



MALAGA COUNTY WATER DISTRICT

**INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS
JUNE 30, 2021**

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**MALAGA COUNTY WATER DISTRICT
BOARD OF DIRECTORS AND ADMINISTRATION
JUNE 30, 2021**

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

Laurie R. Cortez Office Manager



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Malaga County Water District

Report on the Financial Statements

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, 2021, and the related notes to the financial statements, which collectively comprise the District's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these basic financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the District as of June 30, 2021, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on page 4-7 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 June 24, 2022, on our consideration of the Malaga County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Jaribu W. Nelson, CPA

Jaribu W. Nelson, CPA
June 24, 2022

MALAGA COUNTY WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2021

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, 2021. 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, 2021 by \$7,931,065. Of this amount, unrestricted net position of \$1,307,035 may be used to meet the District's ongoing obligations to customers and creditors. As of June 30, 2020, assets exceeded liabilities by \$8,060,247 with unrestricted net position equaling \$1,164,755.
- Total net position decreased by \$129,182 for the year ended June 30, 2021. For the year ended June 30, 2020, total net position increased by \$123,949.
- During the current year, the District's fixed assets increased by a net of \$158,583. 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 \$380,448 for the current year. Prior year depreciation was \$486,295.
- Total debt decreased by a net of \$225,029 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 \$218,432. 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, 2021**

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, 2021, the District's assets exceeded liabilities by \$7,931,065. A significant portion of the District's net position (77 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 \$129,182 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, 2021**

Malaga County Water District's Net Position

	Business-Type Activities	Total	Prior Year Total
ASSETS			
Current assets	\$ 1,870,192	\$ 1,870,192	\$ 1,658,169
Other assets	9,143,130	9,143,130	9,639,623
Total assets	<u>11,013,322</u>	<u>11,013,322</u>	<u>11,297,792</u>
LIABILITIES			
Current liabilities	563,157	563,157	493,414
Deferred liabilities	2,519,100	2,519,100	2,744,131
Total liabilities	<u>3,082,257</u>	<u>3,082,257</u>	<u>3,237,545</u>
NET POSITION			
Net investment in capital assets, net of related debt	6,083,171	6,083,171	6,080,005
Restricted	540,859	540,859	815,487
Unrestricted	1,307,035	1,307,035	1,164,755
Total net position	<u>\$ 7,931,065</u>	<u>\$ 7,931,065</u>	<u>\$ 8,060,247</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	\$ 3,143,493	\$ 3,143,493	\$ 3,195,133
Other	90,224	90,224	287,979
Total Revenues	<u>3,233,717</u>	<u>3,233,717</u>	<u>3,483,112</u>
EXPENSE			
Waste disposal utility activities	1,643,970	1,643,970	2,323,932
Water utility activities	1,388,990	1,388,990	1,368,253
Solid waste activities	457,333	457,333	-
Community recreation activities	322,000	322,000	765,065
Total Expenses	<u>3,812,293</u>	<u>3,812,293</u>	<u>4,457,250</u>
Net operating income/(loss)	(578,576)	(578,576)	(974,138)
Net nonoperating revenue/(expense)	449,394	449,394	1,098,087
Increase/(decrease) in net position	(129,182)	(129,182)	123,949
Net position, beginning of year	<u>8,060,247</u>	<u>8,060,247</u>	<u>7,936,298</u>
Net position, end of year	<u>\$ 7,931,065</u>	<u>\$ 7,931,065</u>	<u>\$ 8,060,247</u>

**MALAGA COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
YEAR ENDED JUNE 30, 2021**

Business-type activities. Business-type activities decreased the District's net position by \$129,182, 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, 2021, the District's proprietary funds reported a combined ending fund balance of \$7,931,065, an decrease of \$129,182, in comparison to the prior year. Of the entire ending fund balance, \$1,307,035 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, 2021 amounted to \$8,602,271 (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 \$2,519,100 as of June 30, 2021. Of this total amount, \$170,306 is due and payable during the year ending June 30, 2021. The remainder, referred to as deferred liabilities, is due and payable over the next 22 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, 2022 projects a surplus of \$192,525. Revenue is anticipated to decrease by \$38,098 compared to 2020/2021, 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 2020/2021.

User rates are not expected to increase during the year ending June 30, 2021.

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, 2021

ASSETS

Cash and investments	\$ 1,477,622
Accounts receivable	304,365
Prepays	<u>88,205</u>
Total current assets	<u>1,870,192</u>

OTHER ASSETS

Restricted assets - cash	540,859
Capital assets, net of allowance for depreciation	<u>8,602,271</u>
Total other assets	<u>9,143,130</u>
Total assets	<u>11,013,322</u>

LIABILITIES

Accounts payable and accrued expense	521,091
Customer deposits payable	<u>42,066</u>
Total current liabilities	<u>563,157</u>

NONCURRENT LIABILITIES

Due within one year	170,306
Due in more than one year	<u>2,348,794</u>
Total Noncurrent liabilities	<u>2,519,100</u>

NET POSITION

Net investment in capital assets, net of related debt	6,083,171
Restricted	540,859
Unrestricted	<u>1,307,035</u>
Total net position	<u>\$ 7,931,065</u>
Total Liabilities and Net Position	<u>\$ 11,013,322</u>

MALAGA COUNTY WATER DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2021

BUSINESS-TYPE ACTIVITIES

Operating revenue		
Charges for services		\$ 3,143,493
Other		<u>90,224</u>
Total operating revenues		3,233,717
Operating expense		
Waste disposal utility activities	\$ 1,643,970	
Water utility activities	1,388,990	
Solid waste activities	457,333	
Community recreation activities	<u>322,000</u>	
Total operating expense		<u>3,812,293</u>
Net operating income/(loss)		(578,576)
Net nonoperating revenue/(expense)		<u>449,394</u>
Change in net position		(129,182)
Net position, beginning of year		<u>8,060,247</u>
Net position, end of year		<u>\$ 7,931,065</u>

**MALAGA COUNTY WATER DISTRICT
COMPARATIVE STATEMENT OF NET POSITION
PROPRIETARY FUNDS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

	Business-Type Activities - Enterprise Funds				
	2021				
	Water	Waste Disposal	Recreation	Solid Waste	Total
ASSETS					
Current assets					
Cash and cash equivalents	\$ 955,583	\$ 67,657	\$ 453,872	\$ 510	\$ 1,477,622
Accounts receivable	88,490	214,113	1,762	-	304,365
Prepaid expense	28,024	43,701	16,480	-	88,205
Total current assets	<u>1,072,097</u>	<u>325,471</u>	<u>472,114</u>	<u>510</u>	<u>1,870,192</u>
Other assets					
Restricted cash and investments	-	-	540,859	-	540,859
Advances to other activities	3,720,560	-	-	-	3,720,560
Capital assets, net of accumulated depreciation	3,723,538	3,547,927	1,330,806	-	8,602,271
Total non-current assets	<u>7,444,098</u>	<u>3,547,927</u>	<u>1,871,665</u>	<u>-</u>	<u>12,863,690</u>
Total assets	<u>8,516,195</u>	<u>3,873,398</u>	<u>2,343,779</u>	<u>510</u>	<u>14,733,882</u>
LIABILITIES					
Current liabilities					
Accounts payable and accrued expenses	145,564	213,720	144,519	17,318	521,121
Customer deposits payable	3,714	20,127	18,225	-	42,066
Current portion of long-term debt	100,738	12,068	57,500	-	170,306
Total current liabilities	<u>250,016</u>	<u>245,915</u>	<u>220,244</u>	<u>17,318</u>	<u>733,493</u>
Other liabilities					
Advances from other activities	-	1,098,879	2,621,651	-	3,720,530
Non-current liabilities					
Notes payable, less current portion	1,039,643	477,651	831,500	-	2,348,794
Total liabilities	<u>1,289,659</u>	<u>1,822,445</u>	<u>3,673,395</u>	<u>17,318</u>	<u>6,802,817</u>
NET POSITION					
Net investment in capital assets	2,583,157	3,058,208	441,806	-	6,083,171
Nonspendable	2,561,166	-	-	-	2,561,166
Restricted	-	-	540,859	-	540,859
Unrestricted / (deficit)	2,082,213	(1,007,255)	(2,312,281)	(16,808)	(1,254,131)
Total net position	<u>\$ 7,226,536</u>	<u>\$ 2,050,953</u>	<u>\$ (1,329,616)</u>	<u>\$ (16,808)</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, 2021 AND 2020

	Business-Type Activities - Enterprise Funds					2020 Total
	2021					
	Water	Waste Disposal	Recreation	Solid Waste	Total	
Operating Revenue						
Charges for services	\$ 1,486,732	\$ 1,180,673	\$ 2,200	\$ 473,888	\$ 3,143,493	\$ 3,195,133
Other	36,142	52,652	695	735	90,224	287,979
Total operating revenue	<u>1,522,874</u>	<u>1,233,325</u>	<u>2,895</u>	<u>474,623</u>	<u>3,233,717</u>	<u>3,483,112</u>
Operating Expense						
Salaries and wages	319,135	486,036	44,511	-	849,682	1,010,419
Employee benefits	197,857	197,945	16,638	-	412,440	579,727
Refuse collection and disposal	5,574	6,578	4,896	457,333	474,381	418,860
Depreciation	129,352	194,029	57,068	-	380,449	486,295
Utilities	222,946	157,955	55,837	-	436,738	426,088
Professional services	117,692	91,655	11,952	-	221,299	184,246
Repairs and maintenance	35,575	106,267	67,731	-	209,573	247,002
Board of directors	105,058	105,029	-	-	210,087	217,542
Contract services	29,731	29,385	8,149	-	67,265	120,242
Insurance	61,452	31,227	23,496	-	116,175	92,552
Supplies and small tools	29,242	36,909	13,006	-	79,157	64,234
Dues and memberships	32,162	43,458	925	-	76,545	71,720
Other	22,908	51,727	2,254	-	76,889	243,180
Telephone	15,855	24,825	6,977	-	47,657	47,699
Testing	14,517	21,641	-	-	36,158	31,247
Travel, meetings and education	2,341	1,212	375	-	3,928	21,650
Fuel and oil	11,990	7,047	1,274	-	20,311	24,080
Bank charges	4,005	3,251	11	-	7,267	27,624
Office supplies and postage	6,800	6,332	99	-	13,231	14,821
Rents and leases	1,872	4,146	2,115	-	8,133	13,704
Education and training	905	530	1,580	-	3,015	8,838
Total operating expense	<u>1,366,969</u>	<u>1,607,184</u>	<u>318,894</u>	<u>457,333</u>	<u>3,750,380</u>	<u>4,351,770</u>
Net operating income/(loss)	<u>155,905</u>	<u>(373,859)</u>	<u>(315,999)</u>	<u>17,290</u>	<u>(516,663)</u>	<u>(868,658)</u>
Nonoperating Revenues/(Expenses)						
Grant revenue	-	-	-	-	-	666,859
Taxes and assessments	7,610	7,624	372,276	29	387,539	368,242
Other	7,999	4,808	41,469	-	54,276	50,050
Interest and use of property	2,176	2,110	3,293	-	7,579	12,936
Interest expense	(22,021)	(36,786)	(3,106)	-	(61,913)	(105,480)
Net nonoperating revenues/(expenses)	<u>(4,236)</u>	<u>(22,244)</u>	<u>413,932</u>	<u>29</u>	<u>387,481</u>	<u>992,607</u>
Other Financing Sources/(Uses)						
Transfers in	-	-	34,127	-	34,127	-
Transfers out	-	-	-	(34,127)	(34,127)	-
Net other financing sources / (uses)	<u>-</u>	<u>-</u>	<u>34,127</u>	<u>(34,127)</u>	<u>-</u>	<u>-</u>
Change in net position	151,669	(396,103)	132,060	(16,808)	(129,182)	123,949
Net Position - beginning of year	<u>7,074,867</u>	<u>2,447,056</u>	<u>(1,461,676)</u>	<u>-</u>	<u>8,060,247</u>	<u>7,936,298</u>
Net Position, End 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>

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, 2021 AND 2020**

	Business-Type Activities - Enterprise Funds				
	2021				
	Water	Waset Disposal	Recreation	Solid Waste	Total
Operating Activities					
Received from customers	\$ 1,522,874	\$ 1,233,325	\$ 2,895	\$ 474,623	\$ 3,233,717
Payments to suppliers	(761,314)	(694,841)	(88,481)	(457,333)	(2,001,969)
Payments to employees	(516,992)	(683,981)	(61,149)	-	(1,262,122)
Net cash provided by (used in) operating activities	<u>244,568</u>	<u>(145,497)</u>	<u>(146,735)</u>	<u>17,290</u>	<u>(30,374)</u>
Non-capital Financing Activities					
Advances (to)/from other funds	(30)	-	-	-	(30)
Property taxes and other nonoperating revenue	<u>15,609</u>	<u>12,432</u>	<u>413,745</u>	<u>29</u>	<u>441,815</u>
Net cash provided by (used in) noncapital financing activities	<u>15,579</u>	<u>12,432</u>	<u>413,745</u>	<u>29</u>	<u>441,785</u>
Capital and Related Financing Activities					
Grant revenue	-	-	-	-	-
Proceeds from construction loan	-	-	-	-	-
Principal paid on notes payable	(47,378)	(122,153)	(55,500)	-	(225,031)
Interest paid on notes payable	(22,021)	(36,786)	(3,106)	-	(61,913)
Disposition of capital assets	-	-	-	-	-
Transfers in / (out)	-	-	34,127	(34,127)	-
Purchase of capital assets	(22,785)	(22,497)	(113,302)	-	(158,584)
Net cash provided (used) in capital and related financing activities	<u>(92,184)</u>	<u>(181,436)</u>	<u>(137,781)</u>	<u>(34,127)</u>	<u>(445,528)</u>
Investing Activities					
Interest and use of property	<u>2,232</u>	<u>2,093</u>	<u>3,254</u>	<u>17,318</u>	<u>24,897</u>
Net Increase / (Decrease) in Cash	170,195	(312,408)	132,483	510	(9,220)
Cash and Investments					
Beginning of year	<u>785,388</u>	<u>380,065</u>	<u>862,248</u>	<u>-</u>	<u>2,027,701</u>
End of year	<u>\$ 955,583</u>	<u>\$ 67,657</u>	<u>\$ 994,731</u>	<u>\$ 510</u>	<u>\$ 2,018,481</u>

**MALAGA COUNTY WATER DISTRICT
COMPARATIVE STATEMENT OF CASH FLOW
PROPRIETARY FUNDS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

	Business-Type Activities - Enterprise Funds				
	2021				
	Water	Waste Disposal	Recreation	Solid Waste	Total
Reconciliation of Operating Income (Loss) to Net Cash Provided By/(Used) for Operating Activities					
Operating income (loss)	\$ 155,905	\$ (373,859)	\$ (315,999)	\$ 17,290	\$ (516,663)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	129,352	194,029	57,068	-	380,449
Changes in assets and liabilities:					
(Increase) Decrease in accounts receivable	-	-	-	-	-
(Increase) Decrease in prepaid expense	13,628	26,232	13,525	-	53,385
Increase (Decrease) in accounts payable and accrued expense	(35,481)	10,524	80,446	-	55,489
(Increase) Decrease in deposits	(18,836)	(2,423)	18,225	-	(3,034)
Net Cash Provided/(Used) by Operating Activities	<u>\$ 244,568</u>	<u>\$ (145,497)</u>	<u>\$ (146,735)</u>	<u>\$ 17,290</u>	<u>\$ (30,374)</u>
Summary of cash balances, end of year					
Cash and cash equivalents	955,583	67,657	453,872	510	1,477,622
Restricted cash	-	-	540,859	-	540,859
	<u>\$ 955,583</u>	<u>\$ 67,657</u>	<u>\$ 994,731</u>	<u>\$ 510</u>	<u>\$ 2,018,481</u>

MALAGA COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

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, 2021

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, 2021

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, 2021. 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, 2021

Note 2: Cash and Investments

The District's deposits as of June 30, 2021, 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, 2021:

	Bank Balance Category *			Carrying Amount
	1	2	3	
Cash on hand	\$ 23,663	\$ -	\$ -	\$ 23,663
Cash in bank	449,605	1,015,859	-	1,465,464
Fresno County Treasury	-	26,882	-	26,882
Local Agency Investment Fund	-	502,472	-	502,472
Total cash and investments	<u>\$ 473,268</u>	<u>\$1,545,213</u>	<u>\$ -</u>	<u>\$2,018,481</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, 2021:

	Beginning Balance	Additions/ Completions	Disposals/ Adjustments	Ending Balance
Land*	\$ 299,264	\$ -	\$ -	\$ 299,264
Water system	8,206,044	22,785	-	8,228,829
Sewer system	7,365,626	22,497	-	7,388,123
Buildings	1,169,276	-	-	1,169,276
Construction in progress*	686,426	26,684	-	713,110
Park development	968,689	86,617	-	1,055,306
Equipment	615,072	-	-	615,072
Total	19,310,397	158,583	-	19,468,980
Allowance for depreciation	<u>(10,486,261)</u>	<u>(380,448)</u>	<u>-</u>	<u>(10,866,709)</u>
	<u>8,824,136</u>	<u>(221,865)</u>	<u>-</u>	<u>8,602,271</u>

* Not currently being depreciated.

MALAGA COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

Note 4: Noncurrent Liabilities

The following is a summary of deferred liabilities (long-term debt) for the year ended June 30, 2021:

	Beginning Balance	Additions	Deletions	Ending Balance	Classification	
					Due Within One Year	Due After One Year
Note payable						
Debt refinancing	\$ 70,518	\$ -	\$ (70,518)	\$ -	\$ -	\$ -
Water and sewer systems improvements	962,017	-	(72,212)	889,805	75,756	814,049
Parks and recreation improvements	944,500	-	(55,500)	889,000	57,500	831,500
Wastewater treatment plant improvements	370,105	-	(22,131)	347,974	23,038	324,936
Safe drinking water	396,990	9,343	(14,011)	392,322	14,012	378,310
Total long-term debt	<u>\$ 2,744,130</u>	<u>\$ 9,343</u>	<u>\$ (234,372)</u>	<u>\$ 2,519,101</u>	<u>\$ 170,306</u>	<u>\$ 2,348,795</u>

Note 5: Note Payables

Water and Sewer Systems Improvements

This debt was incurred to finance the construction of water well number eight and improvements to the sewer system. The total amount of the debt was \$1,500,000 and provides for interest at the rate of 4.85 percent per annum. Semi-annual payments of principal and interest began January 2011, and continue until paid. Full repayment of the loan is scheduled to occur in July 2030. The Water Fund finances this debt to the extent of 80 percent of the payments due and the Waste Disposal Fund finances 20 percent of the payments. Interest paid on this loan for the year ended June 30, 2021 was \$45,793.

Future payments of the bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2022	\$ 75,756	\$ 42,248	\$ 118,004
2023	79,475	38,529	118,004
2024	83,376	34,628	118,004
2025	87,469	30,535	118,004
2026 - 2030	506,124	83,897	590,021
2031 - 2035	57,605	1,397	59,002
	<u>\$ 889,805</u>	<u>\$ 231,234</u>	<u>\$ 1,121,039</u>

MALAGA COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

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, 2021 was \$14,767.

Future payments of the bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2022	\$ 23,038	\$ 13,862	\$ 36,900
2023	23,980	12,920	36,900
2024	24,961	11,939	36,900
2025	25,982	10,917	36,899
2026 - 2030	146,753	37,746	184,499
2031 - 2035	103,259	7,441	110,700
	<u>\$ 347,973</u>	<u>\$ 94,825</u>	<u>\$ 442,798</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, 2021 was \$34,345.

Future payments of the bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2022	\$ 57,500	\$ 32,278	\$ 89,778
2023	59,500	30,138	89,638
2024	61,500	27,924	89,424
2025	63,500	25,636	89,136
2026 - 2030	355,500	90,848	446,348
2031 - 2035	291,500	21,900	313,400
	<u>\$ 889,000</u>	<u>\$ 228,724</u>	<u>\$ 1,117,724</u>

MALAGA COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

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 2020, 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, 2021 was \$0.

Future payments of the bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2022	\$ 14,012	\$ -	\$ 14,012
2023	14,012	-	14,012
2024	14,012	-	14,012
2025	14,012	-	14,012
2026 - 2030	70,058	-	70,058
2031 - 2035	70,058	-	70,058
Thereafter	196,158	-	196,158
	<u>\$ 392,322</u>	<u>\$ -</u>	<u>\$ 392,322</u>

Note 6: Restricted Assets – Cash

As of June 30, 2021, \$540,859 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, 2021.

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, 2021 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, 2021 were \$79,428.

Note 8: Subsequent Events

In compliance with accounting standards, subsequent events were evaluated through June 24, 2022, 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, 2021.

MALAGA COUNTY WATER DISTRICT
COMBINING STATEMENT OF REVENUE AND EXPENSE
WASTE DISPOSAL FUND
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	Business-Type Activities - Waste Disposal Fund				
	2021				2020
	Sewer	Pretreatment	Solid Waste	Total	Total
OPERATING REVENUE					
Charges for services	\$ 1,180,673	\$ 156,546	\$ 473,888	\$ 1,811,107	\$ 1,867,616
Other	<u>52,652</u>	<u>21,751</u>	<u>735</u>	<u>75,138</u>	<u>251,026</u>
Total operating revenue	<u>1,233,325</u>	<u>178,297</u>	<u>474,623</u>	<u>1,886,245</u>	<u>2,118,642</u>
OPERATING EXPENSE					
Salaries and wages	486,036	72,236	-	558,272	533,308
Employee benefits	197,945	32,505	-	230,450	259,307
Refuse collection and disposal	6,578	-	457,333	463,911	414,886
Depreciation	194,029	-	-	194,029	243,085
Utilities	157,955	-	-	157,955	160,422
Professional services	91,655	18,820	-	110,475	101,125
Repairs and maintenance	106,267	5,650	-	111,917	177,955
Board of directors	105,029	-	-	105,029	108,576
Contract services	29,385	8,676	-	38,061	44,294
Insurance	31,227	21,359	-	52,586	45,218
Supplies and small tools	36,909	468	-	37,377	32,587
Dues and memberships	43,458	2,559	-	46,017	32,413
Other	51,727	3,234	-	54,961	17,910
Telephone	24,825	3,661	-	28,486	27,791
Testing	21,641	5,521	-	27,162	27,086
Travel, meetings and education	1,212	67	-	1,279	11,850
Fuel and oil	7,047	2,832	-	9,879	11,098
Bank charges	3,251	145	-	3,396	5,369
Office supplies and postage	6,332	1,716	-	8,048	8,791
Rents and leases	4,146	160	-	4,306	11,554
Education and training	<u>530</u>	<u>1,140</u>	<u>-</u>	<u>1,670</u>	<u>6,919</u>
Total operating expense	<u>1,607,184</u>	<u>180,749</u>	<u>457,333</u>	<u>2,245,266</u>	<u>2,281,544</u>
Net operating income	(373,859)	(2,452)	17,290	(359,021)	(162,902)
Nonoperating revenue/(expense)					
Grant revenue	-	-	-	-	-
Taxes and assessments	7,624	-	29	7,653	8,467
Other	4,808	-	-	4,808	951
Interest and use of property	2,110	-	-	2,110	4,318
Interest expense	<u>(36,786)</u>	<u>-</u>	<u>-</u>	<u>(36,786)</u>	<u>(42,370)</u>
Net nonoperating revenue/(expense)	<u>(22,244)</u>	<u>-</u>	<u>29</u>	<u>(22,215)</u>	<u>(28,634)</u>
Change in net position	<u>\$ (396,103)</u>	<u>\$ (2,452)</u>	<u>\$ 17,319</u>	<u>\$ (381,236)</u>	<u>\$ (191,536)</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, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 24, 2022.

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 have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2021-01.

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

June 24, 2022

MALAGA COUNTY WATER DISTRICT

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

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 2021-01

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, 2021

FINANCIAL STATEMENT FINDINGS

Finding 2021-01

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 transfers to the Recreation Fund were not being reported as transfers and subsequently understating the Solid Waste Fund.

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.

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.

Recommendation:

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

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, 2020

Finding 2020-01

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.