

MALAGA COUNTY WATER DISTRICT
REPORT ON AUDIT OF FINANCIAL STATEMENTS
FOR THE TWO YEARS ENDED JUNE 30, 2016 AND 2015

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1 - 2
Management's Discussion and Analysis	3 - 6
Government-wide Financial Statements	
Statement of Net Position	7
Statement of Activities	8
Fund Financial Statements	
Comparative Statement of Net Position – Proprietary Fund	9
Comparative Statement of Revenue, Expense and Changes in Fund Net Position – Proprietary Fund	10
Comparative Statement of Cash Flow – Proprietary Fund	11 - 12
Notes to General Purpose Financial Statements	13 - 19
Supplementary Information	
Combining Statement of Revenue and Expense - Waste Disposal Fund	20
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	21 - 22

1423 Eleventh Street
P O Box 1057
Reedley CA 93654

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

INDEPENDENT AUDITOR'S REPORT

December 9, 2016

Board of Directors
Malaga County Water District
Fresno, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Malaga County Water District, State of California, as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Malaga County Water District, State of California, as of June 30, 2016 and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

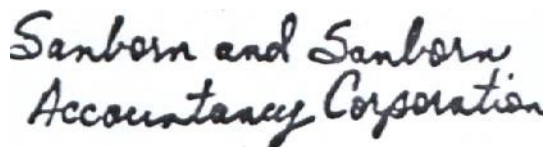
Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2016 on our consideration of Malaga County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



CERTIFIED PUBLIC ACCOUNTANTS

**MALAGA COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

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, 2016. 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, 2016 by \$6,924,723. Of this amount, unrestricted net position of \$1,224,526 may be used to meet the District's ongoing obligations to customers and creditors. As of June 30, 2015, assets exceeded liabilities by \$6,430,678 with unrestricted net position equaling \$772,362.
- Total net position increased by \$494,045 for the year ended June 30, 2016. For the year ended June 30, 2015, total net position decreased by \$98,194.
- During the current year, the District's fixed assets decreased by a net of \$122,868. This decrease was mostly attributable to improvements to the wastewater treatment plant less depreciation. Depreciation expense, the ratable amortization of the cost of fixed assets, amounted to \$425,597 for the current year. Prior year depreciation was \$404,383.
- Total debt decreased by a net of \$193,989 during the current year. The decrease was mostly attributable to the repayment of long-term debt of \$193,055. During the prior year, total debt decreased by a net of \$154,837. This was mostly due to the repayment of long-term debt.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Malaga County Water District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the District's assets and liabilities, with the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expense are reported in this statement for some items that will only result in cash flow in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the District that are principally proprietary in nature (business-type activities) which are functions that are intended to recover all or a significant portion of their costs through user fees and charges. The District has no governmental activities.

The government-wide financial statements include only the District itself. The District has no component units.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and proprietary funds. The District has no governmental funds and three proprietary funds, the Water Fund, the Waste Disposal Fund and the Recreation Fund.

Proprietary funds. Proprietary funds are used to account for essentially the same functions reported as business-type activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain other supplementary information.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. As of June 30, 2016, the District's assets exceeded liabilities by \$6,924,723. A significant portion of the District's net position (79 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 \$204,729 in net position (three percent) that is restricted to make improvements to the wastewater treatment facilities.

The following represent summaries of the District's net position and changes in net position for the current and prior years:

Malaga County Water District's Net Position

	Business-Type Activities	Current Year Total	Prior Year Total
Current assets	\$ 1,533,663	\$ 1,533,663	\$ 1,082,433
Other assets	7,862,190	7,862,190	8,013,364
Total assets	9,395,853	9,395,853	9,095,797
Current liabilities	309,137	309,137	310,071
Deferred liabilities	2,161,993	2,161,993	2,355,048
Total liabilities	2,471,130	2,471,130	2,665,119
Net position:			
Invested in capital assets, net of related debt	5,495,468	5,495,468	5,425,281
Restricted for capital asset acquisition	204,729	204,729	233,035
Unrestricted	1,224,526	1,224,526	772,362
Total net position	\$ 6,924,723	\$ 6,924,723	\$ 6,430,678

Malaga County Water District's Changes in Net Position

	Business-Type Activities	Current Year Total	Prior Year Total
Program revenue			
Charges for services	\$ 2,874,323	\$ 2,874,323	\$ 2,433,625
Other	53,564	53,564	29,927
Total revenue	2,927,887	2,927,887	2,463,552
Expense			
Water utility activities	1,473,000	1,473,000	1,091,136
Waste disposal utility activities	1,190,351	1,190,351	1,477,629
Community recreation activities	463,431	463,431	457,882
Total expense	3,126,782	3,126,782	3,026,647
Net operating income/(loss)	(198,895)	(198,895)	(563,095)
Net nonoperating revenue/(expense)	692,940	692,940	464,901
Increase/(decrease) in net position	494,045	494,045	(98,194)
Net position, beginning of year	6,430,678	6,430,678	6,528,872
Net position, end of year	\$ 6,924,723	\$ 6,924,723	\$ 6,430,678

Business-type activities. Business-type activities increased the District's net position by \$494,045, accounting for 100 percent of the total increase in net position.

Financial Analysis of the District's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Proprietary Funds. The purpose of the District's proprietary fund financial statements is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of June 30, 2016, the District's proprietary funds reported a combined ending fund balance of \$6,924,723, an increase of \$494,045, in comparison to the prior year. Of the entire ending fund balance, \$1,224,526 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, 2016 amounted to \$7,657,461 (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 \$2,161,993 as of June 30, 2016. Of this total amount, \$109,365 is due and payable during the year ending June 30, 2016. The remainder, referred to as deferred liabilities, is due and payable over the next 17 years.

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

Economic Factors and Next Year's Budgets and Rates

The budget for the year ending June 30, 2017 projects a surplus of \$702,813. Revenue is anticipated to increase by \$151,951 compared to 2015/2016, while expenses are expected to decrease by \$56,817. Charges for services are anticipated to increase by \$530,652, while non-operating revenue is expected to decrease by \$378,701. Salaries, wages and employee benefits are expected to decrease by \$119,519 and services and supplies are anticipated to increase by \$62,702 compared to 2015/2016.

User rates are not expected to increase during the year ending June 30, 2017.

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, 2016

Assets	
Current assets	
Cash and cash equivalents	\$ 1,064,078
Accounts receivable	375,750
Prepaid expense	<u>93,835</u>
Total current assets	<u>1,533,663</u>
Other assets	
Restricted assets – cash	204,729
Capital assets (net of allowance for depreciation)	<u>7,657,461</u>
Total other assets	<u>7,862,190</u>
Total assets	<u>9,395,853</u>
Liabilities	
Current liabilities	
Accounts payable and accrued expense	220,400
Compensated absences payable	64,259
Customer deposits	<u>24,478</u>
Total current liabilities	<u>309,137</u>
Noncurrent liabilities	
Payable within one year	109,365
Payable after one year	<u>2,052,628</u>
Total noncurrent liabilities	<u>2,161,993</u>
Total liabilities	<u>2,471,130</u>
Net Position	
Invested in capital assets, net of related debt	5,495,468
Restricted	204,729
Unrestricted	<u>1,224,526</u>
Total net position	<u>\$ 6,924,723</u>

See accompanying notes to financial statements.

MALAGA COUNTY WATER DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

Business-type activities		
Operating revenue		
Charges for services		\$ 2,874,323
Other		<u>53,564</u>
Total operating revenue		2,927,887
Operating expense		
Waste disposal utility activities	\$ 1,473,000	
Water utility activities	1,190,351	
Community recreation activities	<u>463,431</u>	
Total operating expense		<u>3,126,782</u>
Net operating income/(loss)		(198,895)
Net nonoperating revenue/(expense)		<u>692,940</u>
Change in net position		494,045
Net position, beginning of year		<u>6,430,678</u>
Net position, end of year		<u><u>\$ 6,924,723</u></u>

See accompanying notes to financial statements.

MALAGA COUNTY WATER DISTRICT
 PROPRIETARY FUNDS
 COMPARATIVE STATEMENT OF NET POSITION
 JUNE 30, 2016 AND 2015

	Business-Type Activities - Enterprise Funds				2015 Total
	2016				
	Water	Waste Disposal	Recreation	Total	
Assets					
Current assets					
Cash and cash equivalents	\$ 478,835	\$ 478,835	\$ 106,408	\$ 1,064,078	\$ 746,876
Accounts receivable	221,443	150,543	3,764	375,750	248,149
Prepaid expense	43,423	41,638	8,774	93,835	87,408
Total current assets	743,701	671,016	118,946	1,533,663	1,082,433
Other assets					
Restricted cash		204,729		204,729	233,035
Advances to other activities	2,880,305			2,880,305	2,490,475
Capital assets (net of allowance for depreciation)	2,505,332	4,728,028	424,101	7,657,461	7,780,329
Total other assets	5,385,637	4,932,757	424,101	10,742,495	10,503,839
Total assets	6,129,338	5,603,773	543,047	12,276,158	11,586,272
Liabilities					
Current liabilities					
Accounts payable and accrued expense	88,299	107,814	24,287	220,400	237,745
Compensated absences payable	21,604	24,898	17,757	64,259	54,423
Customer deposits	12,239	12,239		24,478	17,903
Current portion of notes payable	42,236	67,129		109,365	104,586
Total current liabilities	164,378	212,080	42,044	418,502	414,657
Other liabilities					
Advances from other activities		1,360,988	1,519,317	2,880,305	2,490,475
Noncurrent liabilities					
Notes payable	1,065,864	986,764		2,052,628	2,250,462
Total liabilities	1,230,242	2,559,832	1,561,361	5,351,435	5,155,594
Net Position					
Invested in capital assets, net of related debt	1,397,232	3,674,135	424,101	5,495,468	5,425,281
Restricted assets		204,729		204,729	233,035
Unrestricted/(deficit)	3,501,864	(834,923)	(1,442,415)	1,224,526	772,362
Total net position	\$ 4,899,096	\$ 3,043,941	\$ (1,018,314)	\$ 6,924,723	\$ 6,430,678

See accompanying notes to financial statements.

MALAGA COUNTY WATER DISTRICT
 PROPRIETARY FUNDS
 COMPARATIVE STATEMENT OF REVENUE,
 EXPENSE AND CHANGES IN FUND NET ASSETS
 FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	Business-Type Activities - Enterprise Funds				2015 Total
	2016				
	Water	Waste Disposal	Recreation	Total	
Operating revenue					
Charges for services	\$ 1,366,376	\$ 1,439,222	\$ 68,725	\$ 2,874,323	\$ 2,433,625
Other	31,063	22,501		53,564	24,127
Total operating revenue	<u>1,397,439</u>	<u>1,461,723</u>	<u>68,725</u>	<u>2,927,887</u>	<u>2,457,752</u>
Operating expense					
Salaries and wages	221,647	309,689	123,356	654,692	597,755
Employee benefits	121,363	190,967	90,631	402,961	424,493
Depreciation	151,601	227,759	46,237	425,597	404,383
Utilities	170,397	103,422	42,750	316,569	345,271
Repairs and maintenance	130,341	99,941	14,917	245,199	167,262
Professional services	82,086	85,585	2,762	170,433	253,817
Board of directors	101,319	67,014	8,248	176,581	179,730
Materials	67,753	71,177	23,806	162,736	167,312
Contract services	15,218	19,717	79,371	114,306	91,300
Refuse collection and disposal		66,864		66,864	72,026
Insurance	19,484	29,131	6,419	55,034	54,655
Dues and memberships	25,868	27,786	1,488	55,142	53,167
Other	36,386	43,465	9,206	89,057	45,958
Testing	4,313	74,577		78,890	39,326
Rents and leases	7,266	14,904	1,526	23,696	32,174
Travel, meetings and education	8,036	7,960	1,920	17,916	30,249
Telephone	10,637	14,343	6,979	31,959	28,600
Office supplies and postage	11,494	12,345	2,283	26,122	20,800
Fuel and oil	5,142	6,354	1,532	13,028	18,369
Total operating expense	<u>1,190,351</u>	<u>1,473,000</u>	<u>463,431</u>	<u>3,126,782</u>	<u>3,026,647</u>
Net operating income	<u>207,088</u>	<u>(11,277)</u>	<u>(394,706)</u>	<u>(198,895)</u>	<u>(568,895)</u>
Nonoperating revenue/(expense)					
DBCP settlement less legal costs	400,000			400,000	
Property taxes			291,346	291,346	269,659
Grant revenue	70,900	28,487		99,387	306,088
Interest and use of property		4,683	5,305	9,988	8,908
Interest expense	(57,282)	(50,499)		(107,781)	(113,954)
Net nonoperating revenue/(expense)	<u>413,618</u>	<u>(17,329)</u>	<u>296,651</u>	<u>692,940</u>	<u>470,701</u>
Change in net position	620,706	(28,606)	(98,055)	494,045	(98,194)
Net position, beginning of year	<u>4,278,390</u>	<u>3,072,547</u>	<u>(920,259)</u>	<u>6,430,678</u>	<u>6,528,872</u>
Net position, end of year	<u>\$ 4,899,096</u>	<u>\$ 3,043,941</u>	<u>\$ (1,018,314)</u>	<u>\$ 6,924,723</u>	<u>\$ 6,430,678</u>

See accompanying notes to financial statements.

MALAGA COUNTY WATER DISTRICT
 PROPRIETARY FUNDS
 COMPARATIVE STATEMENT OF CASH FLOW
 FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

Page 1 of 2

	Business-Type Activities - Enterprise Funds				2015 Total
	2016				
	Water	Waste Disposal	Recreation	Total	
Cash flow from operating activities					
Receipts from customers and users	\$ 1,368,036	\$ 1,469,223	\$ 67,347	\$ 2,904,606	\$ 2,459,156
Payments to suppliers	(688,648)	(775,654)	(211,228)	(1,675,530)	(1,655,426)
Payments to employees	(365,640)	(498,684)	(202,141)	(1,066,465)	(1,009,184)
Net cash provided by/(used for) operating activities	<u>313,748</u>	<u>194,885</u>	<u>(346,022)</u>	<u>162,611</u>	<u>(205,454)</u>
Cash flow from noncapital financing activities					
Loans (to)/from other funds	(389,830)	307,940	81,890		
DBCP settlement less legal costs	400,000			400,000	
Property taxes and other nonoperating revenue			<u>290,547</u>	<u>290,547</u>	<u>269,659</u>
Net cash provided by/(used for) noncapital financing activities	<u>10,170</u>	<u>307,940</u>	<u>372,437</u>	<u>690,547</u>	<u>269,659</u>
Cash flow from capital and related financing activities					
Grant revenue		28,487		28,487	306,088
Principal paid on debt	(81,585)	(111,470)		(193,055)	(184,538)
Interest paid on financing	(56,081)	(49,977)		(106,058)	(113,954)
Purchase of capital assets	(43,063)	(259,666)		(302,729)	(602,926)
Net cash provided by/(used for) capital and related financing activities	<u>(180,729)</u>	<u>(392,626)</u>		<u>(573,355)</u>	<u>(595,330)</u>
Cash flow from investing activities					
Interest and use of property	(448)	4,236	5,305	9,093	8,908
Net increase/(decrease) in cash	142,741	114,435	31,720	288,896	(522,217)
Cash, beginning of year	<u>336,094</u>	<u>569,129</u>	<u>74,688</u>	<u>979,911</u>	<u>1,502,128</u>
Cash, end of year	<u>\$ 478,835</u>	<u>\$ 683,564</u>	<u>\$ 106,408</u>	<u>\$ 1,268,807</u>	<u>\$ 979,911</u>

See accompanying notes to financial statements.

MALAGA COUNTY WATER DISTRICT
 PROPRIETARY FUNDS
 COMPARATIVE STATEMENT OF CASH FLOW
 FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

Page 2 of 2

	<u>Business-Type Activities - Enterprise Funds</u>				
	<u>2016</u>				<u>2015</u>
	<u>Water</u>	<u>Waste Disposal</u>	<u>Recreation</u>	<u>Total</u>	<u>Total</u>
Reconciliation of operating income to net cash provided by/(used for) operating activities:					
Operating income/(loss)	\$ 207,088	\$ (11,277)	\$ (394,706)	\$ (198,895)	\$ (568,895)
Adjustments to reconcile operating income/(loss) to net cash provided by/(used for) operating activities					
Depreciation	151,601	227,759	46,237	425,597	404,383
(Increase)/decrease in accounts receivable	(44,697)	(7,795)	(2,515)	(55,007)	(38,244)
(Increase)/decrease in prepaid expense	(3,678)	(3,678)	(817)	(8,173)	(32,399)
Increase/(decrease) in accounts payable	(5,632)	(15,102)	3,412	(17,322)	8,239
Increase/(decrease) in compensated absences payable	5,090	1,001	3,745	9,836	13,064
Increase/(decrease) in deposits	<u>3,976</u>	<u>3,977</u>	<u>(1,378)</u>	<u>6,575</u>	<u>8,398</u>
Net cash provided by/(used for) operating activities	<u>\$ 313,748</u>	<u>\$ 194,885</u>	<u>\$ (346,022)</u>	<u>\$ 162,611</u>	<u>\$ (205,454)</u>
Summary of cash balances, end of year:					
Cash and cash equivalents	\$ 478,835	\$ 478,835	\$ 106,408	\$ 1,064,078	\$ 746,876
Restricted cash	<u> </u>	<u>204,729</u>	<u> </u>	<u>204,729</u>	<u>233,035</u>
	<u>\$ 478,835</u>	<u>\$ 683,564</u>	<u>\$ 106,408</u>	<u>\$ 1,268,807</u>	<u>\$ 979,911</u>

See accompanying notes to financial statements.

MALAGA COUNTY WATER DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE TWO YEARS ENDED JUNE 30, 2016 AND 2015

Note 1: Summary of Significant Accounting Policies

Malaga County Water District is a California special district that was created as a result of a State of California statute. The District was organized to provide and maintain sewer and water operations in the community of Malaga, County of Fresno, State of California. The District is governed by a board of directors. As the District is a governmental unit, it is exempt from federal and California taxes on income.

The accounting and reporting policies of the District conform to generally accepted accounting principles applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Government Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units*, and by the Financial Accounting Standards Board (when applicable).

A. Financial Reporting Entity

As required by generally accepted accounting principles, these general purpose financial statements present the District in conformance with GASB Statement No. 14, "The Financial Reporting Entity." Under Statement No. 14, component units are organizations that are included in the District's reporting entity because of the significance of their operational or financial relationships with the District. The District has no component units.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements, which are the statement of net position and the statement of activities, report information on all of the nonfiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District has no governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or activity are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenue include charges to customers and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported in separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds financial statements. Revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cash flow. Property taxes are recognized as revenue in the year in which they are levied. Grants and similar items are recognized as revenue when all eligibility requirements imposed by the provider have been met.

MALAGA COUNTY WATER DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE TWO YEARS ENDED JUNE 30, 2016 AND 2015

Note 1: Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

The financial statements of the District are prepared in accordance with generally accepted accounting principles. The District's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with the GASB pronouncements. The District's reporting entity does not apply FASB pronouncements of APB opinions issued after November 30, 1989.

Proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cash flow.

The District reports the following major proprietary funds:

The Sewer, Water and Recreation Funds are the District's only operating funds. The Recreation Fund accounts for community recreation activities and the Sewer and Water Funds account for the sewer and water systems operations in the community of Malaga, County of Fresno, State of California. The District also provides solid waste disposal services to residential housing within the immediate residential area of the community of Malaga by contracting with a third party vendor for the provision of that service.

Amounts reported as program revenue include charges to customers for goods and services, operating grants and contributions and capital grants and contributions.

D. Assets, Liabilities and Net Position or Equity

1. Cash and Investments

Investments are reported at fair value. Cash represents cash on hand, in banks and on deposit in the treasury of the County of Fresno and the State of California Local Agency Investment Fund. Investments made from pooled cash consist primarily of short-term investments.

2. Property, Plant and Equipment

Capital assets, which include property, plant and equipment are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of three years. All material fixed assets are valued at historical cost. Donated fixed assets are valued at their estimated fair value on the date donated. When an asset is disposed of, cost and related accumulated depreciation is removed and any gain or loss arising from its disposal is credited or charged to operations.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

MALAGA COUNTY WATER DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE TWO YEARS ENDED JUNE 30, 2016 AND 2015

Note 1: Summary of Significant Accounting Policies (continued)

Assets, Liabilities and Net Position or Equity (continued)

Depreciation is recorded by using the straight-line method. The book value of each asset is reduced by equal amounts over its estimated useful life as follows:

	<u>Estimated Useful Life in Years</u>
Buildings and improvements	20 – 40
Equipment	10 – 20

3. Net Position

Net position comprise the various net earnings from operating income, nonoperating revenue and expense and capital contributions. Net position is classified in the following three components:

Invested in capital assets, net of related debt – This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvements of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net asset components as the unspent proceeds.

Restricted – This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position – This component of net position consists of net position that do not meet the definition of restricted or invested in capital assets, net of related debt.

E. Budgets and Budgetary Accounting

The District established a budget for its governmental fund for the year ended June 30, 2016. The budget is adopted on a basis consistent with generally accepted accounting principles (GAAP).

F. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

MALAGA COUNTY WATER DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE TWO YEARS ENDED JUNE 30, 2016 AND 2015

Note 2: Cash

The District's deposits as of June 30, 2016, 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, 2016:

	Bank Balance Category*			Carrying Amount
	1	2	3	
Cash on hand	\$ 6,090	\$	\$	\$ 6,090
Cash in bank	250,000	130,673		380,673
Fresno County Treasury		36,197		36,197
Local Agency Investment Fund		845,847		845,847
	\$ 256,090	\$1,012,717	\$	\$1,268,807

* 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, 2016:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Land*	\$ 599,613	\$	\$	\$ 599,613
Water system	5,015,246			5,015,246
Sewer system	7,235,159			7,235,159
Buildings	1,133,346			1,133,346
Construction in progress*	675,970	237,860		913,830
Park development	968,689			968,689
Equipment	401,910	64,869		466,779
Total	16,029,933	302,729		16,332,662
Allowance for depreciation	(8,249,604)	(425,597)		(8,675,201)
	\$ 7,780,329	\$ (122,868)	\$	\$ 7,657,461

* Not currently being depreciated.

MALAGA COUNTY WATER DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE TWO YEARS ENDED JUNE 30, 2016 AND 2015

Note 4: Subsequent Events

Events affecting the District subsequent to June 30, 2016 through December 9, 2016 have been evaluated and included within these financial statements when applicable.

Note 5: Noncurrent Liabilities

The following is a summary of deferred liabilities (long-term debt) for the year ended June 30, 2016:

	Beginning Balance	Additions	Deletions	Ending Balance	Classification	
					Due Within One Year	Due After One Year
Note payable - debt refinancing	\$ 639,293	\$	\$ 116,739	\$ 522,554	\$ 60,347	\$ 462,207
Note payable - systems improvements	1,247,371		58,204	1,189,167	30,165	1,159,002
Note payable - wastewater treatment plant improvements	<u>468,384</u>	<u></u>	<u>18,112</u>	<u>450,272</u>	<u>18,853</u>	<u>431,419</u>
	<u>\$2,355,048</u>	<u>\$</u>	<u>\$ 193,055</u>	<u>\$2,161,993</u>	<u>\$ 109,365</u>	<u>\$2,052,628</u>

Note 6: Note Payable – Debt Refinancing

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

Future payments of the note are as follows:

<u>Due during the year ending</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
June 30, 2017	\$ 11,757	\$ 60,347	\$ 72,104
June 30, 2018	19,411	124,798	144,209
June 30, 2019	13,732	130,477	144,209
June 30, 2020	7,794	136,414	144,208
June 30, 2021	<u>1,586</u>	<u>70,518</u>	<u>72,104</u>
	<u>\$ 54,280</u>	<u>\$ 522,554</u>	<u>\$ 576,834</u>

MALAGA COUNTY WATER DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE TWO YEARS ENDED JUNE 30, 2016 AND 2015

Note 7: Note Payable – Systems Improvements

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

Future payments of the bonds are as follows:

<u>Due during the year ending</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
June 30, 2017	\$ 28,837	\$ 30,165	\$ 59,002
June 30, 2018	55,462	62,542	118,004
June 30, 2019	52,392	65,612	118,004
June 30, 2020	49,171	68,833	118,004
June 30, 2021	45,793	72,211	118,004
Five Years Ending June 30, 2026	172,183	417,838	590,021
Five Years Ending June 30, 2031	<u>59,053</u>	<u>471,966</u>	<u>531,019</u>
	<u>\$ 462,891</u>	<u>\$1,189,167</u>	<u>\$1,652,058</u>

Note 8: Note Payable – Wastewater Treatment Plant Improvements

This debt was incurred to finance the construction of wastewater treatment plant improvements. The total amount of the debt was \$502,500 and provides for interest at the rate of 4.05 percent per annum. Semi-annual payments of principal and interest began December 2015, and continue until paid. Full repayment of the loan is scheduled to occur in June 2033. The Waste Disposal Fund finances this debt to the extent of 100 percent of the payments.

Future payments of the bonds are as follows:

<u>Due during the year ending</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
June 30, 2017	\$ 18,047	\$ 18,853	\$ 36,900
June 30, 2018	17,276	19,624	36,900
June 30, 2019	16,473	20,427	36,900
June 30, 2020	15,637	21,263	36,900
June 30, 2021	14,768	22,132	36,900
Five Years Ending June 30, 2026	59,492	125,007	184,499
Five Years Ending June 30, 2031	31,742	152,757	184,499
Two Years Ending June 30, 2033	<u>3,591</u>	<u>70,209</u>	<u>73,800</u>
	<u>\$ 177,026</u>	<u>\$ 450,272</u>	<u>\$ 627,298</u>

MALAGA COUNTY WATER DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE TWO YEARS ENDED JUNE 30, 2016 AND 2015

Note 9: Restricted Assets - Cash

As of June 30, 2016, \$204,729 in cash is restricted for the improvements to the wastewater treatment plant. This amount is not available for spending for other purposes. The improvements to the wastewater treatment plant should be made during the year ending June 30, 2017.

Note 10: 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, 2016 was \$769,788 with covered payroll equaling \$581,727. The pension cost to the District is 10 percent of the participants' compensation. Required and accrued contributions to the plan for the year ended June 30, 2016 were \$59,967.

Note 11: Board of Directors

Members of the Board of Directors as of June 30, 2016, were as follows:

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

James D. Anderson is the General Manager of the District.

MALAGA COUNTY WATER DISTRICT
WASTE DISPOSAL FUND
COMBINING STATEMENT OF REVENUE AND EXPENSE
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	Business-Type Activities - Waste Disposal Fund				2015 Total
	2016				
	Sewer	Pretreatment	Solid Waste	Total	
Operating revenue					
Charges for services	\$ 1,273,799	\$ 109,036	\$ 56,387	\$ 1,439,222	\$ 1,351,791
Other	<u>22,501</u>			<u>22,501</u>	<u>25,980</u>
Total operating revenue	<u>1,296,300</u>	<u>109,036</u>	<u>56,387</u>	<u>1,461,723</u>	<u>1,377,771</u>
Operating expense					
Salaries and wages	253,294	56,395		309,689	304,422
Depreciation	227,759			227,759	212,745
Employee benefits	157,636	33,331		190,967	176,842
Utilities	103,422			103,422	122,124
Repairs and maintenance	94,869	5,072		99,941	110,369
Professional services	78,269	7,316		85,585	115,992
Testing	21,240	53,337		74,577	36,796
Materials	70,662	515		71,177	101,619
Board of directors	67,014			67,014	68,239
Refuse collection and disposal			66,864	66,864	72,026
Other	42,223	1,242		43,465	21,658
Insurance	22,712	6,419		29,131	24,717
Dues and memberships	26,929	857		27,786	31,561
Contract services	19,717			19,717	7,496
Rents and leases	13,604	1,300		14,904	23,905
Telephone	12,291	2,052		14,343	13,858
Office supplies and postage	9,457	2,888		12,345	9,648
Travel, meetings and education	7,692	268		7,960	14,685
Fuel and oil	<u>5,868</u>	<u>486</u>		<u>6,354</u>	<u>8,927</u>
Total operating expense	<u>1,234,658</u>	<u>171,478</u>	<u>66,864</u>	<u>1,473,000</u>	<u>1,477,629</u>
Net operating income	<u>61,642</u>	<u>(62,442)</u>	<u>(10,477)</u>	<u>(11,277)</u>	<u>(99,858)</u>
Nonoperating revenue/(expense)					
Grant revenue	28,487			28,487	306,088
Interest and use of property	4,683			4,683	7,540
Interest expense	<u>(50,499)</u>			<u>(50,499)</u>	<u>(54,823)</u>
Net nonoperating revenue/(expense)	<u>(17,329)</u>			<u>(17,329)</u>	<u>258,805</u>
Change in net position	<u>\$ 44,313</u>	<u>\$ (62,442)</u>	<u>\$ (10,477)</u>	<u>\$ (28,606)</u>	<u>\$ 158,947</u>

See accompanying notes to financial statements.

SANBORN & SANBORN ACCOUNTANCY CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

1423 Eleventh Street
P O Box 1057
Reedley CA 93654

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

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

INDEPENDENT AUDITOR'S REPORT

December 9, 2016

Board of Directors
Malaga County Water District
Fresno, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Malaga County Water District as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 9, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Malaga County Water District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. *A significant deficiency*, or a combination of Deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Malaga County Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of the Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Sanborn and Sanborn
Accountancy Corporation*

CERTIFIED PUBLIC ACCOUNTANTS