| Net investment in capital assets | 2,906,118 | 2,457,601 | 494,817 | - | 5,858,536 | 6,083,171 |
| Nonspendable | 2,561,166 | - | - | - | 2,561,166 | 2,561,166 |
| Restricted | - | - | 397,091 | - | 397,091 | 540,859 |
| Unrestricted / (deficit) | 1,758,442 | (1,152,750) | (2,379,463) | 111,919 | (1,661,852) | (1,254,131) |
| Total net position | <u>\$ 7,225,726</u> | <u>\$ 1,304,851</u> | <u>\$ (1,487,555)</u> | <u>\$ 111,919</u> | <u>\$ 7,154,941</u> | <u>\$ 7,931,065</u> |

MALAGA COUNTY WATER DISTRICT
COMPARATIVE STATEMENT OF REVENUE, EXPENSE, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

| | Business-Type Activities - Enterprise Funds | | | | | 2021 Total |
|---|--|-----------------------|-----------------------|--------------------|---------------------|-----------------------------|
| | 2022 | | | | | |
| | Water | Waste Disposal | Recreation | Solid Waste | Total | |
| Operating Revenue | | | | | | |
| Charges for services | \$ 1,270,193 | \$ 1,286,064 | \$ 23,718 | \$ 531,488 | \$ 3,111,463 | \$ 3,143,493 |
| Other | 34,487 | 57,362 | 10,355 | 745 | 102,949 | 90,224 |
| Total operating revenue | <u>1,304,680</u> | <u>1,343,426</u> | <u>34,073</u> | <u>532,233</u> | <u>3,214,412</u> | <u>3,233,717</u> |
| Operating Expense | | | | | | |
| Salaries and wages | 307,986 | 539,065 | 105,149 | - | 952,200 | 849,682 |
| Employee benefits | 239,821 | 302,105 | 36,755 | - | 578,681 | 412,440 |
| Refuse collection and disposal | 5,660 | 8,394 | 3,646 | 499,231 | 516,931 | 474,381 |
| Depreciation | 146,260 | 219,390 | 64,526 | - | 430,176 | 380,449 |
| Utilities | 220,711 | 171,469 | 73,026 | - | 465,206 | 436,738 |
| Professional services | 119,249 | 165,498 | - | - | 284,747 | 221,299 |
| Repairs and maintenance | 58,360 | 94,200 | 181,220 | - | 333,780 | 209,573 |
| Board of directors | 22,271 | 21,410 | - | - | 43,681 | 210,087 |
| Contract services | 22,814 | 24,453 | 10,919 | - | 58,186 | 67,265 |
| Insurance | 61,639 | 84,666 | 42,928 | - | 189,233 | 116,175 |
| Supplies and small tools | 22,889 | 87,310 | 83,958 | - | 194,157 | 79,157 |
| Dues and memberships | 50,109 | 46,493 | 754 | - | 97,356 | 76,545 |
| Other | 77,657 | 10,830 | 5,692 | - | 94,179 | 76,889 |
| Telephone | 13,604 | 30,869 | 8,641 | - | 53,114 | 47,657 |
| Testing | 6,401 | 32,379 | - | - | 38,780 | 36,158 |
| Travel, meetings and education | 17,022 | 11,239 | 3,037 | - | 31,298 | 3,928 |
| Fuel and oil | 12,489 | 14,336 | 1,161 | - | 27,986 | 20,311 |
| Bank charges | 3,853 | 1,216 | 934 | - | 6,003 | 7,267 |
| Office supplies and postage | 7,757 | 10,438 | 170 | - | 18,365 | 13,231 |
| Rents and leases | 1,547 | 14,026 | 8,330 | - | 23,903 | 8,133 |
| Education and training | 2,113 | 1,619 | 690 | - | 4,422 | 3,015 |
| Total operating expense | <u>1,420,212</u> | <u>1,891,405</u> | <u>631,536</u> | <u>499,231</u> | <u>4,442,384</u> | <u>3,750,380</u> |
| Net operating income/(loss) | <u>(115,532)</u> | <u>(547,979)</u> | <u>(597,463)</u> | <u>33,002</u> | <u>(1,227,972)</u> | <u>(516,663)</u> |
| Nonoperating Revenues/(Expenses) | | | | | | |
| Grant revenue | 67,869 | - | - | - | 67,869 | - |
| Taxes and assessments | - | - | 373,426 | - | 373,426 | 387,539 |
| Other | 97,213 | (32,437) | 124,305 | 95,725 | 284,806 | 54,276 |
| Interest and use of property | 3,153 | 701 | 2,418 | - | 6,272 | 7,579 |
| Interest expense | (10,847) | (64,844) | (34,173) | - | (109,864) | (61,913) |
| Net nonoperating revenues/(expenses) | <u>157,388</u> | <u>(96,580)</u> | <u>465,976</u> | <u>95,725</u> | <u>622,509</u> | <u>387,481</u> |
| Other Financing Sources/(Uses) | | | | | | |
| Transfers in | - | - | - | - | - | 34,127 |
| Transfers out | - | - | - | - | - | (34,127) |
| Net other financing sources / (uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Change in net position | 41,856 | (644,559) | (131,487) | 128,727 | (605,463) | (129,182) |
| Net Position - beginning of year | <u>7,226,536</u> | <u>2,050,953</u> | <u>(1,329,616)</u> | <u>(16,808)</u> | <u>7,931,065</u> | <u>8,060,247</u> |
| Prior Period Adjustment | (42,666) | (101,543) | (26,452) | - | (170,661) | |
| Net Position - beginning of year (restated) | <u>7,183,870</u> | <u>1,949,410</u> | <u>(1,356,068)</u> | <u>(16,808)</u> | <u>7,760,404</u> | |
| Net Position, End of Year | <u>\$ 7,225,726</u> | <u>\$ 1,304,851</u> | <u>\$ (1,487,555)</u> | <u>\$ 111,919</u> | <u>\$ 7,154,941</u> | <u>\$ 7,931,065</u> |

The accompanying notes are an integral part of the financial statements.

**MALAGA COUNTY WATER DISTRICT
COMPARATIVE STATEMENT OF CASH FLOW
PROPRIETARY FUNDS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

| | Business-Type Activities - Enterprise Funds | | | | | 2021 Total |
|---|--|-----------------------|-------------------|--------------------|---------------------|-----------------------|
| | Water | Waset Disposal | Recreation | Solid Waste | Total | |
| Operating Activities | | | | | | |
| Received from customers | \$ 1,302,764 | \$ 1,372,174 | \$ 34,073 | \$ 532,233 | \$ 3,241,244 | \$ 3,233,717 |
| Payments to suppliers | (610,409) | 273,159 | (445,564) | (499,231) | (1,282,045) | (2,001,969) |
| Payments to employees | (590,473) | (942,713) | (168,356) | - | (1,701,542) | (1,262,122) |
| Net cash provided by (used in) operating activities | <u>101,882</u> | <u>702,620</u> | <u>(579,847)</u> | <u>33,002</u> | <u>257,657</u> | <u>(30,374)</u> |
| Non-capital Financing Activities | | | | | | |
| Advances (to)/from other funds | 360,160 | (433,784) | - | - | (73,624) | (30) |
| Property taxes and other nonoperating revenue | <u>97,213</u> | <u>(32,437)</u> | <u>497,731</u> | <u>95,725</u> | <u>658,232</u> | <u>441,815</u> |
| Net cash provided by (used in) noncapital financing activities | <u>457,373</u> | <u>(466,221)</u> | <u>497,731</u> | <u>95,725</u> | <u>584,608</u> | <u>441,785</u> |
| Capital and Related Financing Activities | | | | | | |
| Grant revenue | 67,869 | - | - | - | 67,869 | - |
| Proceeds from construction loan | - | - | - | - | - | - |
| Principal paid on notes payable | (445,146) | 405,292 | (57,500) | - | (97,354) | (225,031) |
| Interest paid on notes payable | (10,847) | (64,844) | (34,173) | (70,568) | (180,432) | (61,913) |
| Disposition of capital assets | - | - | - | - | - | - |
| Transfers in / (out) | - | - | - | - | - | - |
| Purchase of capital assets | (24,075) | (24,075) | (60,037) | - | (108,187) | (158,584) |
| Net cash provided (used) in capital and related financing activities | <u>(412,199)</u> | <u>316,373</u> | <u>(151,710)</u> | <u>(70,568)</u> | <u>(318,104)</u> | <u>(445,528)</u> |
| Investing Activities | | | | | | |
| Interest and use of property | <u>3,153</u> | <u>701</u> | <u>2,418</u> | <u>-</u> | <u>6,272</u> | <u>24,987</u> |
| Net Increase / (Decrease) in Cash | 150,209 | 553,473 | (231,408) | 58,159 | 530,433 | (9,130) |
| Cash and Investments | | | | | | |
| Beginning of year | <u>955,583</u> | <u>67,657</u> | <u>994,731</u> | <u>510</u> | <u>2,018,481</u> | <u>2,027,611</u> |
| End of year | <u>\$ 1,105,792</u> | <u>\$ 621,130</u> | <u>\$ 763,323</u> | <u>\$ 58,669</u> | <u>\$ 2,548,914</u> | <u>\$ 2,018,481</u> |

**MALAGA COUNTY WATER DISTRICT
COMPARATIVE STATEMENT OF CASH FLOW
PROPRIETARY FUNDS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

Business-Type Activities - Enterprise Funds

| | 2022 | | | | | 2021 |
|--|---------------------|-------------------|---------------------|------------------|---------------------|---------------------|
| | Water | Waste Disposal | Recreation | Solid Waste | Total | Total |
| Reconciliation of Operating Income (Loss) to Net Cash Provided By/(Used) for Operating Activities | | | | | | |
| Operating income (loss) | \$ (115,532) | \$ (547,979) | \$ (597,463) | \$ 33,002 | \$ (1,227,972) | \$ (516,663) |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | | | | |
| Depreciation | 146,260 | 219,390 | 64,526 | - | 430,176 | 380,449 |
| Changes in assets and liabilities: | | | | | | |
| (Increase) Decrease in accounts receivable | (1,916) | 28,748 | - | - | 26,832 | - |
| (Increase) Decrease in prepaid expense | 17,021 | 30,872 | 13,962 | - | 61,855 | 53,385 |
| Increase (Decrease) in accounts payable and accrued expense | 56,049 | 971,589 | (60,872) | - | 966,766 | 55,489 |
| (Increase) Decrease in deposits | - | - | - | - | - | (3,034) |
| Net Cash Provided/(Used) by Operating Activities | <u>\$ 101,882</u> | <u>\$ 702,620</u> | <u>\$ (579,847)</u> | <u>\$ 33,002</u> | <u>\$ 257,657</u> | <u>\$ (30,374)</u> |
| Summary of cash balances, end of year | | | | | | |
| Cash and cash equivalents | 1,105,792 | 621,130 | 366,232 | 58,669 | 2,151,823 | 1,477,622 |
| Restricted cash | - | - | 397,091 | - | 397,091 | 540,859 |
| | <u>\$ 1,105,792</u> | <u>\$ 621,130</u> | <u>\$ 763,323</u> | <u>\$ 58,669</u> | <u>\$ 2,548,914</u> | <u>\$ 2,018,481</u> |

MALAGA COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

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).

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.

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, 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.

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 FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

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.

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 FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

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:

Nonspendable – Amounts that are not in spendable form (such as inventory) or are required either legally or contractually to be maintained intact. 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 capital assets, net of related debt.

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.

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.

Budgets and Budgetary Accounting

The District established a budget for its governmental fund for the year ended June 30, 2022. The budget is adopted on a basis consistent with generally accepted accounting principles (GAAP).

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.

Statement Reclassifications

Certain reclassifications may have been made in the prior year's amounts to conform with current year financial statement presentation.

MALAGA COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

Note 2: Cash and Investments

The District's deposits as of June 30, 2022, 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, 2022:

| | Bank Balance Category * | | | Carrying Amount |
|------------------------------|-------------------------|--------------------|-------------|--------------------|
| | 1 | 2 | 3 | |
| Cash on hand | \$ 42,635 | \$ - | \$ - | \$ 42,635 |
| Cash in bank | 1,462,122 | 511,285 | - | 1,973,407 |
| Fresno County Treasury | - | 28,997 | - | 28,997 |
| Local Agency Investment Fund | - | 503,875 | - | 503,875 |
| Total cash and investments | <u>\$1,504,757</u> | <u>\$1,044,157</u> | <u>\$ -</u> | <u>\$2,548,914</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, 2022:

| | Beginning Balance | Additions/ Completions | Disposals/ Adjustments | Ending Balance |
|----------------------------|----------------------|---------------------------|---------------------------|---------------------|
| Land* | \$ 299,264 | \$ - | \$ - | \$ 299,264 |
| Water system | 8,228,829 | - | - | 8,228,829 |
| Sewer system | 7,388,123 | - | - | 7,388,123 |
| Buildings | 1,169,276 | - | - | 1,169,276 |
| Construction in progress* | 713,110 | 60,037 | - | 773,147 |
| Park development | 1,055,306 | - | - | 1,055,306 |
| Equipment | 615,072 | 48,150 | - | 663,222 |
| Total | 19,468,980 | 108,187 | - | 19,577,167 |
| Allowance for depreciation | <u>(10,866,709)</u> | <u>(430,176)</u> | <u>-</u> | <u>(11,296,885)</u> |
| | <u>8,602,271</u> | <u>(321,989)</u> | <u>-</u> | <u>8,280,282</u> |

* Not currently being depreciated.

MALAGA COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

Note 4: Noncurrent Liabilities

The following is a summary of deferred liabilities (long-term debt) for the year ended June 30, 2022:

| | Beginning Balance | Additions | Deletions | Ending Balance | Classification | |
|--|-------------------------|-----------------|-------------------------|-------------------------|------------------------|-------------------------|
| | | | | | Due Within One Year | Due After One Year |
| Note payable | | | | | | |
| Water and sewer systems improvements | \$ 889,805 | \$ 72,951 | \$ (75,756) | \$ 887,000 | \$ 99,000 | \$ 788,000 |
| Parks and recreation improvements | 889,000 | - | (57,500) | 831,500 | 59,500 | 772,000 |
| Wastewater treatment plant improvements | 347,974 | - | (23,038) | 324,936 | 23,980 | 300,956 |
| Safe drinking water | 392,322 | - | (14,012) | 378,310 | 14,012 | 364,298 |
| Total long-term debt | <u>\$ 2,519,101</u> | <u>\$ -</u> | <u>\$ (170,306)</u> | <u>\$ 2,421,746</u> | <u>\$ 196,492</u> | <u>\$ 2,225,254</u> |

Note 5: Note Payables

Water and Sewer Systems Improvements

This debt was incurred to refinance the construction of water well number eight and improvements to the sewer system. The total amount of the debt was \$887,000 and provides for interest at the rate of 2 percent per annum. Semi-annual payments of principal and interest began July 2022, 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 35.73 percent of the payments due and the Waste Disposal Fund finances 64.27 percent of the payments. Interest paid on this loan for the year ended June 30, 2022, was \$42,248.

Future payments of the bonds are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|-------------------------|-------------------|------------------|---------------------|
| 2023 | \$ 99,000 | \$ 15,432 | \$ 114,432 |
| 2024 | 98,000 | 15,270 | 113,270 |
| 2025 | 100,000 | 13,300 | 113,300 |
| 2026 | 102,000 | 11,290 | 113,290 |
| 2027 - 2031 | 488,000 | 24,660 | 512,660 |
| | <u>\$ 887,000</u> | <u>\$ 79,952</u> | <u>\$ 1,003,035</u> |

MALAGA COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

Note 5: Note Payables (continued)

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, 2022, was \$13,862.

Future payments of the bonds are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|-------------------------|-------------------|------------------|-------------------|
| 2023 | \$ 23,980 | \$ 12,920 | \$ 36,900 |
| 2024 | 24,961 | 11,939 | 36,900 |
| 2025 | 25,982 | 10,917 | 36,899 |
| 2026 | 27,045 | 9,855 | 36,900 |
| 2027 - 2031 | 152,757 | 31,743 | 184,500 |
| 2032 - 2035 | 70,211 | 3,590 | 73,801 |
| | <u>\$ 324,936</u> | <u>\$ 80,964</u> | <u>\$ 405,900</u> |

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 for the year ended June 30, 2022, was \$32,278.

Future payments of the bonds are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|-------------------------|-------------------|-------------------|---------------------|
| 2023 | \$ 59,500 | \$ 30,138 | \$ 89,638 |
| 2024 | 61,500 | 27,924 | 89,424 |
| 2025 | 63,500 | 25,636 | 89,136 |
| 2026 | 66,000 | 23,275 | 89,275 |
| 2027 - 2031 | 451,500 | 77,601 | 529,101 |
| 2032 - 2035 | 129,500 | 4,806 | 134,306 |
| | <u>\$ 831,500</u> | <u>\$ 189,380</u> | <u>\$ 1,020,880</u> |

MALAGA COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

Note 5: Note Payables (continued)

Safe Drinking Water

This debt was incurred to finance water meters for safe drinking water. The total amount of the debt was \$403,417 and provides for interest at the rate of 0 percent per annum. Semi-annual payments of principal began January 2021, and continue until paid. Full repayment of the loan is scheduled to occur in January 2049. The Water Fund finances this debt. Interest paid on this for the year ended June 30, 2022, was \$0.

Future payments of the bonds are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|-------------------------|-------------------|-------------|-------------------|
| 2023 | \$ 14,012 | \$ - | \$ 14,012 |
| 2024 | 14,012 | - | 14,012 |
| 2025 | 14,012 | - | 14,012 |
| 2026 | 14,012 | - | 14,012 |
| 2027 - 2031 | 70,058 | - | 70,058 |
| 2032 - 2036 | 70,058 | - | 70,058 |
| Thereafter | 182,146 | - | 182,146 |
| | <u>\$ 378,310</u> | <u>\$ -</u> | <u>\$ 378,310</u> |

Note 6: Restricted Assets – Cash

As of June 30, 2022, \$397,091 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, 2022.

Note 7: 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, 2022 was \$849,682 with covered payroll equaling \$813,908. The pensions cost to the District is 10 percent of the participants’ compensation. Required and accrued contributions to the plan for the year ended June 30, 2022 were \$79,428.

MALAGA COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

Note 8: Restatement

The following prior period adjustments were made to correct the beginning net position balances:

| | <u>Water</u> | <u>Sewer</u> | <u>Recreation</u> | <u>Solid Waste</u> | <u>Total</u> |
|--|--------------------|--------------------|----------------------|------------------------|--------------------|
| Beginning net position | \$7,226,536 | \$2,050,953 | \$(1,329,616) | \$ (16,808) | \$7,931,065 |
| Prior period adjustment - to record pension plan payments | <u>(42,666)</u> | <u>(101,543)</u> | <u>(26,452)</u> | <u>-</u> | <u>(170,661)</u> |
| Beginning net position, as restated | <u>\$7,183,870</u> | <u>\$1,949,410</u> | <u>\$(1,356,068)</u> | <u>\$ (16,808)</u> | <u>\$7,760,404</u> |

Note 9: Subsequent Events

In compliance with accounting standards, subsequent events were evaluated through July 17, 2023, which is the date the financial statements were available to be issued. Management has determined that no events require disclosure in accordance with the accounting standards subsequent to June 30, 2022.

MALAGA COUNTY WATER DISTRICT
COMBINING STATEMENT OF REVENUE AND EXPENSE
WASTE DISPOSAL FUND
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

| | Business-Type Activities - Waste Disposal Fund | | | | |
|------------------------------------|--|--------------------|-------------------|---------------------|---------------------|
| | 2022 | | | | 2021 |
| | Sewer | Pretreatment | Solid Waste | Total | Total |
| OPERATING REVENUE | | | | | |
| Charges for services | \$ 1,286,064 | \$ 153,863 | \$ 531,488 | \$ 1,971,415 | \$ 1,811,107 |
| Other | <u>57,362</u> | <u>21,358</u> | <u>745</u> | <u>79,465</u> | <u>75,138</u> |
| Total operating revenue | <u>1,343,426</u> | <u>175,221</u> | <u>532,233</u> | <u>2,050,880</u> | <u>1,886,245</u> |
| OPERATING EXPENSE | | | | | |
| Salaries and wages | 539,065 | 91,662 | - | 630,727 | 558,272 |
| Employee benefits | 302,105 | 34,214 | - | 336,319 | 230,450 |
| Refuse collection and disposal | 8,394 | - | 499,230 | 507,624 | 463,911 |
| Depreciation | 219,390 | - | - | 219,390 | 194,029 |
| Utilities | 171,469 | - | - | 171,469 | 157,955 |
| Professional services | 165,498 | 17,493 | - | 182,991 | 110,475 |
| Repairs and maintenance | 94,200 | 8,369 | - | 102,569 | 111,917 |
| Board of directors | 21,410 | - | - | 21,410 | 105,029 |
| Contract services | 24,453 | 4,437 | - | 28,890 | 38,061 |
| Insurance | 84,666 | 11,040 | - | 95,706 | 52,586 |
| Supplies and small tools | 87,310 | - | - | 87,310 | 37,377 |
| Dues and memberships | 46,493 | 1,063 | - | 47,556 | 46,017 |
| Other | 10,830 | 2,921 | - | 13,751 | 54,961 |
| Telephone | 30,869 | 4,648 | - | 35,517 | 28,486 |
| Testing | 32,379 | 3,684 | - | 36,063 | 27,162 |
| Travel, meetings and education | 11,239 | 351 | - | 11,590 | 1,279 |
| Fuel and oil | 14,336 | 2,553 | - | 16,889 | 9,879 |
| Bank charges | 1,216 | 106 | - | 1,322 | 3,396 |
| Office supplies and postage | 10,438 | 2,123 | - | 12,561 | 8,048 |
| Rents and leases | 14,026 | 248 | - | 14,274 | 4,306 |
| Education and training | <u>1,619</u> | <u>279</u> | <u>-</u> | <u>1,898</u> | <u>1,670</u> |
| Total operating expense | <u>1,891,405</u> | <u>185,191</u> | <u>499,230</u> | <u>2,575,826</u> | <u>2,245,266</u> |
| Net operating income | (547,979) | (9,970) | 33,003 | (524,946) | (359,021) |
| Nonoperating revenue/(expense) | | | | | |
| Grant revenue | - | - | - | - | - |
| Taxes and assessments | - | - | - | - | 7,653 |
| Other | (32,437) | (37,482) | 95,725 | 25,806 | 4,808 |
| Interest and use of property | 701 | - | - | 701 | 2,110 |
| Interest expense | <u>(64,844)</u> | <u>-</u> | <u>-</u> | <u>(64,844)</u> | <u>(36,786)</u> |
| Net nonoperating revenue/(expense) | <u>(96,580)</u> | <u>(37,482)</u> | <u>95,725</u> | <u>(38,337)</u> | <u>(22,215)</u> |
| Change in net position | <u>\$ (644,559)</u> | <u>\$ (47,452)</u> | <u>\$ 128,728</u> | <u>\$ (563,283)</u> | <u>\$ (381,236)</u> |



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

To the Board of Directors
Malaga County Water District

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities and each major fund of the Malaga County Water District (District), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated July 17, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 opinion 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 a 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* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did identify any deficiencies in internal control that we consider to be material weaknesses. These findings are identified as finding 22-01.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Malaga County Water District's financial statements are free from 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 this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jaribu W. Nelson, CPA

July 17, 2023

MALAGA COUNTY WATER DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2022

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

| | | | | |
|--|-------------------------------------|-----|-------------------------------------|-----|
| Type of auditor’s report issued: | Unmodified | | | |
| Internal control over financial reporting: | | | | |
| • Material weaknesses identified? | <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No |
| • Significant deficiency(ies) identified? | <input checked="" type="checkbox"/> | Yes | <input type="checkbox"/> | Yes |
| Non-compliance material to financial statements noted? | <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No |

SECTION II – FINANCIAL STATEMENT FINDINGS

There was one (1) financial statement finding to be reported in accordance with *Generally Accepted Government Auditing Standards (GAGAS)*. See Finding 2022-01

SECTION III – FEDERAL AWARDS FINDINGS

There are no federal award findings in accordance with *GAGAS* and the Compliance Supplement.

MALAGA COUNTY WATER DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2022

FINANCIAL STATEMENT FINDINGS

Finding 2022-01

Improve the preparation of the financial statements

Criteria:

Internal controls should be in place which will provide assurance that the financial statements along with preparation of the notes to the financial statements and supplementary information, are prepared accurately on a timely basis at year-end.

Condition:

During the course of performing our audit procedures, we noted that many proposed adjusting journal entries were to reclassify amounts to their proper account. We noted the pension plan has been unfunded for the prior 2 years and current year of this financial statement.

Cause:

Management did not perform its closing procedures to ensure all ledger account balances were properly classified to the appropriate fund on a timely basis at year-end. The in-house bookkeeper failed to timely make payments on the pension plan.

Effect:

There is a risk that a material financial statement may exist and not be prevented or detected by the District's system of internal control. The total dollar effect of the amounts not recorded totaled \$246,647.

Recommendation:

We recommend that the review of all year-end account balances include an accounting professional to validate the accuracy of all accounts. We recommend that the District make payment arrangements to bring the plan into compliance.

District Response:

The District will work with external CPA to provide accurate and timely financial reporting to minimize the misstatements that could occur. The District is currently engaging an external CPA to complete the current year financial statements in a more timely manner.

MALAGA COUNTY WATER DISTRICT

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2021

Finding 2021-01

Improve the preparation of the financial statements

Recommendation:

We recommend that the review of all year-end account balances include an accounting professional to validate the accuracy of all accounts.

Status:

Partially implemented, the District was able to procure an accounting professional. However, transactions were being presented inaccurately in the Recreation Fund and the Solid Waste Fund.



MALAGA COUNTY WATER DISTRICT

**INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS
JUNE 30, 2022**

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**MALAGA COUNTY WATER DISTRICT
BOARD OF DIRECTORS AND ADMINISTRATION
JUNE 30, 2022**

Board of Directors

Charles E. Garabedian Jr. President

Salvador Cerrillo Jr. Vice-President

Irma Castaneda Director

Frank A. Cerrillo, Jr. Director

Carlos Tovar, Jr. Director

Administration

Moises Ortiz General Manager

Norma Melendez Clerk



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Malaga County Water District

Opinion

We have audited the accompanying financial statements of the business-type activities and each major fund of the Malaga County Water District (District) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the District as of June 30, 2022, and the respective changes in financial position, and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Malaga County Water District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Malaga County Water District's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not

detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Malaga County Water District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Malaga County Water District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on page 5-8 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the 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.

Management has omitted the budgetary comparison information that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 17, 2023, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Malaga County Water District's 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 Malaga County Water District's internal control over financial reporting and compliance.

Jaribu W. Nelson, CPA

Clovis, California

July 17, 2023

MALAGA COUNTY WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2022

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, 2022. 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, 2022, by \$7,154,941. Of this amount, unrestricted net position of \$899,314 may be used to meet the District's ongoing obligations to customers and creditors. As of June 30, 2021, assets exceeded liabilities by \$7,931,065 with unrestricted net position equaling \$1,307,035.
- Total net position decreased by \$605,463 for the year ended June 30, 2022. For the year ended June 30, 2021, total net position decreased by \$129,182.
- During the current year, the District's fixed assets increased by a net of \$108,187. 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 \$430,176 for the current year. Prior year depreciation was \$380,449.
- Total debt decreased by a net of \$97,354 during the current year. The decrease was mostly attributable to the debt service payments. During the prior year, total debt increased by a net of \$225,029. This was mostly attributable to the acquisition of a loan to finance improvements to safe water drinking.

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.

**MALAGA COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
YEAR ENDED JUNE 30, 2022**

Financial Highlights (continued)

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 four proprietary funds, the Water Fund, the Waste Disposal Fund, the Recreation Fund, and the Solid Waste.

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, 2022, the District's assets exceeded liabilities by \$7,154,941. A significant portion of the District's net position (83 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 \$397,091 in net position (two 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
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
YEAR ENDED JUNE 30, 2022**

Malaga County Water District's Net Position

| | Business-Type Activities | Total | Prior Year Total |
|---|-----------------------------|---------------------|---------------------|
| ASSETS | | | |
| Current assets | \$ 2,581,907 | \$ 2,581,907 | \$ 1,870,192 |
| Other assets | 8,677,373 | 8,677,373 | 9,143,130 |
| Total assets | <u>11,259,280</u> | <u>11,259,280</u> | <u>11,013,322</u> |
| LIABILITIES | | | |
| Current liabilities | 1,682,593 | 1,682,593 | 563,157 |
| Deferred liabilities | <u>2,421,746</u> | <u>2,421,746</u> | <u>2,519,100</u> |
| Total liabilities | <u>4,104,339</u> | <u>4,104,339</u> | <u>3,082,257</u> |
| NET POSITION | | | |
| Net investment in capital assets, net of related debt | 5,858,536 | 5,858,536 | 6,083,171 |
| Restricted | 397,091 | 397,091 | 540,859 |
| Unrestricted | <u>899,314</u> | <u>899,314</u> | <u>1,307,035</u> |
| Total net position | <u>\$ 7,154,941</u> | <u>\$ 7,154,941</u> | <u>\$ 7,931,065</u> |

Malaga County Water District's Changes in Net Position

| | Business-Type Activities | Current Year Total | Prior Year Total (as restated) |
|-------------------------------------|-----------------------------|-----------------------|--------------------------------------|
| REVENUE | | | |
| Program revenue | | | |
| Charges for services | \$ 3,111,463 | \$ 3,111,463 | \$ 3,143,493 |
| Other | <u>102,949</u> | <u>102,949</u> | <u>90,224</u> |
| Total Revenues | <u>3,214,412</u> | <u>3,214,412</u> | <u>3,233,717</u> |
| EXPENSE | | | |
| Waste disposal utility activities | 1,956,249 | 1,956,249 | 1,643,970 |
| Water utility activities | 1,431,059 | 1,431,059 | 1,388,990 |
| Solid waste activities | 499,231 | 499,231 | 457,333 |
| Community recreation activities | <u>665,709</u> | <u>665,709</u> | <u>322,000</u> |
| Total Expenses | <u>4,552,248</u> | <u>4,552,248</u> | <u>3,812,293</u> |
| Net operating income/(loss) | (1,337,836) | (1,337,836) | (578,576) |
| Net nonoperating revenue/(expense) | <u>732,373</u> | <u>732,373</u> | <u>449,394</u> |
| Increase/(decrease) in net position | (605,463) | (605,463) | (129,182) |
| Net position, beginning of year | <u>7,760,404</u> | <u>7,760,404</u> | <u>8,060,247</u> |
| Net position, end of year | <u>\$ 7,154,941</u> | <u>\$ 7,154,941</u> | <u>\$ 7,931,065</u> |

**MALAGA COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
YEAR ENDED JUNE 30, 2022**

Business-type activities. Business-type activities decreased the District's net position by \$605,463, accounting for 100 percent of the total decrease 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, 2022, the District's proprietary funds reported a combined ending fund balance of \$7,154,941, an decrease of \$605,463, and a restatement of beginning net position totaling \$170,661. Of the entire ending fund balance, \$899,314 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, 2022, amounted to \$8,280,282 (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 \$2,421,746 as of June 30, 2022. Of this total amount, \$196,492 is due and payable during the year ending June 30, 2023. The remainder, referred to as deferred liabilities, is due and payable over the next 21 years.

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

Economic Factors and Next Year's Budgets and Rates

The budget for the year ending June 30, 2023, projects a surplus of \$192,525. Revenue is anticipated to decrease by \$38,098 compared to 2021/2022, while expenses are expected to decrease by \$13,401. Charges for services are anticipated to decrease by \$17,347, while non-operating revenue is expected to increase by \$24,811. Salaries, wages and employee benefits are expected to decrease by \$53,203 and services and supplies are anticipated to decrease by \$39,802 compared to 2021/2022.

User rates are not expected to increase during the year ending June 30, 2023.

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, 2022

ASSETS

| | |
|----------------------|------------------|
| Cash and investments | \$ 2,151,823 |
| Accounts receivable | 350,484 |
| Prepays | <u>79,600</u> |
| Total current assets | <u>2,581,907</u> |

OTHER ASSETS

| | |
|---|------------------|
| Restricted assets - cash | 397,091 |
| Capital assets, net of allowance for depreciation | <u>8,280,282</u> |
| Total other assets | <u>8,677,373</u> |

Total assets 11,259,280

LIABILITIES

| | |
|--------------------------------------|------------------|
| Accounts payable and accrued expense | 1,640,527 |
| Customer deposits payable | <u>42,066</u> |
| Total current liabilities | <u>1,682,593</u> |

NONCURRENT LIABILITIES

| | |
|------------------------------|------------------|
| Due within one year | 196,492 |
| Due in more than one year | <u>2,225,254</u> |
| Total Noncurrent liabilities | <u>2,421,746</u> |

NET POSITION

| | |
|---|------------------|
| Net investment in capital assets, net of related debt | 5,858,536 |
| Restricted | 397,091 |
| Unrestricted | <u>899,314</u> |
| Total net position | <u>7,154,941</u> |

Total Liabilities and Net Position \$ 11,259,280

MALAGA COUNTY WATER DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2022

BUSINESS-TYPE ACTIVITIES

| | | |
|------------------------------------|----------------|---------------------|
| Operating revenue | | |
| Charges for services | | \$ 3,111,463 |
| Other | | <u>102,949</u> |
| Total operating revenues | | 3,214,412 |
| Operating expense | | |
| Waste disposal utility activities | \$ 1,956,249 | |
| Water utility activities | 1,431,059 | |
| Solid waste activities | 499,231 | |
| Community recreation activities | <u>665,709</u> | |
| Total operating expense | | <u>4,552,248</u> |
| Net operating income/(loss) | | (1,337,836) |
| Net nonoperating revenue/(expense) | | <u>732,373</u> |
| Change in net position | | (605,463) |
| Net position, beginning of year | | <u>7,760,404</u> |
| Net position, end of year | | <u>\$ 7,154,941</u> |

**MALAGA COUNTY WATER DISTRICT
COMPARATIVE STATEMENT OF NET POSITION
PROPRIETARY FUNDS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

| | Business-Type Activities - Enterprise Funds | | | | | 2021 Total |
|---|---|---------------------|-----------------------|-------------------|---------------------|---------------------|
| | 2022 | | | | | |
| | Water | Waste Disposal | Recreation | Solid Waste | Total | |
| ASSETS | | | | | | |
| Current assets | | | | | | |
| Cash and cash equivalents | \$ 1,105,792 | \$ 621,130 | \$ 366,232 | \$ 58,669 | \$ 2,151,823 | \$ 1,477,622 |
| Accounts receivable | 90,406 | 185,365 | 1,762 | - | 277,533 | 304,365 |
| Prepaid expense | 11,003 | 12,829 | 2,518 | 53,250 | 79,600 | 88,205 |
| Total current assets | <u>1,207,201</u> | <u>819,324</u> | <u>370,512</u> | <u>111,919</u> | <u>2,508,956</u> | <u>1,870,192</u> |
| Other assets | | | | | | |
| Restricted cash and investments | - | - | 397,091 | - | 397,091 | 540,859 |
| Advances to other activities | 3,360,400 | - | - | - | 3,360,400 | 3,720,560 |
| Capital assets, net of accumulated depreciation | 3,601,353 | 3,352,612 | 1,326,317 | - | 8,280,282 | 8,602,271 |
| Total non-current assets | <u>6,961,753</u> | <u>3,352,612</u> | <u>1,723,408</u> | <u>-</u> | <u>12,037,773</u> | <u>12,863,690</u> |
| Total assets | <u>8,168,954</u> | <u>4,171,936</u> | <u>2,093,920</u> | <u>111,919</u> | <u>14,546,729</u> | <u>14,733,882</u> |
| LIABILITIES | | | | | | |
| Current liabilities | | | | | | |
| Accounts payable and accrued expenses | 244,279 | 1,286,852 | 110,099 | - | 1,641,230 | 521,121 |
| Customer deposits payable | 3,714 | 20,127 | 18,225 | - | 42,066 | 42,066 |
| Current portion of long-term debt | 121,221 | 15,771 | 59,500 | - | 196,492 | 170,306 |
| Total current liabilities | <u>369,214</u> | <u>1,322,750</u> | <u>187,824</u> | <u>-</u> | <u>1,879,788</u> | <u>733,493</u> |
| Other liabilities | | | | | | |
| Advances from other activities | - | 665,095 | 2,621,651 | - | 3,286,746 | 3,720,530 |
| Non-current liabilities | | | | | | |
| Notes payable, less current portion | 574,014 | 879,240 | 772,000 | - | 2,225,254 | 2,348,794 |
| Total liabilities | <u>943,228</u> | <u>2,867,085</u> | <u>3,581,475</u> | <u>-</u> | <u>7,391,788</u> | <u>6,802,817</u> |
| NET POSITION | | | | | | |
| Net investment in capital assets | 2,906,118 | 2,457,601 | 494,817 | - | 5,858,536 | 6,083,171 |
| Nonspendable | 2,561,166 | - | - | - | 2,561,166 | 2,561,166 |
| Restricted | - | - | 397,091 | - | 397,091 | 540,859 |
| Unrestricted / (deficit) | 1,758,442 | (1,152,750) | (2,379,463) | 111,919 | (1,661,852) | (1,254,131) |
| Total net position | <u>\$ 7,225,726</u> | <u>\$ 1,304,851</u> | <u>\$ (1,487,555)</u> | <u>\$ 111,919</u> | <u>\$ 7,154,941</u> | <u>\$ 7,931,065</u> |

MALAGA COUNTY WATER DISTRICT
COMPARATIVE STATEMENT OF REVENUE, EXPENSE, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

| | Business-Type Activities - Enterprise Funds | | | | | 2021 |
|---|--|-----------------------|-----------------------|--------------------|---------------------|---------------------|
| | 2022 | | | | | |
| | Water | Waste Disposal | Recreation | Solid Waste | Total | |
| Operating Revenue | | | | | | |
| Charges for services | \$ 1,270,193 | \$ 1,286,064 | \$ 23,718 | \$ 531,488 | \$ 3,111,463 | \$ 3,143,493 |
| Other | 34,487 | 57,362 | 10,355 | 745 | 102,949 | 90,224 |
| Total operating revenue | <u>1,304,680</u> | <u>1,343,426</u> | <u>34,073</u> | <u>532,233</u> | <u>3,214,412</u> | <u>3,233,717</u> |
| Operating Expense | | | | | | |
| Salaries and wages | 307,986 | 539,065 | 105,149 | - | 952,200 | 849,682 |
| Employee benefits | 239,821 | 302,105 | 36,755 | - | 578,681 | 412,440 |
| Refuse collection and disposal | 5,660 | 8,394 | 3,646 | 499,231 | 516,931 | 474,381 |
| Depreciation | 146,260 | 219,390 | 64,526 | - | 430,176 | 380,449 |
| Utilities | 220,711 | 171,469 | 73,026 | - | 465,206 | 436,738 |
| Professional services | 119,249 | 165,498 | - | - | 284,747 | 221,299 |
| Repairs and maintenance | 58,360 | 94,200 | 181,220 | - | 333,780 | 209,573 |
| Board of directors | 22,271 | 21,410 | - | - | 43,681 | 210,087 |
| Contract services | 22,814 | 24,453 | 10,919 | - | 58,186 | 67,265 |
| Insurance | 61,639 | 84,666 | 42,928 | - | 189,233 | 116,175 |
| Supplies and small tools | 22,889 | 87,310 | 83,958 | - | 194,157 | 79,157 |
| Dues and memberships | 50,109 | 46,493 | 754 | - | 97,356 | 76,545 |
| Other | 77,657 | 10,830 | 5,692 | - | 94,179 | 76,889 |
| Telephone | 13,604 | 30,869 | 8,641 | - | 53,114 | 47,657 |
| Testing | 6,401 | 32,379 | - | - | 38,780 | 36,158 |
| Travel, meetings and education | 17,022 | 11,239 | 3,037 | - | 31,298 | 3,928 |
| Fuel and oil | 12,489 | 14,336 | 1,161 | - | 27,986 | 20,311 |
| Bank charges | 3,853 | 1,216 | 934 | - | 6,003 | 7,267 |
| Office supplies and postage | 7,757 | 10,438 | 170 | - | 18,365 | 13,231 |
| Rents and leases | 1,547 | 14,026 | 8,330 | - | 23,903 | 8,133 |
| Education and training | 2,113 | 1,619 | 690 | - | 4,422 | 3,015 |
| Total operating expense | <u>1,420,212</u> | <u>1,891,405</u> | <u>631,536</u> | <u>499,231</u> | <u>4,442,384</u> | <u>3,750,380</u> |
| Net operating income/(loss) | <u>(115,532)</u> | <u>(547,979)</u> | <u>(597,463)</u> | <u>33,002</u> | <u>(1,227,972)</u> | <u>(516,663)</u> |
| Nonoperating Revenues/(Expenses) | | | | | | |
| Grant revenue | 67,869 | - | - | - | 67,869 | - |
| Taxes and assessments | - | - | 373,426 | - | 373,426 | 387,539 |
| Other | 97,213 | (32,437) | 124,305 | 95,725 | 284,806 | 54,276 |
| Interest and use of property | 3,153 | 701 | 2,418 | - | 6,272 | 7,579 |
| Interest expense | (10,847) | (64,844) | (34,173) | - | (109,864) | (61,913) |
| Net nonoperating revenues/(expenses) | <u>157,388</u> | <u>(96,580)</u> | <u>465,976</u> | <u>95,725</u> | <u>622,509</u> | <u>387,481</u> |
| Other Financing Sources/(Uses) | | | | | | |
| Transfers in | - | - | - | - | - | 34,127 |
| Transfers out | - | - | - | - | - | (34,127) |
| Net other financing sources / (uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Change in net position | 41,856 | (644,559) | (131,487) | 128,727 | (605,463) | (129,182) |
| Net Position - beginning of year | 7,226,536 | 2,050,953 | (1,329,616) | (16,808) | 7,931,065 | 8,060,247 |
| Prior Period Adjustment | (42,666) | (101,543) | (26,452) | - | (170,661) | |
| Net Position - beginning of year (restated) | 7,183,870 | 1,949,410 | (1,356,068) | (16,808) | 7,760,404 | |
| Net Position, End of Year | <u>\$ 7,225,726</u> | <u>\$ 1,304,851</u> | <u>\$ (1,487,555)</u> | <u>\$ 111,919</u> | <u>\$ 7,154,941</u> | <u>\$ 7,931,065</u> |

The accompanying notes are an integral part of the financial statements.

**MALAGA COUNTY WATER DISTRICT
COMPARATIVE STATEMENT OF CASH FLOW
PROPRIETARY FUNDS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

| | Business-Type Activities - Enterprise Funds | | | | | 2021 Total |
|---|--|-----------------------|-------------------|--------------------|---------------------|-----------------------|
| | Water | Waset Disposal | Recreation | Solid Waste | Total | |
| Operating Activities | | | | | | |
| Received from customers | \$ 1,302,764 | \$ 1,372,174 | \$ 34,073 | \$ 532,233 | \$ 3,241,244 | \$ 3,233,717 |
| Payments to suppliers | (610,409) | 273,159 | (445,564) | (499,231) | (1,282,045) | (2,001,969) |
| Payments to employees | (590,473) | (942,713) | (168,356) | - | (1,701,542) | (1,262,122) |
| Net cash provided by (used in) operating activities | <u>101,882</u> | <u>702,620</u> | <u>(579,847)</u> | <u>33,002</u> | <u>257,657</u> | <u>(30,374)</u> |
| Non-capital Financing Activities | | | | | | |
| Advances (to)/from other funds | 360,160 | (433,784) | - | - | (73,624) | (30) |
| Property taxes and other nonoperating revenue | <u>97,213</u> | <u>(32,437)</u> | <u>497,731</u> | <u>95,725</u> | <u>658,232</u> | <u>441,815</u> |
| Net cash provided by (used in) noncapital financing activities | <u>457,373</u> | <u>(466,221)</u> | <u>497,731</u> | <u>95,725</u> | <u>584,608</u> | <u>441,785</u> |
| Capital and Related Financing Activities | | | | | | |
| Grant revenue | 67,869 | - | - | - | 67,869 | - |
| Proceeds from construction loan | - | - | - | - | - | - |
| Principal paid on notes payable | (445,146) | 405,292 | (57,500) | - | (97,354) | (225,031) |
| Interest paid on notes payable | (10,847) | (64,844) | (34,173) | (70,568) | (180,432) | (61,913) |
| Disposition of capital assets | - | - | - | - | - | - |
| Transfers in / (out) | - | - | - | - | - | - |
| Purchase of capital assets | (24,075) | (24,075) | (60,037) | - | (108,187) | (158,584) |
| Net cash provided (used) in capital and related financing activities | <u>(412,199)</u> | <u>316,373</u> | <u>(151,710)</u> | <u>(70,568)</u> | <u>(318,104)</u> | <u>(445,528)</u> |
| Investing Activities | | | | | | |
| Interest and use of property | <u>3,153</u> | <u>701</u> | <u>2,418</u> | <u>-</u> | <u>6,272</u> | <u>24,987</u> |
| Net Increase / (Decrease) in Cash | 150,209 | 553,473 | (231,408) | 58,159 | 530,433 | (9,130) |
| Cash and Investments | | | | | | |
| Beginning of year | <u>955,583</u> | <u>67,657</u> | <u>994,731</u> | <u>510</u> | <u>2,018,481</u> | <u>2,027,611</u> |
| End of year | <u>\$ 1,105,792</u> | <u>\$ 621,130</u> | <u>\$ 763,323</u> | <u>\$ 58,669</u> | <u>\$ 2,548,914</u> | <u>\$ 2,018,481</u> |

**MALAGA COUNTY WATER DISTRICT
COMPARATIVE STATEMENT OF CASH FLOW
PROPRIETARY FUNDS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

| | Business-Type Activities - Enterprise Funds | | | | | 2021 Total |
|--|---|-------------------|---------------------|------------------|---------------------|---------------------|
| | 2022 | | | | | |
| | Water | Waste Disposal | Recreation | Solid Waste | Total | |
| Reconciliation of Operating Income (Loss) to Net Cash Provided By/(Used) for Operating Activities | | | | | | |
| Operating income (loss) | \$ (115,532) | \$ (547,979) | \$ (597,463) | \$ 33,002 | \$ (1,227,972) | \$ (516,663) |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | | | | |
| Depreciation | 146,260 | 219,390 | 64,526 | - | 430,176 | 380,449 |
| Changes in assets and liabilities: | | | | | | |
| (Increase) Decrease in accounts receivable | (1,916) | 28,748 | - | - | 26,832 | - |
| (Increase) Decrease in prepaid expense | 17,021 | 30,872 | 13,962 | - | 61,855 | 53,385 |
| Increase (Decrease) in accounts payable and accrued expense | 56,049 | 971,589 | (60,872) | - | 966,766 | 55,489 |
| (Increase) Decrease in deposits | - | - | - | - | - | (3,034) |
| Net Cash Provided/(Used) by Operating Activities | <u>\$ 101,882</u> | <u>\$ 702,620</u> | <u>\$ (579,847)</u> | <u>\$ 33,002</u> | <u>\$ 257,657</u> | <u>\$ (30,374)</u> |
| Summary of cash balances, end of year | | | | | | |
| Cash and cash equivalents | 1,105,792 | 621,130 | 366,232 | 58,669 | 2,151,823 | 1,477,622 |
| Restricted cash | - | - | 397,091 | - | 397,091 | 540,859 |
| | <u>\$ 1,105,792</u> | <u>\$ 621,130</u> | <u>\$ 763,323</u> | <u>\$ 58,669</u> | <u>\$ 2,548,914</u> | <u>\$ 2,018,481</u> |

MALAGA COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

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).

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.

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, 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.

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 FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

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.

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 FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

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:

Nonspendable – Amounts that are not in spendable form (such as inventory) or are required either legally or contractually to be maintained intact. 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 capital assets, net of related debt.

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.

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.

Budgets and Budgetary Accounting

The District established a budget for its governmental fund for the year ended June 30, 2022. The budget is adopted on a basis consistent with generally accepted accounting principles (GAAP).

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.

Statement Reclassifications

Certain reclassifications may have been made in the prior year's amounts to conform with current year financial statement presentation.

MALAGA COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

Note 2: Cash and Investments

The District's deposits as of June 30, 2022, 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, 2022:

| | Bank Balance Category * | | | Carrying Amount |
|------------------------------|-------------------------|--------------------|-------------|--------------------|
| | 1 | 2 | 3 | |
| Cash on hand | \$ 42,635 | \$ - | \$ - | \$ 42,635 |
| Cash in bank | 1,462,122 | 511,285 | - | 1,973,407 |
| Fresno County Treasury | - | 28,997 | - | 28,997 |
| Local Agency Investment Fund | - | 503,875 | - | 503,875 |
| Total cash and investments | <u>\$1,504,757</u> | <u>\$1,044,157</u> | <u>\$ -</u> | <u>\$2,548,914</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, 2022:

| | Beginning Balance | Additions/ Completions | Disposals/ Adjustments | Ending Balance |
|----------------------------|---------------------|------------------------|------------------------|---------------------|
| Land* | \$ 299,264 | \$ - | \$ - | \$ 299,264 |
| Water system | 8,228,829 | - | - | 8,228,829 |
| Sewer system | 7,388,123 | - | - | 7,388,123 |
| Buildings | 1,169,276 | - | - | 1,169,276 |
| Construction in progress* | 713,110 | 60,037 | - | 773,147 |
| Park development | 1,055,306 | - | - | 1,055,306 |
| Equipment | 615,072 | 48,150 | - | 663,222 |
| Total | 19,468,980 | 108,187 | - | 19,577,167 |
| Allowance for depreciation | <u>(10,866,709)</u> | <u>(430,176)</u> | <u>-</u> | <u>(11,296,885)</u> |
| | <u>8,602,271</u> | <u>(321,989)</u> | <u>-</u> | <u>8,280,282</u> |

* Not currently being depreciated.

MALAGA COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

Note 4: Noncurrent Liabilities

The following is a summary of deferred liabilities (long-term debt) for the year ended June 30, 2022:

| | Beginning Balance | Additions | Deletions | Ending Balance | Classification | |
|--|-------------------------|-----------------|-------------------------|-------------------------|------------------------|-------------------------|
| | | | | | Due Within One Year | Due After One Year |
| Note payable | | | | | | |
| Water and sewer systems improvements | \$ 889,805 | \$ 72,951 | \$ (75,756) | \$ 887,000 | \$ 99,000 | \$ 788,000 |
| Parks and recreation improvements | 889,000 | - | (57,500) | 831,500 | 59,500 | 772,000 |
| Wastewater treatment plant improvements | 347,974 | - | (23,038) | 324,936 | 23,980 | 300,956 |
| Safe drinking water | 392,322 | - | (14,012) | 378,310 | 14,012 | 364,298 |
| Total long-term debt | <u>\$ 2,519,101</u> | <u>\$ -</u> | <u>\$ (170,306)</u> | <u>\$ 2,421,746</u> | <u>\$ 196,492</u> | <u>\$ 2,225,254</u> |

Note 5: Note Payables

Water and Sewer Systems Improvements

This debt was incurred to refinance the construction of water well number eight and improvements to the sewer system. The total amount of the debt was \$887,000 and provides for interest at the rate of 2 percent per annum. Semi-annual payments of principal and interest began July 2022, 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 35.73 percent of the payments due and the Waste Disposal Fund finances 64.27 percent of the payments. Interest paid on this loan for the year ended June 30, 2022, was \$42,248.

Future payments of the bonds are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|-------------------------|-------------------|------------------|---------------------|
| 2023 | \$ 99,000 | \$ 15,432 | \$ 114,432 |
| 2024 | 98,000 | 15,270 | 113,270 |
| 2025 | 100,000 | 13,300 | 113,300 |
| 2026 | 102,000 | 11,290 | 113,290 |
| 2027 - 2031 | 488,000 | 24,660 | 512,660 |
| | <u>\$ 887,000</u> | <u>\$ 79,952</u> | <u>\$ 1,003,035</u> |

MALAGA COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

Note 5: Note Payables (continued)

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, 2022, was \$13,862.

Future payments of the bonds are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|-------------------------|-------------------|------------------|-------------------|
| 2023 | \$ 23,980 | \$ 12,920 | \$ 36,900 |
| 2024 | 24,961 | 11,939 | 36,900 |
| 2025 | 25,982 | 10,917 | 36,899 |
| 2026 | 27,045 | 9,855 | 36,900 |
| 2027 - 2031 | 152,757 | 31,743 | 184,500 |
| 2032 - 2035 | 70,211 | 3,590 | 73,801 |
| | <u>\$ 324,936</u> | <u>\$ 80,964</u> | <u>\$ 405,900</u> |

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 for the year ended June 30, 2022, was \$32,278.

Future payments of the bonds are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|-------------------------|-------------------|-------------------|---------------------|
| 2023 | \$ 59,500 | \$ 30,138 | \$ 89,638 |
| 2024 | 61,500 | 27,924 | 89,424 |
| 2025 | 63,500 | 25,636 | 89,136 |
| 2026 | 66,000 | 23,275 | 89,275 |
| 2027 - 2031 | 451,500 | 77,601 | 529,101 |
| 2032 - 2035 | 129,500 | 4,806 | 134,306 |
| | <u>\$ 831,500</u> | <u>\$ 189,380</u> | <u>\$ 1,020,880</u> |

MALAGA COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

Note 5: Note Payables (continued)

Safe Drinking Water

This debt was incurred to finance water meters for safe drinking water. The total amount of the debt was \$403,417 and provides for interest at the rate of 0 percent per annum. Semi-annual payments of principal began January 2021, and continue until paid. Full repayment of the loan is scheduled to occur in January 2049. The Water Fund finances this debt. Interest paid on this for the year ended June 30, 2022, was \$0.

Future payments of the bonds are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|-------------------------|-------------------|-------------|-------------------|
| 2023 | \$ 14,012 | \$ - | \$ 14,012 |
| 2024 | 14,012 | - | 14,012 |
| 2025 | 14,012 | - | 14,012 |
| 2026 | 14,012 | - | 14,012 |
| 2027 - 2031 | 70,058 | - | 70,058 |
| 2032 - 2036 | 70,058 | - | 70,058 |
| Thereafter | 182,146 | - | 182,146 |
| | <u>\$ 378,310</u> | <u>\$ -</u> | <u>\$ 378,310</u> |

Note 6: Restricted Assets – Cash

As of June 30, 2022, \$397,091 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, 2022.

Note 7: 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, 2022 was \$849,682 with covered payroll equaling \$813,908. The pensions cost to the District is 10 percent of the participants’ compensation. Required and accrued contributions to the plan for the year ended June 30, 2022 were \$79,428.

MALAGA COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

Note 8: Restatement

The following prior period adjustments were made to correct the beginning net position balances:

| | <u>Water</u> | <u>Sewer</u> | <u>Recreation</u> | <u>Solid Waste</u> | <u>Total</u> |
|--|--------------------|--------------------|----------------------|------------------------|--------------------|
| Beginning net position | \$7,226,536 | \$2,050,953 | \$(1,329,616) | \$ (16,808) | \$7,931,065 |
| Prior period adjustment - to record pension plan payments | <u>(42,666)</u> | <u>(101,543)</u> | <u>(26,452)</u> | <u>-</u> | <u>(170,661)</u> |
| Beginning net position, as restated | <u>\$7,183,870</u> | <u>\$1,949,410</u> | <u>\$(1,356,068)</u> | <u>\$ (16,808)</u> | <u>\$7,760,404</u> |

Note 9: Subsequent Events

In compliance with accounting standards, subsequent events were evaluated through July 17, 2023, which is the date the financial statements were available to be issued. Management has determined that no events require disclosure in accordance with the accounting standards subsequent to June 30, 2022.

MALAGA COUNTY WATER DISTRICT
COMBINING STATEMENT OF REVENUE AND EXPENSE
WASTE DISPOSAL FUND
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

| | Business-Type Activities - Waste Disposal Fund | | | | |
|------------------------------------|--|--------------------|-------------------|---------------------|---------------------|
| | 2022 | | | | 2021 |
| | Sewer | Pretreatment | Solid Waste | Total | Total |
| OPERATING REVENUE | | | | | |
| Charges for services | \$ 1,286,064 | \$ 153,863 | \$ 531,488 | \$ 1,971,415 | \$ 1,811,107 |
| Other | <u>57,362</u> | <u>21,358</u> | <u>745</u> | <u>79,465</u> | <u>75,138</u> |
| Total operating revenue | <u>1,343,426</u> | <u>175,221</u> | <u>532,233</u> | <u>2,050,880</u> | <u>1,886,245</u> |
| OPERATING EXPENSE | | | | | |
| Salaries and wages | 539,065 | 91,662 | - | 630,727 | 558,272 |
| Employee benefits | 302,105 | 34,214 | - | 336,319 | 230,450 |
| Refuse collection and disposal | 8,394 | - | 499,230 | 507,624 | 463,911 |
| Depreciation | 219,390 | - | - | 219,390 | 194,029 |
| Utilities | 171,469 | - | - | 171,469 | 157,955 |
| Professional services | 165,498 | 17,493 | - | 182,991 | 110,475 |
| Repairs and maintenance | 94,200 | 8,369 | - | 102,569 | 111,917 |
| Board of directors | 21,410 | - | - | 21,410 | 105,029 |
| Contract services | 24,453 | 4,437 | - | 28,890 | 38,061 |
| Insurance | 84,666 | 11,040 | - | 95,706 | 52,586 |
| Supplies and small tools | 87,310 | - | - | 87,310 | 37,377 |
| Dues and memberships | 46,493 | 1,063 | - | 47,556 | 46,017 |
| Other | 10,830 | 2,921 | - | 13,751 | 54,961 |
| Telephone | 30,869 | 4,648 | - | 35,517 | 28,486 |
| Testing | 32,379 | 3,684 | - | 36,063 | 27,162 |
| Travel, meetings and education | 11,239 | 351 | - | 11,590 | 1,279 |
| Fuel and oil | 14,336 | 2,553 | - | 16,889 | 9,879 |
| Bank charges | 1,216 | 106 | - | 1,322 | 3,396 |
| Office supplies and postage | 10,438 | 2,123 | - | 12,561 | 8,048 |
| Rents and leases | 14,026 | 248 | - | 14,274 | 4,306 |
| Education and training | <u>1,619</u> | <u>279</u> | <u>-</u> | <u>1,898</u> | <u>1,670</u> |
| Total operating expense | <u>1,891,405</u> | <u>185,191</u> | <u>499,230</u> | <u>2,575,826</u> | <u>2,245,266</u> |
| Net operating income | (547,979) | (9,970) | 33,003 | (524,946) | (359,021) |
| Nonoperating revenue/(expense) | | | | | |
| Grant revenue | - | - | - | - | - |
| Taxes and assessments | - | - | - | - | 7,653 |
| Other | (32,437) | (37,482) | 95,725 | 25,806 | 4,808 |
| Interest and use of property | 701 | - | - | 701 | 2,110 |
| Interest expense | <u>(64,844)</u> | <u>-</u> | <u>-</u> | <u>(64,844)</u> | <u>(36,786)</u> |
| Net nonoperating revenue/(expense) | <u>(96,580)</u> | <u>(37,482)</u> | <u>95,725</u> | <u>(38,337)</u> | <u>(22,215)</u> |
| Change in net position | <u>\$ (644,559)</u> | <u>\$ (47,452)</u> | <u>\$ 128,728</u> | <u>\$ (563,283)</u> | <u>\$ (381,236)</u> |



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

To the Board of Directors
Malaga County Water District

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities and each major fund of the Malaga County Water District (District), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated July 17, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 opinion 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 a 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* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did identify any deficiencies in internal control that we consider to be material weaknesses. These findings are identified as finding 22-01.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Malaga County Water District's financial statements are free from 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 this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jaribu W. Nelson, CPA

July 17, 2023

MALAGA COUNTY WATER DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2022

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

| | | | | |
|--|-------------------------------------|-----|-------------------------------------|-----|
| Type of auditor’s report issued: | Unmodified | | | |
| Internal control over financial reporting: | | | | |
| • Material weaknesses identified? | <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No |
| • Significant deficiency(ies) identified? | <input checked="" type="checkbox"/> | Yes | <input type="checkbox"/> | Yes |
| Non-compliance material to financial statements noted? | <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No |

SECTION II – FINANCIAL STATEMENT FINDINGS

There was one (1) financial statement finding to be reported in accordance with *Generally Accepted Government Auditing Standards (GAGAS)*. See Finding 2022-01

SECTION III – FEDERAL AWARDS FINDINGS

There are no federal award findings in accordance with *GAGAS* and the Compliance Supplement.

MALAGA COUNTY WATER DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2022

FINANCIAL STATEMENT FINDINGS

Finding 2022-01

Improve the preparation of the financial statements

Criteria:

Internal controls should be in place which will provide assurance that the financial statements along with preparation of the notes to the financial statements and supplementary information, are prepared accurately on a timely basis at year-end.

Condition:

During the course of performing our audit procedures, we noted that many proposed adjusting journal entries were to reclassify amounts to their proper account. We noted the pension plan has been unfunded for the prior 2 years and current year of this financial statement.

Cause:

Management did not perform its closing procedures to ensure all ledger account balances were properly classified to the appropriate fund on a timely basis at year-end. The in-house bookkeeper failed to timely make payments on the pension plan.

Effect:

There is a risk that a material financial statement may exist and not be prevented or detected by the District's system of internal control. The total dollar effect of the amounts not recorded totaled \$246,647.

Recommendation:

We recommend that the review of all year-end account balances include an accounting professional to validate the accuracy of all accounts. We recommend that the District make payment arrangements to bring the plan into compliance.

District Response:

The District will work with external CPA to provide accurate and timely financial reporting to minimize the misstatements that could occur. The District is currently engaging an external CPA to complete the current year financial statements in a more timely manner.

MALAGA COUNTY WATER DISTRICT

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2021

Finding 2021-01

Improve the preparation of the financial statements

Recommendation:

We recommend that the review of all year-end account balances include an accounting professional to validate the accuracy of all accounts.

Status:

Partially implemented, the District was able to procure an accounting professional. However, transactions were being presented inaccurately in the Recreation Fund and the Solid Waste Fund.