

ALLEGHANY COUNTY WATER DISTRICT

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2018

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, 2018, 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, 2018, 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 beginning on pages 3 and 13, 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
October 31, 2018

**ALLEGHANY COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2018**

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% decrease 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 56 active customer accounts.

Sustaining its operation with such a small customer base is ACWD's biggest challenge. Balancing sustainability with affordability is a daunting task. The Board and Staff donate many volunteer hours to the district on a regular basis to keep it functioning.

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 was off in November 2017. As a direct result of this loan pay-off, the District has been able to start building up a contingency fund.

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.

The primary objective of this funding agreement was to find the most sustainable means of supplying the town's drinking water. Changing the main water source from "ground water under the influence of surface water" to "ground water" was a known way to reduce water production costs, but whether-or-not this could be done with the currently used Ram Spring was uncertain. Because of the unknowns with the Spring, the District was encouraged by the State Division of Drinking water to try vertical test wells. The test wells were not successful (inadequate water quantity and quality). As a result of this, in March of 2017 the planning project budget 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. This was funded by the existing planning project. As a result of this drilling, and with subsequent water quality testing, on October 20, 2017 the Division of Drinking water amended the Permit for the Ram Spring changing its classification to "ground water". This new classification eliminates the need for a treatment plant and lessens several regulatory requirements. This will save the district both time and money over the long-term.

The Planning Project is ongoing with a potential secondary water source undergoing water quality testing and a final plan for the pumphouse still in progress. An application for a future construction project will be submitted to the State Funding Division once the planning is completed.

The water tank portion of the planning project was completed in 2016 and a new funding agreement for construction of the water tank was executed on July 20, 2017. Tank construction is expected to be completed by the end of 2018.

**ALLEGHANY COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2018**

Budget Procedure Notes

The enabling legislation for County Water Districts requires charging rates sufficient to cover operating expenses, repairs & depreciation, and debt payments. However; there are also Federal guidelines in place regarding affordable rates for basic services such as water. An income survey of Alleghany in December of 2016 showed a Median Household Income (MHI) figure of \$18,996. The EPA defines "affordable" potable water as a cost equal to or less than 2.5% of the Median Household Income of the community. In Alleghany's case this equals \$39.58 per month. ACWD's monthly rate of \$40 is close to this figure but does NOT generate enough revenue to its depreciation expense. As a result, ACWD does not budget for depreciation because an income source to cover it has not been identified.

For managerial purposes, ACWD has opted not to include the current State Funded Projects in its budget. The Projects are paid on a reimbursement basis (a wash) and it is very difficult to project the timing of the actual work.

The District's budget worksheet combines both "cash-based" and "accrual" projections in order to ensure that adequate cash is available to cover operating expenses and maintain reserve funds.

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). Also, the audited results are on a strictly accrual basis and the budget worksheet combines both accrual and cash-based projections. (see notes above).

Operating revenue: Water Service Fees were \$2,355 (8%) lower than projected primarily due to lower water usage and the loss of a customer account. Grant income came in \$67,807 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 overages: The district's insurance expense increased by \$502 (13%) and Audit fees increased by \$500 (20%) both due to increased costs. Water tests were \$305 (25%) higher than budgeted due to an unexpected new testing requirement. Office expense came in \$565 (62%) higher than projected because "Dues and Subscriptions" were added to this category after the budget was adopted (previously combined with "Fees"). Depreciation is not included in the budget as noted above.

Operating expenses under budget: Administration came in \$410 (21%) lower than projected due to the lack of a Secretary for part of the year (volunteer interim secretary). Labor came in \$641 (10%) lower due to fewer repair needs. Utilities came in \$2,200 (46%) lower than projected due to lower water production as noted under "revenue" and the elimination of the treatment plant, as did maintenance and repairs at \$802 (22%) and Chemicals \$233 (25%). "Permits fees and dues" no longer includes "dues" as noted above, so came in \$304 (43%) lower than projected. Mileage came in \$253 (19%) lower as a result of fewer repair needs than projected.

**ALLEGHANY COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2018**

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

Non-operating expenses Historical Church Fundraising expense is offset by fundraising revenue as noted above. Historical Church Repairs & Maintenance came in \$5,428 (90%) lower than projected because the cost of rewiring the building that was included in the budget (cash-based) was capitalized. Park supplies and maintenance came in \$2,437 (609%) higher than projected because a fountain was purchased for the park utilizing donations specifically for that purpose. Because the district does not own the park, this item will not be capitalized on the district's books.

The year-end results show a positive fund change of \$58,848 primarily due to the State Funded Projects Grant Income of \$67,807 which was offset by the re-occurring standard depreciation entry.

ALLEGHANY COUNTY WATER DISTRICT

Statement of Net Position

June 30, 2018

ASSETS

Current assets

Cash	\$	17,362
Accounts receivable		5,527
Prepaid expenses		<u>2,758</u>
Total current assets		25,647

Capital assets

Land		101,000
Other capital assets, net of depreciation		<u>258,766</u>
Total capital assets, net of depreciation		<u>359,766</u>

TOTAL ASSETS

\$ 385,413

LIABILITIES

Current liabilities

Deferred revenues		2,295
Accounts payable		<u>4,338</u>
Total current liabilities		6,633

TOTAL LIABILITIES

6,633

NET POSITION

Net Position

Invested in capital assets, net of related debt		359,766
Unrestricted		<u>19,014</u>

TOTAL NET POSITION

\$ 378,780

See notes to financial statements.

ALLEGHANY COUNTY WATER DISTRICT
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2018

Operating revenues	
Water sales	\$ 27,045
Grant income	67,807
Other	485
Operating revenues	95,337
Operating expenses	
Pumping	3,721
Treatment	7,422
Transmission and distribution	3,876
General and administrative	10,411
Depreciation	16,831
Operating expenses	42,261
Net operating revenue	53,076
Non-operating revenue (expenses)	
Property taxes	5,096
Miscellaneous income	240
Historical Church	
Rental	1,500
Fundraising/donations	2,312
Historical Church expenses	(1,184)
Fundraising expense	(1,303)
Park	
Fundraising/donations	2,135
Repairs/maintenance/utilities	(3,024)
Net non-operating revenue	5,772
CHANGE IN NET POSITION	58,848
Beginning net position	319,932
ENDING NET POSITION	\$ 378,780

See notes to financial statements.

ALLEGHANY COUNTY WATER DISTRICT

Statement of Cash Flows

For the Year Ended June 30, 2018

Reconciliation of operating income to net cash provided by operating activities:	
Operating revenue	\$ 53,076
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	16,831
Changes in operating assets and liabilities:	
(Increase) Decrease in:	
Accounts receivable	73,327
Pre-paid expenses	(200)
Increase (Decrease) in:	
Deferred revenues	1,692
Accounts payable	<u>(73,251)</u>
Net cash provided by operating activities	<u>71,475</u>
Cash flows from non-operating activities :	
Property taxes	5,096
Miscellaneous income	240
Net Historical Church activity	1,325
Net Park activity	<u>(889)</u>
Net cash provided by non-operating activities	<u>5,772</u>
Cash flows from investing activities:	
Investment in fixed assets	(6,557)
Construction in Progress	<u>(65,565)</u>
Net cash used for investing activities	<u>(72,122)</u>
Cash flows from financing activities:	
Principal payments - loans	<u>(3,006)</u>
Net cash used for financing activities	<u>(3,006)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,119
Cash at beginning of year July 1, 2017	<u>15,243</u>
CASH AT END OF YEAR, JUNE 30, 2018	<u>\$ 17,362</u>
Supplementary information	
Cash paid for interest	<u>\$ -</u>

See notes to financial statements.

ALLEGHANY COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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, 2018

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, 2018:

Cash in bank – checking	\$ 9,699
Cash in bank – checking (historical church/park)	<u>7,663</u>
	<u>\$17,362</u>

All deposits were covered by Federal depository insurance.

ALLEGHANY COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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	6,557	-	17,101
Water System	<u>718,000</u>	<u>-</u>	<u>-</u>	<u>718,000</u>
	829,544	6,557	-	836,101
Construction in Progress	86,809	65,565	-	152,374
Accumulated Depreciation	<u>(611,878)</u>	<u>(16,831)</u>	<u>-</u>	<u>(628,709)</u>
Capital Assets, net of depreciation	<u>\$304,475</u>	<u>\$ 52,291</u>	<u>\$ -</u>	<u>\$ 359,766</u>
Depreciation expense for the year year ended June 30, 2018				<u>\$ 16,831</u>

Note 5 Net Investment in Capital Assets

	<u>Total</u>
Net investment in capital assets:	<u>\$301,469</u>

Note 6 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 2018 fiscal year, the District purchased certain commercial insurance coverage to provide for these risks.

ALLEGHANY COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Note 7 SUBSEQUENT EVENTS

The District's management has evaluated the potential for subsequent events through the available for issuance date of the financial statements, October 31, 2018.

ALLEGHANY COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018

ALLEGHANY COUNTY WATER DISTRICT
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
Operating Revenues				
Water service fees	\$ 29,400	\$ 29,400	\$ 27,045	\$ (2,355)
Grant income	-	-	67,807	67,807
Other	250	250	485	235
	<u>29,650</u>	<u>29,650</u>	<u>95,337</u>	<u>65,687</u>
Total Operating Revenues				
	<u>29,650</u>	<u>29,650</u>	<u>95,337</u>	<u>65,687</u>
Operating Expenditures:				
Insurance	3,854	3,854	4,356	(502)
Professional Services	2,500	2,500	3,000	(500)
Administration	2,000	2,000	1,590	410
Water system labor	6,560	6,560	5,919	641
Utilities	4,820	4,820	2,620	2,200
Water tests	1,200	1,200	1,505	(305)
Office expense	900	900	1,465	(565)
System maintenance/repairs	3,670	3,670	2,868	802
Permit fees and dues	700	700	393	307
Mileage	1,300	1,300	1,047	253
Chemicals	900	900	667	233
Miscellaneous/contingency	96	96	-	96
Depreciation	-	-	16,831	(16,831)
	<u>28,500</u>	<u>28,500</u>	<u>42,261</u>	<u>(13,761)</u>
Total Operating Expenditures				
	<u>28,500</u>	<u>28,500</u>	<u>42,261</u>	<u>(13,761)</u>
Excess of Operating Revenues Over Operating Expenditures	<u>1,150</u>	<u>1,150</u>	<u>53,076</u>	<u>51,926</u>

**ALLEGHANY COUNTY WATER DISTRICT
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
Non-Operating Revenues				
ACWD - Property taxes	5,000	5,000	5,096	96
ACWD - Historical Church administration	240	240	240	-
Historical Church - Rental	1,500	1,500	1,500	-
Historical Church - Fundraisers	-	-	2,312	2,312
Park - Fundraisers	-	-	2,135	2,135
Park - Donations	500	500	-	(500)
	<u>7,240</u>	<u>7,240</u>	<u>11,283</u>	<u>4,043</u>
Total Non-Operating Revenues				
	<u>7,240</u>	<u>7,240</u>	<u>11,283</u>	<u>4,043</u>
Non-Operating Expenditures:				
ACWD - Interest expense	250	250	-	250
Historical Church - Insurance	250	250	250	-
Historical Church - Utilities	200	200	122	78
Historical Church - Fundraiser expense	-	-	1,303	(1,303)
Historical Church - Administration	240	240	240	-
Historical Church - Repairs/maintenance	6,000	6,000	572	5,428
Park - Supplies and maintenance	400	400	2,837	(2,437)
Park - Solid waste fee	190	190	187	3
	<u>7,530</u>	<u>7,530</u>	<u>5,511</u>	<u>2,019</u>
Total Non-Operating Expenditures				
	<u>7,530</u>	<u>7,530</u>	<u>5,511</u>	<u>2,019</u>
Excess of Non-Operating Revenues Over Non-Operating Expenditures	(290)	(290)	5,772	6,062
Total Excess of Revenues Over Expenditures	860	860	58,848	57,988
Fund Balance, beginning of year	<u>319,932</u>	<u>319,932</u>	<u>319,932</u>	
Fund Balance, end of year	<u>\$ 320,792</u>	<u>\$ 320,792</u>	<u>\$ 378,780</u>	

ALLEGHANY COUNTY WATER DISTRICT
SUPPLEMENTARY INFORMATION
JUNE 30, 2018

ALLEGHANY COUNTY WATER DISTRICT

Operating Expenses

For the Year Ended June 30, 2018

Pumping			
Electricity	\$	2,620	
Water system management		<u>1,101</u>	
Total pumping			\$ 3,721
Treatment			
Testing, chemicles, permits, & fees		2,565	
Water system management		<u>4,857</u>	
Total treatment			7,422
Transmission and distribution			
Repairs and hookups		2,868	
Meter reading		490	
Water system management		<u>518</u>	
Total transmission and distribution			3,876
General and administrative			
Legal and audit		3,000	
Billing and bookkeeping		1,590	
Insurance		4,356	
Postage		259	
Telephone		226	
Office/supplies		<u>980</u>	
Total general and administrative			10,411
Depreciation			<u>16,831</u>
TOTAL OPERATING EXPENSES			<u>\$ 42,261</u>

ALLEGHANY COUNTY WATER DISTRICT
OTHER SUPPLEMENTARY INFORMATION
JUNE 30, 2018

ALLEGHANY COUNTY WATER DISTRICT
ORGANIZATION
JUNE 30, 2018

BOARD OF DIRECTORS

Tobyn Mehrmann	Director/President
Nancy Finney	Director/Vice President
Robbin DeWeese	Director
Coral Spencer	Director
Laurence "Gus" Tenney	Director
Amber Mehrmann	Secretary