

ALLEGHANY COUNTY WATER DISTRICT

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

JUNE 30, 2017

ALLEGHANY COUNTY WATER DISTRICT
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Alleghany County Water District
P.O. Box 860
Alleghany, CA 95910-0860

We have audited the accompanying financial statements of the governmental activities of Alleghany County Water District as of and for the year ended June 30, 2017, 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. 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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of Alleghany County Water District as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flow thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

- Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3, 4, & 5 and 13 & 14, respectively, 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 inquiries 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 the Alleghany County Water District's financial statements, as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly we do not express an opinion or provide any assurance on them.



BODEN KLEIN & SNEESBY
A Professional Corporation

Roseville, California
September 25, 2017

**ALLEGHANY COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2017**

Alleghany County Water District (ACWD) was established on March 8, 1939 to provide water to the town of Alleghany for both domestic use and fire protection.

When the district was formed, Alleghany had a population of approximately 586 (1940 US Census). The most recent census (2010) recorded 58 full-time residents. This represents a 90% reduction over seventy years. However, the number of part-time residents as a percentage of the total population has increased in recent years. Currently ACWD has 57 active customer accounts.

Sustaining its operation with such a small customer base is ACWD's biggest challenge. To help address this challenge, ACWD engaged the services of an outside firm to analyze its water rates in April of 2015. After two public hearings and multiple revisions, a new rate structure was adopted on May 10, 2016. The new rates went into effect on July 1, 2016. Current rates are: \$40 per month for up to 8,000 gallons of water and .003 per gallon (\$3.00 per thousand gallons) for all usage over 8,000 gallons.

ACWD currently lacks reserve funds for unexpected expenses and long-term equipment replacement. However, over the past few years the district has made progress towards more carefully tracking its expenses and cash-flows. ACWD adopted a Contingency Fund Policy on March 21, 2017 and anticipates being able to start making deposits into the contingency fund in Fiscal Year 2018-2019.

ACWD does, from time-to-time, apply for grants. The bulk of the current infrastructure was built in 1977-78 with a 50/50 loan-grant from USDA Rural Development. That loan will be paid off by December 1, 2017. The pay-off of this loan will have a significant positive impact on the district's cash-flow freeing up \$6,780 per year or approximately 19% of the estimated annual operating income of \$35,000.

Work-in-progress

In early 2015 the district applied for a Grant from the State Revolving Fund to do a Planning and Engineering Analysis for renovations of the ACWD storage tank and water sources. A \$300,000 funding agreement for this project was signed on November 23, 2015. A cost-benefit analysis for replacing versus refurbishing the existing water storage tank concluded that replacement was the most cost-effective option. The water-source portion of the planning & engineering analysis proved to be less straight-forward. ACWD was encouraged by the State to examine the feasibility of installing two vertical wells in an attempt to eliminate the need for a water treatment plant thus lowering operating costs. ACWD was assured that if the test wells weren't viable the project would go back to looking at the best way to upgrade the Ram Spring (existing water source). As it turned out, the wells were not viable due to low water production and the presence of naturally occurring arsenic. As a result of the problems with the test wells, in March of 2017 the funding agreement was increased from \$300,000 to \$500,000.

In May of 2017 driven pipes were installed at the Ram Spring in order to minimize surface water infiltration at the site. This was funded by the existing planning project. Testing to determine if the classification of this water can be changed from "ground water under the influence of surface water" to "ground water" is underway. The results of these tests will help the State and ACWD determine the best water treatment option for the Ram Spring.

**ALLEGHANY COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2017**

The water tank portion of the planning project is complete and a new funding agreement for construction of the water tank was executed on July 20, 2017 for up to \$700,000. Tank construction is expected to be completed by early summer 2018.

Budget Procedure Notes

The enabling legislation for County Water Districts, State Water Code Section 30000 and specifically section 301007 requires charging rates sufficient to cover "**a. operating expenses of the district b. repairs & depreciation - c. interest on any bonded debt d. payment of principle on any bonded debt**". However; there are also Federal guidelines in place intended to protect the public from being charged prohibitive rates for basic services such as water. An income survey of Alleghany was completed on December 1, 2016 resulting in a Median Household Income (MHI) figure of \$18,996. The EPA's stated view on affordable potable water is that it is affordable if it is equal to or less than 2.5% of the Median Household Income of the community. For a MHI of \$18,996 this equals \$39.58 per month. ACWD's newly adopted rates are close to this figure but are NOT sufficient to cover its depreciation expense. **ACWD does not budget for depreciation because an income source to cover it has not been identified.**

For managerial purposes ACWD has also opted not to include the State Funded Projects in its adopted budget. The State Funded Projects are paid on a reimbursement basis; thus, they do not significantly impact the district's cash-flow. With the exception of the cost of the test wells which were unsuccessful, all other expenses associated with the State Funded Projects are being capitalized in a "Construction in Progress" asset account.

Comparison of budgeted versus actual results

Audited actual results vary significantly from the adopted budget because the audited results include both depreciation expense and the State Funded Project (Grant). (see notes above)

Operating revenue: Water Service Fees were \$2,007 (7%) higher than projected primarily due to unanticipated unmetered water sales of \$750 combined with the district's first year with the new water rates in place. Grant income came in \$274,702 higher than projected due to the fact that the district does not include the State Funded Project in its budget as noted above.

Operating expenses: Excluding depreciation expense and the State Funded Project Expenses, most of the district's expenses came in as projected. The only two notable exceptions were Utilities which came in \$848 (21%) higher than projected and System Repair & Maintenance which came in \$1,913 (49%) higher than projected. The higher utility expense is offset by the higher water revenue: there is a direct correlation between how much water is sold and how much electricity is used. System Repair & Maintenance was high because a major pump repair was needed in July of 2016.

Non-operating revenues came in approximately as projected with the exception of fundraising and donation income which came in 100% higher than projected because ACWD takes a conservative approach with revenue projections.

**ALLEGHANY COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2017**

Non-operating expenses came in approximately as projected with the exception of fundraising expenses which were offset by the fundraising income mentioned above. Historical Church Repairs & Maintenance came in \$2,000 (100%) lower than projected because no work was done on the building as had been planned.

The year-end budget results show a net favorable variance of \$23,872 primarily due to the State Funded Projects Grant Income of \$274,702 which was offset by the corresponding capitalized expenditures and the re-occurring standard depreciation entry. (see budget procedure notes above).

ALLEGHANY COUNTY WATER DISTRICT

Statement of Net Position

June 30, 2017

ASSETS

Current assets

Cash	\$	15,243
Accounts receivable		78,856
Prepaid expenses		<u>2,556</u>
Total current assets		96,655

Capital assets

Land		101,000
Other capital assets, net of depreciation		<u>203,475</u>
Total capital assets, net of depreciation		<u>304,475</u>

TOTAL ASSETS \$ 401,130

LIABILITIES

Current liabilities

Current portion of long-term debt		3,006
Deferred revenues		603
Accounts payable		<u>77,589</u>
Total current liabilities		81,198

TOTAL LIABILITIES 81,198

NET POSITION

Net Position

Invested in capital assets, net of related debt		301,469
Unrestricted		<u>18,463</u>

TOTAL NET POSITION \$ 319,932

See notes to financial statements.

ALLEGHANY COUNTY WATER DISTRICT
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2017

Operating revenues	
Water sales	\$ 31,127
Grant income	274,702
Other	633
Operating revenues	306,462
Operating expenses	
SRF planning project - test wells	238,403
Pumping	6,007
Treatment	8,400
Transmission and distribution	6,861
General and administrative	8,632
Depreciation	16,667
Operating expenses	284,970
Net operating revenue	21,492
Non-operating revenue (expenses)	
Property taxes	5,091
Miscellaneous income	240
Historical Church	
Rental	1,500
Fundraising/donations	2,801
Historical Church expenses	(611)
Fundraising expense	(1,053)
Park	
Repairs/maintenance/utilities	(393)
Interest expense	(410)
Net non-operating revenue	7,165
CHANGE IN NET POSITION	28,657
Beginning net position	291,275
ENDING NET POSITION	\$ 319,932

See notes to financial statements.

ALLEGHANY COUNTY WATER DISTRICT

Statement of Cash Flows
For the Year Ended June 30, 2017

Reconciliation of operating income to net cash provided by operating activities:	
Operating revenue	\$ 21,492
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	16,667
Changes in operating assets and liabilities:	
(Increase) Decrease in:	
Accounts receivable	(57,440)
Pre-paid expenses	(2,556)
Increase (Decrease) in:	
Deferred revenues	(339)
Accounts payable	56,120
Net cash provided by operating activities	<u>33,944</u>
Cash flows from non-operating activities :	
Property taxes	5,091
Miscellaneous income	240
Net Historical Church activity	2,637
Net Park activity	(393)
Net cash provided by non-operating activities	<u>7,575</u>
Cash flows from investing activities:	
Construction in Progress	<u>(36,260)</u>
Net cash used for investing activities	<u>(36,260)</u>
Cash flows from financing activities:	
Principal payments - loans	(6,370)
Interest expense	(410)
Net cash used for financing activities	<u>(6,780)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,521)
Cash at beginning of year July 1, 2016	<u>16,764</u>
CASH AT END OF YEAR, JUNE 30, 2017	<u>\$ 15,243</u>
Supplementary information	
Cash paid for interest	<u>\$ 410</u>

See notes to financial statements.

ALLEGHANY COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

Note 1 Organization

Alleghany County Water District (the "District") was organized to provide water for residents of the District.

The District is governed by a Board of Directors which is elected by voters of the District.

Note 2 Summary of Significant Accounting Policies

The accounting policies of Alleghany County Water District conform to generally accepted accounting principles applicable to enterprise funds. The District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Fund Accounting

The District is an enterprise fund. All operations are accounted for as an enterprise fund.

Enterprise Fund – The enterprise fund is used to account for water operations that are financed and operated in a manner similar to private business enterprises. The intent of the District is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

Basis of Accounting

The basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

The District's books and accounts are based upon the Uniform System of Accounts for Public Utilities as prescribed by the Division of Local Government Fiscal Affairs of the State of California. The records are maintained and the accompanying financial statements are presented on the accrual basis of accounting.

ALLEGHANY COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

Note 2 Summary of Significant Accounting Policies, continued

Depreciation and Amortization

Capital assets are recorded on the basis of purchase cost. Assets acquired by contribution are recorded at estimated cost or fair market value at the date of acquisition.

Depreciation is calculated by the straight-line method over the estimated useful lives of the respective assets.

Statement of Cash Flows

All highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Budget and Budgetary Accounting

The Board of Directors annually adopts an operating budget. The operating budgets are prepared on the accrual basis to match the operating statements. Capital replacement expenditures are reviewed on an annual basis and budgeted as deemed necessary.

Note 3 Cash and Investments

Cash and investments consist of the following at June 30, 2017:

Cash in bank – checking	\$ 4,364
Cash in bank – checking (historical church/park)	<u>10,879</u>
	<u>\$15,243</u>

All deposits were covered by Federal depository insurance.

ALLEGHANY COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

Note 4 Capital Assets

Changes in capital assets consist of:

	<u>Balance, beginning of year</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance, end of year</u>
Land	\$ 101,000	\$ -	\$ -	\$ 101,000
Building	10,544	-	-	10,544
Water System	<u>718,000</u>	<u>-</u>	<u>-</u>	<u>718,000</u>
	829,544	-	-	829,544
Construction in Progress	50,548	86,809	50,548	86,809
Accumulated Depreciation	<u>(595,211)</u>	<u>(16,667)</u>	<u>-</u>	<u>(611,878)</u>
Capital Assets, net of depreciation	<u>\$284,881</u>	<u>\$ 70,142</u>	<u>\$ 50,548</u>	<u>\$ 304,475</u>
Depreciation expense for the year year ended June 30, 2017				<u>\$ 16,667</u>

Note 5 Net Investment in Capital Assets

	<u>Total</u>
Capital Assets	\$304,475
Less: related debt	<u>(3,006)</u>
Net investment in capital assets:	<u>\$301,469</u>

ALLEGHANY COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

Note 6 Long-Term Debt

Current

In 1977 the District entered into a 50/50 loan/grant with the USDA Rural Development (formerly FHA) for Water system improvements. The Loan was re-amortized in 1986 and bears interest at 5.00% with principal and interest paid semi-annually (May 1, and December 1). The final payment is December 1, 2017.

\$ 3,006

All loan amounts are considered current debt. Loan payments for the year ended June 30, 2018:

<u>Interest</u>	<u>Principal</u>	<u>Total</u>
<u>\$ 76</u>	<u>\$ 3,006</u>	<u>\$ 3,082</u>

Note 7 Risk of Loss

Alleghany County Water District is exposed to various risks of loss related to theft of, damage to, and destruction of assets; and injuries to employees. During the 2017 fiscal year, the District purchased certain commercial insurance coverage to provide for these risks.

Note 8 SUBSEQUENT EVENTS

The District's management has evaluated the potential for subsequent events through the available for issuance date of the financial statements, September 25, 2017.

ALLEGHANY COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017

**ALLEGHANY COUNTY WATER DISTRICT
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable)
Operating Revenues				
Water service fees	\$ 28,920	\$ 28,920	\$ 31,127	\$ 2,207
Grant income	-	-	274,702	274,702
Other	510	510	633	123
	<u>29,430</u>	<u>29,430</u>	<u>306,462</u>	<u>277,032</u>
 Total Operating Revenues				
 Operating Expenditures:				
Planning project engineering	-	-	238,403	(238,403)
Insurance	3,531	3,531	3,854	(323)
Professional Services	3,000	3,000	2,373	627
Administration	2,000	2,000	1,605	395
Water system labor	6,160	6,160	6,291	(131)
Utilities	3,900	3,900	4,748	(848)
Water tests	1,412	1,412	1,387	25
Office expense	983	983	1,035	(52)
System maintenance/repairs	3,876	3,876	5,789	(1,913)
Permit fees and dues	900	900	602	298
Mileage	1,000	1,000	1,219	(219)
Chemicals	1,000	1,000	859	141
Miscellaneous/contingency	129	129	138	(9)
Depreciation	-	-	16,667	(16,667)
	<u>27,891</u>	<u>27,891</u>	<u>284,970</u>	<u>(18,676)</u>
 Total Operating Expenditures				
 Excess of Operating Revenues Over Operating Expenditures	<u>1,539</u>	<u>1,539</u>	<u>21,492</u>	<u>19,953</u>

**ALLEGHANY COUNTY WATER DISTRICT
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable)
Non-Operating Revenues				
ACWD - Property taxes	5,000	5,000	5,091	91
ACWD - Historical Church administration	240	240	240	-
Historical Church - Rental	1,500	1,500	1,500	-
Historical Church - Fundraisers	-	-	2,801	2,801
	<u>6,740</u>	<u>6,740</u>	<u>9,632</u>	<u>2,892</u>
Total Non-Operating Revenues	<u>6,740</u>	<u>6,740</u>	<u>9,632</u>	<u>2,892</u>
Non-Operating Expenditures:				
ACWD - Interest expense	650	650	410	240
Historical Church - Insurance	250	250	250	-
Historical Church - Utilities	200	200	121	79
Historical Church - Fundraiser expense	-	-	1,053	(1,053)
Historical Church - Administration	240	240	240	-
Historical Church - Repairs/maintenance	2,000	2,000	-	2,000
Park - Supplies and maintenance	-	-	206	(206)
Park - Solid waste fee	154	154	187	(33)
	<u>3,494</u>	<u>3,494</u>	<u>2,467</u>	<u>787</u>
Total Non-Operating Expenditures	<u>3,494</u>	<u>3,494</u>	<u>2,467</u>	<u>787</u>
Excess of Non-Operating Revenues Over Non-Operating Expenditures	3,246	3,246	7,165	3,919
Total Excess of Revenues Over Expenditures	4,785	4,785	28,657	23,872
Fund Balance, beginning of year	<u>291,275</u>	<u>291,275</u>	<u>291,275</u>	
Fund Balance, end of year	<u><u>\$ 296,060</u></u>	<u><u>\$ 296,060</u></u>	<u><u>\$ 319,932</u></u>	

ALLEGHANY COUNTY WATER DISTRICT

SUPPLEMENTARY INFORMATION

JUNE 30, 2017

ALLEGHANY COUNTY WATER DISTRICT

Operating Expenses

For the Year Ended June 30, 2017

Pumping			
Electricity	\$	4,748	
Water system management		<u>1,259</u>	
Total pumping expenses			\$ 6,007
Treatment			
Testing, chemicles, permits, & fees		2,848	
Water system management		<u>5,552</u>	
Total treatment			8,400
Transmission and distribution			
Repairs and hookups		5,789	
Meter reading		480	
Water system management		<u>592</u>	
Total transmission and distribution			6,861
General and administrative			
Legal and audit		2,000	
Billing and bookkeeping		1,605	
Insurance		3,854	
Postage		286	
Telephone		217	
Office/supplies		532	
Other operating expenses		<u>138</u>	
Total general and administrative			8,632
Depreciation			<u>16,667</u>
TOTAL OPERATING EXPENSES			<u>\$ 46,567</u>

ALLEGHANY COUNTY WATER DISTRICT
OTHER SUPPLEMENTARY INFORMATION
JUNE 30, 2017

**PLIOCENE RIDGE COMMUNITY SERVICES DISTRICT
ORGANIZATION
JUNE 30, 2017**

BOARD OF DIRECTORS

Tobyn Mehrmann	Director/President
Nancy Finney	Director/Vice President
Robbin DeWeese	Director
Madeleine Hamb	Director
Laurence "Gus" Tenney	Director
Rae Bell Arbogast	Interim Secretary