

MALAGA COUNTY WATER DISTRICT
REPORT ON AUDIT OF FINANCIAL STATEMENTS
FOR THE TWO YEARS ENDED JUNE 30, 2018 AND 2017

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INDEPENDENT AUDITOR'S REPORT

October 22, 2018

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, 2018 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, 2018 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 October 22, 2018 on our consideration of Malaga County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Sanborn and Sanborn
Accountancy Corporation*

CERTIFIED PUBLIC ACCOUNTANTS

**MALAGA COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

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, 2018. 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, 2018 by \$7,050,419. Of this amount, unrestricted net position of \$1,449,169 may be used to meet the District's ongoing obligations to customers and creditors. As of June 30, 2017, assets exceeded liabilities by \$6,966,888 with unrestricted net position equaling \$1,277,842.
- Total net position increased by \$83,531 for the year ended June 30, 2018. For the year ended June 30, 2017, total net position increased by \$42,165.
- During the current year, the District's fixed assets decreased by a net of \$223,944. This decrease was mostly attributable to the purchase of equipment and improvements to the water system and wastewater treatment plant less depreciation. Depreciation expense, the ratable amortization of the cost of fixed assets, amounted to \$442,566 for the current year. Prior year depreciation was \$437,858.
- Total debt decreased by a net of \$24,063 during the current year. The decrease was mostly attributable to the repayment of long-term debt of \$211,288 less increases in accounts payable and accrued expense of \$21,944. During the prior year, total debt decreased by a net of \$177,317. 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, 2018, the District's assets exceeded liabilities by \$7,050,419. A significant portion of the District's net position (78 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 \$72,592 in net position (one 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	\$ 1,804,899	\$ 1,804,899	\$ 1,611,628
Other assets	<u>7,349,989</u>	<u>7,349,989</u>	<u>7,649,073</u>
Total assets	<u>9,154,888</u>	<u>9,154,888</u>	<u>9,260,701</u>
Current liabilities	355,730	355,730	333,786
Deferred liabilities	<u>1,748,739</u>	<u>1,748,739</u>	<u>1,960,027</u>
Total liabilities	<u>2,104,469</u>	<u>2,104,469</u>	<u>2,293,813</u>
Net position:			
Invested in capital assets, net of related debt	5,528,658	5,528,658	5,541,314
Restricted for capital asset acquisition	72,592	72,592	147,732
Unrestricted	<u>1,449,169</u>	<u>1,449,169</u>	<u>1,277,842</u>
Total net position	<u>\$ 7,050,419</u>	<u>\$ 7,050,419</u>	<u>\$ 6,966,888</u>

Malaga County Water District's Changes in Net Position

	Business-Type Activities	Current Year Total	Prior Year Total
Program revenue			
Charges for services	\$ 2,984,380	\$ 2,984,380	\$ 2,897,255
Other	<u>91,207</u>	<u>91,207</u>	<u>113,894</u>
Total revenue	<u>3,075,587</u>	<u>3,075,587</u>	<u>3,011,149</u>
Expense			
Waste disposal utility activities	1,810,373	1,810,373	1,769,787
Water utility activities	1,128,025	1,128,025	1,185,850
Community recreation activities	<u>543,605</u>	<u>543,605</u>	<u>463,804</u>
Total expense	<u>3,482,003</u>	<u>3,482,003</u>	<u>3,419,441</u>
Net operating income/(loss)	(406,416)	(406,416)	(408,292)
Net nonoperating revenue/(expense)	<u>489,947</u>	<u>489,947</u>	<u>450,457</u>
Increase/(decrease) in net position	83,531	83,531	42,165
Net position, beginning of year	<u>6,966,888</u>	<u>6,966,888</u>	<u>6,924,723</u>
Net position, end of year	<u>\$ 7,050,419</u>	<u>\$ 7,050,419</u>	<u>\$ 6,966,888</u>

Business-type activities. Business-type activities increased the District's net position by \$83,531, 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, 2018, the District's proprietary funds reported a combined ending fund balance of \$7,050,419, an increase of \$83,531, in comparison to the prior year. Of the entire ending fund balance, \$1,449,169 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, 2018 amounted to \$7,277,397 (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 \$1,748,739 as of June 30, 2018. Of this total amount, \$119,590 is due and payable during the year ending June 30, 2018. The remainder, referred to as deferred liabilities, is due and payable over the next 16 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, 2019 projects a surplus of \$850,016. Revenue is anticipated to increase by \$413,176 compared to 2017/2018, while expenses are expected to decrease by \$353,309. Charges for services are anticipated to increase by \$155,383, while non-operating revenue is expected to increase by \$257,793. Salaries, wages and employee benefits are expected to decrease by \$65,312 and services and supplies are anticipated to decrease by \$287,997 compared to 2017/2018.

User rates are not expected to increase during the year ending June 30, 2019.

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, 2018

Assets	
Current assets	
Cash and cash equivalents	\$ 1,383,670
Accounts receivable	324,566
Prepaid expense	<u>96,663</u>
Total current assets	<u>1,804,899</u>
Other assets	
Restricted assets – cash	72,592
Capital assets (net of allowance for depreciation)	<u>7,277,397</u>
Total other assets	<u>7,349,989</u>
Total assets	<u>9,154,888</u>
Liabilities	
Current liabilities	
Accounts payable and accrued expense	264,546
Compensated absences payable	56,237
Customer deposits	<u>34,947</u>
Total current liabilities	<u>355,730</u>
Noncurrent liabilities	
Payable within one year	127,314
Payable after one year	<u>1,621,425</u>
Total noncurrent liabilities	<u>1,748,739</u>
Total liabilities	<u>2,104,469</u>
Net Position	
Invested in capital assets, net of related debt	5,528,658
Restricted	72,592
Unrestricted	<u>1,449,169</u>
Total net position	<u>\$ 7,050,419</u>

See accompanying notes to financial statements.

MALAGA COUNTY WATER DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Business-type activities		
Operating revenue		
Charges for services		\$ 2,984,380
Other		<u>91,207</u>
Total operating revenue		3,075,587
Operating expense		
Waste disposal utility activities	\$ 1,810,373	
Water utility activities	1,128,025	
Community recreation activities	<u>543,605</u>	
Total operating expense		<u>3,482,003</u>
Net operating income/(loss)		(406,416)
Net nonoperating revenue/(expense)		<u>489,947</u>
Change in net position		83,531
Net position, beginning of year		<u>6,966,888</u>
Net position, end of year		<u><u>\$ 7,050,419</u></u>

See accompanying notes to financial statements.

MALAGA COUNTY WATER DISTRICT
 PROPRIETARY FUNDS
 COMPARATIVE STATEMENT OF NET POSITION
 JUNE 30, 2018 AND 2017

	Business-Type Activities - Enterprise Funds				2017 Total
	2018				
	Water	Waste Disposal	Recreation	Total	
Assets					
Current assets					
Cash and cash equivalents	\$ 622,651	\$ 622,651	\$ 138,368	\$ 1,383,670	\$ 1,221,124
Accounts receivable	139,131	179,815	5,620	324,566	303,513
Prepaid expense	31,315	50,257	15,091	96,663	86,991
Total current assets	<u>793,097</u>	<u>852,723</u>	<u>159,079</u>	<u>1,804,899</u>	<u>1,611,628</u>
Other assets					
Restricted cash		72,592		72,592	147,732
Advances to other activities	3,314,658			3,314,658	3,149,377
Capital assets (net of allowance for depreciation)	<u>2,399,985</u>	<u>4,507,496</u>	<u>369,916</u>	<u>7,277,397</u>	<u>7,501,341</u>
Total other assets	<u>5,714,643</u>	<u>4,580,088</u>	<u>369,916</u>	<u>10,664,647</u>	<u>10,798,450</u>
Total assets	<u>6,507,740</u>	<u>5,432,811</u>	<u>528,995</u>	<u>12,469,546</u>	<u>12,410,078</u>
Liabilities					
Current liabilities					
Accounts payable and accrued expense	85,703	137,543	41,300	264,546	234,863
Compensated absences payable	19,299	28,795	8,143	56,237	66,891
Customer deposits	17,473	17,474		34,947	32,032
Current portion of notes payable	<u>46,347</u>	<u>80,967</u>		<u>127,314</u>	<u>114,362</u>
Total current liabilities	168,822	264,779	49,443	483,044	448,148
Other liabilities					
Advances from other activities		1,582,844	1,731,814	3,314,658	3,149,377
Noncurrent liabilities					
Notes payable	<u>886,760</u>	<u>734,665</u>		<u>1,621,425</u>	<u>1,845,665</u>
Total liabilities	<u>1,055,582</u>	<u>2,582,288</u>	<u>1,781,257</u>	<u>5,419,127</u>	<u>5,443,190</u>
Net Position					
Invested in capital assets, net of related debt	1,466,878	3,691,864	369,916	5,528,658	5,541,314
Restricted assets		72,592		72,592	147,732
Unrestricted/(deficit)	<u>3,985,280</u>	<u>(913,933)</u>	<u>(1,622,178)</u>	<u>1,449,169</u>	<u>1,277,842</u>
Total net position	<u>\$ 5,452,158</u>	<u>\$ 2,850,523</u>	<u>\$ (1,252,262)</u>	<u>\$ 7,050,419</u>	<u>\$ 6,966,888</u>

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, 2018 AND 2017

	Business-Type Activities - Enterprise Funds				2017 Total
	2018				
	Water	Waste Disposal	Recreation	Total	
Operating revenue					
Charges for services	\$ 1,283,078	\$ 1,656,725	\$ 44,577	\$ 2,984,380	\$ 2,897,255
Other	<u>35,329</u>	<u>47,202</u>	<u>8,676</u>	<u>91,207</u>	<u>113,894</u>
Total operating revenue	<u>1,318,407</u>	<u>1,703,927</u>	<u>53,253</u>	<u>3,075,587</u>	<u>3,011,149</u>
Operating expense ³⁰					
Salaries and wages	267,145	458,365	124,747	850,257	809,054
Employee benefits	154,948	219,303	98,984	473,235	460,331
Depreciation	154,006	244,379	44,181	442,566	437,858
Utilities	172,994	121,397	50,944	345,335	299,222
Professional services	157,183	148,183		305,366	385,547
Refuse collection and disposal		207,824		207,824	61,792
Board of directors	86,963	86,941		173,904	166,436
Repairs and maintenance	27,234	75,241	35,094	137,569	96,506
Contract services	18,745	36,092	69,616	124,453	106,644
Supplies and small tools	5,521	30,576	49,132	85,229	207,992
Insurance	21,490	32,157	21,966	75,613	73,047
Dues and memberships	19,431	37,370	3,845	60,646	64,086
Testing	3,378	51,565		54,943	40,118
Telephone	9,399	21,638	8,578	39,615	37,077
Other	3,437	6,807	26,421	36,665	61,400
Office supplies and postage	7,852	9,486	204	17,542	14,483
Travel, meetings and education	7,325	5,741	4,452	17,518	19,523
Fuel and oil	4,880	6,655	3,387	14,922	13,140
Rents and leases	5,728	7,570	1,231	14,529	29,925
Education and training	<u>366</u>	<u>3,083</u>	<u>823</u>	<u>4,272</u>	<u>35,260</u>
Total operating expense	<u>1,128,025</u>	<u>1,810,373</u>	<u>543,605</u>	<u>3,482,003</u>	<u>3,419,441</u>
Net operating income/(loss)	<u>190,382</u>	<u>(106,446)</u>	<u>(490,352)</u>	<u>(406,416)</u>	<u>(408,292)</u>
Nonoperating revenue/(expense)					
Grant revenue	134,954	45,345	6,254	186,553	87,655
Taxes and assessments	8,122	8,121	325,578	341,821	401,246
Interest and use of property	9,880	9,881	6,650	26,411	12,862
Other	9,892	12,718		22,610	47,036
Interest expense	<u>(47,949)</u>	<u>(39,499)</u>		<u>(87,448)</u>	<u>(98,342)</u>
Net nonoperating revenue/(expense)	<u>114,899</u>	<u>36,566</u>	<u>338,482</u>	<u>489,947</u>	<u>450,457</u>
Change in net position	305,281	(69,880)	(151,870)	83,531	42,165
Net position, beginning of year	<u>5,146,877</u>	<u>2,920,403</u>	<u>(1,100,392)</u>	<u>6,966,888</u>	<u>6,924,723</u>
Net position, end of year	<u>\$ 5,452,158</u>	<u>\$ 2,850,523</u>	<u>\$ (1,252,262)</u>	<u>\$ 7,050,419</u>	<u>\$ 6,966,888</u>

See accompanying notes to financial statements.

MALAGA COUNTY WATER DISTRICT
 PROPRIETARY FUNDS
 COMPARATIVE STATEMENT OF CASH FLOW
 FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

Page 1 of 2

	Business-Type Activities - Enterprise Funds				
	2018				2017
	Water	Waste Disposal	Recreation	Total	Total
Cash flow from operating activities					
Receipts from customers and users	\$ 1,329,158	\$ 1,673,995	\$ 54,296	\$ 3,057,449	\$ 3,093,839
Payments to suppliers	(556,335)	(869,344)	(270,255)	(1,695,934)	(1,690,891)
Payments to employees	(425,863)	(675,903)	(232,380)	(1,334,146)	(1,266,753)
Net cash provided by/(used for) operating activities	<u>346,960</u>	<u>128,748</u>	<u>(448,339)</u>	<u>27,369</u>	<u>136,195</u>
Cash flow from noncapital financing activities					
Advances (to)/from other funds	(165,281)	20,559	144,722		
Property taxes and other nonoperating revenue	<u>18,014</u>	<u>20,839</u>	<u>325,578</u>	<u>364,431</u>	<u>445,383</u>
Net cash provided by/(used for) noncapital financing activities	<u>(147,267)</u>	<u>41,398</u>	<u>470,300</u>	<u>364,431</u>	<u>445,383</u>
Cash flow from capital and related financing activities					
Grant revenue	134,954	45,345	6,254	186,553	87,655
Principal paid on long-term debt	(89,528)	(121,760)		(211,288)	(201,966)
Interest paid on financing	(47,949)	(39,499)		(87,448)	(98,342)
Purchase of capital assets	<u>(133,905)</u>	<u>(66,108)</u>	<u>(18,609)</u>	<u>(218,622)</u>	<u>(281,738)</u>
Net cash provided by/(used for) capital and related financing activities	<u>(136,428)</u>	<u>(182,022)</u>	<u>(12,355)</u>	<u>(330,805)</u>	<u>(494,391)</u>
Cash flow from investing activities					
Interest and use of property	<u>9,880</u>	<u>9,881</u>	<u>6,650</u>	<u>26,411</u>	<u>12,862</u>
Net increase/(decrease) in cash	73,145	(1,995)	16,256	87,406	100,049
Cash, beginning of year	<u>549,506</u>	<u>697,238</u>	<u>122,112</u>	<u>1,368,856</u>	<u>1,268,807</u>
Cash, end of year	<u>\$ 622,651</u>	<u>\$ 695,243</u>	<u>\$ 138,368</u>	<u>\$ 1,456,262</u>	<u>\$ 1,368,856</u>

See accompanying notes to financial statements.

MALAGA COUNTY WATER DISTRICT
 PROPRIETARY FUNDS
 COMPARATIVE STATEMENT OF CASH FLOW
 FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

Page 2 of 2

	<u>Business-Type Activities - Enterprise Funds</u>				
	<u>2018</u>				<u>2017</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)	\$ 190,382	\$ (106,446)	\$ (490,352)	\$ (406,416)	\$ (408,292)
Adjustments to reconcile operating income/(loss) to net cash provided by/(used for) operating activities					
Depreciation	154,006	244,379	44,181	442,566	437,858
(Increase)/decrease in accounts receivable	9,294	(31,390)	1,043	(21,053)	75,136
(Increase)/decrease in prepaid expense	8,973	(11,721)	(6,924)	(9,672)	6,844
Increase/(decrease) in accounts payable	(13,382)	30,703	12,362	29,683	14,463
Increase/(decrease) in compensated absences payable	(3,770)	1,765	(8,649)	(10,654)	2,632
Increase/(decrease) in deposits	<u>1,457</u>	<u>1,458</u>	<u> </u>	<u>2,915</u>	<u>7,554</u>
Net cash provided by/(used for) operating activities	<u>\$ 346,960</u>	<u>\$ 128,748</u>	<u>\$ (448,339)</u>	<u>\$ 27,369</u>	<u>\$ 136,195</u>
Summary of cash balances, end of year:					
Cash and cash equivalents	\$ 622,651	\$ 622,651	\$ 138,368	\$ 1,383,670	\$ 1,221,124
Restricted cash	<u> </u>	<u>72,592</u>	<u> </u>	<u>72,592</u>	<u>147,732</u>
	<u>\$ 622,651</u>	<u>\$ 695,243</u>	<u>\$ 138,368</u>	<u>\$ 1,456,262</u>	<u>\$ 1,368,856</u>

See accompanying notes to financial statements.

MALAGA COUNTY WATER DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE TWO YEARS ENDED JUNE 30, 2018 AND 2017

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, 2018 AND 2017

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, 2018 AND 2017

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, 2018. 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, 2018 AND 2017

Note 2: Cash

The District's deposits as of June 30, 2018, 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, 2018:

	Bank Balance Category*			Carrying Amount
	1	2	3	
Cash on hand	\$ 11,524	\$	\$	\$ 11,524
Cash in bank	300,188	159,944		460,132
Fresno County Treasury		178,974		178,974
Local Agency Investment Fund		805,632		805,632
	\$ 311,712	\$1,144,550	\$	\$1,456,262

* 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, 2018:

	Balance	Additions	Deletions	Balance
	July 1, 2017			June 30, 2018
Land*	\$ 599,613	\$	\$	\$ 599,613
Water system	5,085,566			5,085,566
Sewer system	7,365,626			7,365,626
Buildings	1,169,276			1,169,276
Construction in progress*	913,830	121,350		1,035,180
Park development	968,689			968,689
Equipment	511,800	97,272		609,072
Total	16,614,400	218,622		16,833,022
Allowance for depreciation	(9,113,059)	(442,566)		(9,555,625)
	\$ 7,501,341	\$ (223,944)	\$	\$ 7,277,397

* Not currently being depreciated.

MALAGA COUNTY WATER DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE TWO YEARS ENDED JUNE 30, 2018 AND 2017

Note 4: Subsequent Events

Events affecting the District subsequent to June 30, 2018 through October 22, 2018 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, 2018:

	Beginning Balance	Additions	Deletions	Ending Balance	Classification	
					Due Within One Year	Due After One Year
Note payable - debt refinancing	\$ 400,502	\$	\$ 127,606	\$ 272,896	\$ 65,964	\$ 206,932
Note payable - systems improvements	1,128,106		64,058	1,064,048	33,199	1,030,849
Note payable - wastewater treatment plant improvements	<u>431,419</u>	<u></u>	<u>19,624</u>	<u>411,795</u>	<u>28,152</u>	<u>383,643</u>
	<u>\$1,960,027</u>	<u>\$</u>	<u>\$ 211,288</u>	<u>\$1,748,739</u>	<u>\$ 127,314</u>	<u>\$1,621,425</u>

Note 6: Note Payable – Debt Refinancing

Long-term debt outstanding on June 30, 2010 was refinanced on July 26, 2010. The debt was originally incurred to make improvements to the water and sewer systems. The total amount of the refinanced debt was \$1,151,053 and provides for interest at the rate of 4.50 percent per annum. Semi-annual payments of principal and interest began January 2011, and continue until paid. Full repayment of the loan is scheduled to occur in July 2020. The Water Fund finances this debt to the extent of 30 percent of the payments due and the Waste Disposal Fund finances 70 percent of the payments. Interest paid on this loan for the year ended June 30, 2018 was \$16,603.

Future payments of the note are as follows:

<u>Due during the year ending</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
June 30, 2019	\$ 6,140	\$ 65,964	\$ 72,104
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>\$ 15,520</u>	<u>\$ 272,896</u>	<u>\$ 288,416</u>

MALAGA COUNTY WATER DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE TWO YEARS ENDED JUNE 30, 2018 AND 2017

Note 7: Note Payable – Systems Improvements

This debt was incurred to finance the construction of water well number eight and improvements to the sewer system. The total amount of the debt was \$1,500,000 and provides for interest at the rate of 4.85 percent per annum. Semi-annual payments of principal and interest began January 2011, and continue until paid. Full repayment of the loan is scheduled to occur in July 2030. The Water Fund finances this debt to the extent of 80 percent of the payments due and the Waste Disposal Fund finances 20 percent of the payments. Interest paid on this loan for the year ended June 30, 2018 was \$53,946.

Future payments of the bonds are as follows:

<u>Due during the year(s) ending</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
June 30, 2019	\$ 25,803	\$ 33,199	\$ 59,002
June 30, 2020	49,171	68,833	118,004
June 30, 2021	45,793	72,211	118,004
June 30, 2022	42,248	75,756	118,004
June 30, 2023	38,529	79,475	118,004
Five Years Ending June 30, 2028	130,153	459,868	590,021
Five Years Ending June 30, 2033	<u>20,304</u>	<u>274,706</u>	<u>295,010</u>
	<u>\$ 352,001</u>	<u>\$1,064,048</u>	<u>\$1,416,049</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 2017, 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, 2018 was \$17,276.

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, 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
June 30, 2022	13,862	23,038	36,900
June 30, 2023	12,920	23,980	36,900
Five Years Ending June 30, 2028	49,054	135,445	184,499
Five Years Ending June 30, 2033	<u>18,988</u>	<u>165,510</u>	<u>184,498</u>
	<u>\$ 141,702</u>	<u>\$ 411,795</u>	<u>\$ 553,497</u>

MALAGA COUNTY WATER DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE TWO YEARS ENDED JUNE 30, 2018 AND 2017

Note 9: Restricted Assets - Cash

As of June 30, 2018, \$72,592 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, 2019.

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, 2018 was \$850,257 with covered payroll equaling \$844,986. 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, 2018 were \$84,499.

Note 11: Board of Directors

Members of the Board of Directors as of June 30, 2018, 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, 2018 AND 2017

	Business-Type Activities - Waste Disposal Fund				2017 Total
	2018				
	Sewer	Pretreatment	Solid Waste	Total	
Operating revenue					
Charges for services	\$ 1,327,528	\$ 175,700	\$ 162,133	\$ 1,665,361	\$ 1,509,701
Other	34,276	12,916	10	47,202	51,242
Total operating revenue	<u>1,361,804</u>	<u>188,616</u>	<u>162,143</u>	<u>1,712,563</u>	<u>1,560,943</u>
Operating expense					
Salaries and wages	390,126	68,239		458,365	421,662
Depreciation	244,379			244,379	241,797
Employee benefits	188,844	30,459		219,303	220,333
Refuse collection and disposal			207,824	207,824	61,792
Professional services	144,143	4,040		148,183	239,595
Utilities	121,397			121,397	98,133
Board of directors	86,941			86,941	83,218
Repairs and maintenance	73,809	1,432		75,241	63,939
Testing	42,734	8,831		51,565	36,025
Dues and memberships	35,591	688	1,091	37,370	34,862
Contract services	26,496	9,596		36,092	39,799
Insurance	25,787	6,370		32,157	36,538
Supplies and small tools	29,655	921		30,576	89,799
Telephone	17,833	3,805		21,638	17,346
Office supplies and postage	7,934	1,552		9,486	8,589
Rents and leases	6,399	1,171		7,570	22,710
Other	3,942	2,039	826	6,807	18,258
Fuel and oil	6,008	647		6,655	6,569
Travel, meetings and education	5,509	232		5,741	8,156
Education and training	2,043	1,040		3,083	20,667
Total operating expense	<u>1,459,570</u>	<u>141,062</u>	<u>209,741</u>	<u>1,810,373</u>	<u>1,769,787</u>
Net operating income	<u>(97,766)</u>	<u>47,554</u>	<u>(47,598)</u>	<u>(97,810)</u>	<u>(208,844)</u>
Nonoperating revenue/(expense)					
Grant revenue	45,345			45,345	74,630
Taxes and assessments	35,159		1,019	36,178	40,777
Other	12,718			12,718	6,567
Interest and use of property	6,521			6,521	8,492
Interest expense	(46,026)			(46,026)	(45,160)
Net nonoperating revenue/(expense)	<u>53,717</u>		<u>1,019</u>	<u>54,736</u>	<u>85,306</u>
Change in net position	<u>\$ (44,049)</u>	<u>\$ 47,554</u>	<u>\$ (46,579)</u>	<u>\$ (43,074)</u>	<u>\$ (123,538)</u>

See accompanying notes to financial statements.

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

INDEPENDENT AUDITOR'S REPORT

October 22, 2018

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, 2018 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 22, 2018.

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