

ALLEGHANY COUNTY WATER DISTRICT

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

JUNE 30, 2015

**ALLEGHANY COUNTY WATER DISTRICT
TABLE OF CONTENTS
JUNE 30, 2015**

<u>Page</u>	
1-2	Independent Auditors' Report
3-4	Management's Discussion and Analysis, for the fiscal year ended June 30, 2015
5	Statement of Net Position, June 30, 2015
6	Statement of Revenues, Expenses and Changes in Net Position for the year ended June 30, 2015
7	Statement of Cash Flows, for the year ended June 30, 2015
8-11	Notes to Financial Statements, June 30, 2015
	<u>Required Supplementary Information</u>
12-13	Budgetary comparison schedule, for the fiscal year ended June 30, 2015
	<u>Supplementary Information</u>
14	Operating Expenses, for the year ended June 30, 2015



3005 Douglas Blvd., Ste. 115

Roseville, CA 95661

(916) 774-1040

(916) 774-1177 Fax

INDEPENDENT AUDITORS' 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, 2015, 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 the Alleghany County Water District as of June 30, 2015, 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.

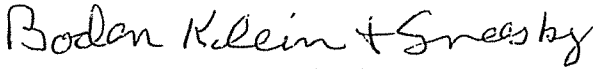
Other Matters

- 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 and 12 & 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
September 1, 2015

**ALLEGHANY COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2015**

Alleghany County Water District (ACWD) was established on March 8, 1939. At that time the population was almost 600 (1940 census count 586). Currently Alleghany has a population of 58 full-time residents and approximately 20 part-time residents. This represents a 90% reduction in the full-time population since 1940. Alleghany is defined as a "severely disadvantaged community" by State and Federal standards (median household income less than 60% of statewide average based on 2010 census).

ACWD has many of the same overhead expenses that a larger district has, but the customer base is much smaller for spreading out those costs. This is perhaps the biggest challenge the district faces. The district currently lacks reserve funds to cover unexpected expenses.

The district 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 in December of 2017. In 1994 the district acquired a HUD grant to upgrade the treatment plant, install additional fire hydrants and improve water circulation by connecting the two main lines. In early 2015 the State Water Resources Control board accepted the district's application for a Planning Grant from the State Revolving Fund. The application was completed in July of 2015. The funding agreement is pending and is expected to have a "green light" by the end of September. For more information see #2 below.

District Management is working diligently to find ways to 1. Increase revenue and 2. Cut costs.

1. Increase Revenue: The main source of regular income for the district's operation is water fees charged to its customers. The other regular source of income is property tax revenue in the amount of approximately \$5,000 per year. The property tax figure is unlikely to change significantly in the foreseeable future. Because of the community's income constraints its ability to tolerate fee increases is limited. The district recently utilized the services of an outside firm (at no cost to the district) to do a rate analysis. The purpose of the rate analysis was to look at restructuring the district's rate structure in such a way that water production costs will be spread out more uniformly among the district's customers and to hopefully increase water sales income at the same time. The district is holding an informal public hearing on Nov. 17, 2015 to discuss the rate study with the community. After that an official "Notice of Public Hearing" will be mailed in compliance with Proposition 218. Based on the Prop 218 time schedule and the district's billing schedule the soonest that new rates could be put in place would be February 1, 2016.

2. Reduce costs: For the fiscal year ended June 30, 2015 expenses totaled \$46,548. The largest expense categories include depreciation \$16,667 (36% of total expenses), Water Treatment operator & system related labor \$5,203 (11%), Administration \$4,800 (10%), System repairs & maintenance (not counting labor) \$4,653 (10%), Utilities \$4,604 (10%) and Insurance \$3,776 (8%).) Other expenses not listed above that are directly related to system operation include: Mileage \$1,122 (2.4% of total costs), Chemicals \$1,067 (2%) and Water tests \$1,642 (3.5%).

Insurance and Utility Expenses are not expected to decrease and will most likely increase in the future. Labor costs are not expected to decrease. Due to the age of the water system it is likely that more labor and materials will be needed for repairs and maintenance

**ALLEGHANY COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2015**

in the immediate future. The district relied heavily on volunteer administrative help in FY 14/15 and continues to do so, but this is not expected to continue into the long-term.

As noted previously, the bulk of the district's infrastructure was built almost 40 years ago. The treatment plant was installed 20 years ago. The treatment plant utilizes proprietary technology and parts. Many of the original parts are beyond their expected lifespan. The amount of time and money needed to maintain the treatment plant has increased as a result, yet the district lacks the funds to upgrade or replace the plant.

The district has applied for a planning grant with the following long-term objectives in mind: 1. Replace the town's water tank which is well beyond its useful life, 2. Develop at least one alternative water source for the town utilizing ground water and 3. Rehabilitate the spring field that currently is the town's sole water source in such a way that it can be reclassified as "ground water" (currently classified as ground water under the influence of surface water). The scope of the current grant application does not include the spring field rehab but it facilitates doing that work in the future by creating an alternative water source that can be used while the rehab work is being done. A new treatment plant *is* included in the scope of the planning grant if water quality standards are not met by the new ground water source.

If the long-term goals listed above are achieved, operating costs should decrease in several expense categories. Changing the town's water source to ground water will significantly reduce state mandated testing requirements (water testing expenses) which will in turn, reduce mileage expenses associated with taking water tests to the lab. Assuming the new ground water source meets water quality standards, no treatment plant will be required nor will chlorination be required. This should reduce costs in the following categories: System repair and maintenance, chemicals and utilities.

Comparison of budgeted versus actual results

Operating revenue came in \$1,693 (6%) higher than what was budgeted. This was primarily due to the fact that the district takes a conservative approach when estimating revenue.

Total operating expenses came in \$16,667 (53%) higher than budgeted primarily due to depreciation expense. The district does not currently have the funds for a capital replacement program and thus does not budget for depreciation expenses. The district does however, budget for debt service (loan payments). In other words: ACWD uses a combination of "cash based" and "accrual based" accounting for budget projections.

Individual expense categories with significant variance between budgeted and actual results include: Meter Reader Contract \$355 (178%) higher than projected due to a water trade for services that was not booked in the past, but that is now being booked to facilitate increased accuracy and transparency. This is offset by \$355 in water fee revenue booked at the same time. Water Treatment Operator contract \$432 (14%) higher than projected also due to a water trade as explained above, Utilities \$404 (10%) higher than projected due to increased utility fees, Water tests \$842 (105%) higher than budgeted due to increased water testing per directive from the State of California. Chemicals \$367 (53%) higher than projected due to increased chlorination requirements from the State.

ALLEGHANY COUNTY WATER DISTRICT

Statement of Net Position

June 30, 2015

ASSETS

Current assets

Cash	\$	17,591
Accounts receivable		<u>975</u>
Total current assets		18,566

Capital assets

Land		101,000
Other capital assets, net of depreciation		<u>150,000</u>
Total capital assets, net of depreciation		<u>251,000</u>

TOTAL ASSETS \$ 269,566

LIABILITIES

Current liabilities

Current portion of long-term debt		6,060
Accounts payable		<u>1,476</u>
Total current liabilities		7,536

Long-term debt

Loans payable, net of current portion		<u>9,334</u>
---------------------------------------	--	--------------

TOTAL LIABILITIES 16,870

NET POSITION

Net Position

Invested in capital assets, net of related debt		235,606
Unrestricted		<u>17,090</u>

TOTAL NET POSITION \$ 252,696

See notes to financial statements.

ALLEGHANY COUNTY WATER DISTRICT
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2015

Operating revenues	
Water sales	\$ 26,681
Other	692
	27,373
Total operating revenues	27,373
Operating expenses	
Pumping	5,392
Treatment	7,830
Transmission and distribution	5,673
General and administrative	10,023
Depreciation	16,667
	45,585
Total operating expenses	45,585
Operating income	(18,212)
Non-operating revenue (expenses)	
Property taxes	4,820
Library	
Rental	1,500
Fundraising/donations	2,512
Library expenses	(1,390)
Fundraising expense	(1,258)
Park	
Fundraising/donations	349
Repairs/maintenance/utilities	(876)
Interest expense	(963)
	4,694
Total non-operating revenue	4,694
CHANGE IN NET POSITION	(13,518)
Beginning net position	266,214
ENDING NET POSITION	\$ 252,696

See notes to financial statements.

ALLEGHANY COUNTY WATER DISTRICT

Statement of Cash Flows

For the Year Ended June 30, 2015

Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (18,212)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	16,667
Changes in operating assets and liabilities:	
(Increase) Decrease in:	
Receivables	703
Prepaid	(8)
Increase (Decrease) in:	
Payables	<u>960</u>
Net cash provided by operating activities	<u>110</u>
Cash flows from noncapital financing activities:	
Property taxes	4,820
Net Library activity	1,364
Net Park activity	(527)
Cash flows from capital and related financing:	
Principal payments - loans	(5,817)
Interest expense	<u>(963)</u>
Net cash used for non-operating activities	<u>(1,123)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,013)
Cash at beginning of year July 1, 2014	<u>18,604</u>
CASH AT END OF YEAR, JUNE 30, 2015	<u>\$ 17,591</u>
Supplementary information	
Cash paid for interest	<u>\$ 963</u>

See notes to financial statements.

ALLEGHANY COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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, 2015

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, 2015:

Cash in bank – checking	\$ 6,132
Cash in bank – checking (library/park)	<u>11,459</u>
	<u>\$ 17,591</u>

All deposits were covered by Federal depository insurance.

ALLEGHANY COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Note 4 Capital Assets

Changes in capital assets consist of:

	<u>Balance, beginning of year</u>	<u>Additions</u>	<u>Disposals</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
Accumulated Depreciation	<u>\$561,877</u>	<u>16,667</u>	<u>-</u>	<u>\$578,544</u>
Capital Assets, net of depreciation	<u>\$267,667</u>	<u>(\$16,667)</u>	<u>\$ -</u>	<u>\$251,000</u>
 Depreciation expense for the year year ended June 30, 2015				 <u>\$ 16,667</u>

Note 5 Net Investment in Capital Assets

	<u>Total</u>
Capital Assets	\$251,000
Less: related debt	<u>(15,394)</u>
Net investment in capital assets:	<u>\$235,606</u>

ALLEGHANY COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Note 6 Long-Term Debt

	<u>Current</u>	<u>Long-Term</u>
<p>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.</p>	\$ <u>6,060</u>	\$ <u>9,334</u>

Loan payments for the year ended June 30,

	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2016	\$ 720	\$ 6,060	\$ 6,780
2017	408	6,372	6,780
2018	<u>91</u>	<u>2,962</u>	<u>3,053</u>
	<u>\$ 1,219</u>	<u>\$ 15,394</u>	<u>\$ 16,613</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 2015 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 1, 2015

ALLEGHANY COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2015

**ALLEGHANY COUNTY WATER DISTRICT
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
Operating Revenues				
Water service fess & county taxes	\$ 30,500	\$ 30,500	\$ 32,193	\$ 1,693
Interest	-	-	-	-
Total Operating Revenues	30,500	30,500	32,193	1,693
Operating Expenditures:				
Insurance	3,853	3,853	3,776	77
Administration	4,800	4,800	4,800	-
Meter reading	200	200	555	(355)
WTO contract	3,000	3,000	3,432	(432)
Labor	1,250	1,250	1,216	34
Utilities	4,200	4,200	4,604	(404)
Water tests	800	800	1,642	(842)
Office supplies	950	950	1,231	(281)
System maintenance & repairs	1,700	1,700	4,653	(2,953)
Permit fees and dues	1,000	1,000	792	208
Mileage	1,000	1,000	1,122	(122)
Chemicals	700	700	1,067	(367)
Miscellaneous/contingency	267	267	28	239
Loan payment - interest	6,780	6,780	963	5,817
Depreciation	-	-	16,667	(16,667)
Total Operating Expenditures	30,500	30,500	46,548	(16,048)
Excess of Operating Expenditures Over Operating Revenues	-	-	(14,355)	(14,355)

**ALLEGHANY COUNTY WATER DISTRICT
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
Non-Operating Revenues				
Library rental	1,500	1,500	1,500	-
Historical church fundraisers	-	-	2,255	2,255
Park fundraisers	-	-	151	151
Donations - Library	-	-	257	257
Donations - Park	-	-	198	198
Total Non-Operating Revenues	1,500	1,500	4,361	2,861
Non-Operating Expenditures:				
Insurance - Historical church	225	225	250	(25)
Utilities - Historical church	150	150	191	(41)
Repairs and maintenance - Library	1,000	1,000	783	217
Church fundraiser expense	-	-	1,370	(1,370)
Bank fees	-	-	28	(28)
Supplies - Library	-	-	26	(26)
Solid waste/taxes - church	125	125	-	125
Park improvements	-	-	227	(227)
Park supplies and maintenance	-	-	324	(324)
Solid Waste Fee - Park	-	-	125	(125)
Event expense - Park	-	-	200	(200)
Total Non-Operating Expenditures	1,500	1,500	3,524	(2,024)
Excess of Non-Operating Revenues Over Non-Operating Expenditures	-	-	837	837
Total Excess of Expenditures Over Revenues	-	-	(13,518)	(13,518)
Fund Balance, beginning of year	266,214	266,214	266,214	
Fund Balance, end of year	\$ 266,214	\$ 266,214	\$ 252,696	

ALLEGHANY COUNTY WATER DISTRICT

SUPPLEMENTARY INFORMATION

JUNE 30, 2015

ALLEGHANY COUNTY WATER DISTRICT

Operating Expenses

For the Year Ended June 30, 2015

Pumping			
Electricity	\$	4,414	
Water system management		978	
Total pumping expenses			\$ 5,392
Treatment			
Testing, chemicles, permits, & fees		3,502	
Water system management		4,328	
Total treatment			7,830
Transmission and distribution			
Repairs and hookups		4,653	
Meter reading		555	
Water system management		465	
Total transmission and distribution			5,673
General and administrative			
Bank charges		28	
Billing and bookkeeping		4,800	
Insurance		3,776	
Postage		411	
Telephone		190	
Office/supplies		818	
Total general and administrative			10,023
Depreciation			16,667
TOTAL OPERATING EXPENSES			\$ 45,585