

ALLEGHANY COUNTY WATER DISTRICT

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

JUNE 30, 2016

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, 2016, 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, 2016, 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 8, 2016

**ALLEGHANY COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2016**

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

In 1940 Alleghany had a population of 586 (US Census). 2010 Census figures show 58 full-time residents. This represents a reduction of approximately 90% in the full-time population. Currently the district has 60 active customer accounts.

Funding the district's ever increasing operating costs with such a small customer base is the district's biggest challenge. The district currently lacks reserve funds for unexpected expenses and long-term equipment replacement costs.

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 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. The \$300,000 funding agreement was finalized on November 23, 2015. Work on this project is in progress.

Building up reserve funds in order to financially stabilize the district's operation is a high priority. Sustainability over the long-term is of paramount importance. The District's Board and Management are working diligently to find ways to **1. Reduce Costs 2. Increase Revenue 3. Prevent lost revenue**. These efforts will improve the long-term viability of the district.

1. Reduce costs

As noted previously, the bulk of the district's infrastructure was built almost 40 years ago. The treatment plant was installed approximately 20 years ago. The amount of time and money needed to maintain the treatment plant keeps increasing. The treatment plant utilizes proprietary technology and parts. Many of the original parts are beyond their expected lifespan. Because the treatment plant utilizes proprietary technology the cost of parts and service are much higher than they would be otherwise.

The current objective of the planning project is to lay the groundwork for replacing the town's water tank and to develop at least one ground water source. If the planning phase is successful and completed through the construction phase, operating expenses are expected to decrease significantly.

2. 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 linked to property values and is unlikely to change significantly in the foreseeable future. Alleghany is a low-income community and its ability to tolerate fee increases is limited. In 2015, the district utilized the services of an outside firm (at no cost) to do a rate analysis. The main purpose of the rate analysis was to find a way to restructure the districts rates in such a way that water

**ALLEGHANY COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2016**

production costs would be more equitably spread among the district's customers and to increase revenue. After two public hearings and multiple revisions, a new rate structure was adopted on May 10, 2016. It went into effect July 1, 2016 (FY16/17).

3. Prevent Lost Revenue

An internal audit of the billing program in July of 2015 found that the billing program was not calculating water use overage fees correctly. The error favored the customer and though not significant added up over time. After several months of working with the software vendor to fix the problem it was determined that the rate structure was not compatible with the software program. The district's new rate structure is compatible with the software program.

A recent analysis of water produced versus sold revealed that on a monthly basis an average of 25% more water is produced than what is sold. It should be noted that according to State sources, 20% is typical; even though the new industry standard has been set at 10%. The cause of this discrepancy is a potential source of lost revenue and/or higher expenses. Several factors can create this discrepancy: use of unmetered water outlets such as fire hydrants, inaccurate meters and/or water leaks. The district borrowed leak detection equipment in 2015 but no leaks were located. The district plans on checking the accuracy of the water meters in the current fiscal-year and will continue to monitor the situation.

Comparison of budgeted versus actual results

Operating revenue came in as budgeted. Grant income came in \$199,443 (80%) lower than projected due to the Planning Project progressing slower than anticipated. Other income came in \$1,461 (471%) higher than projected due to restricted donations collected for an appreciation award.

Total audited operating expenses came in \$13,181 (5%) lower than budgeted primarily due to differences between the audited accounting results and the partially cash-based budget procedure utilized by district management. \$6,018 of the debt service expense of \$6,780 on the budget sheet was applied against the USDA Loan liability account on the audited statements. Additionally, the district does not have the resources for a capital replacement program and thus does not budget for depreciation expense. This amount (\$16,667) was offset by the fact that planning project costs of \$50,548 were included on the budget sheet under "expenses" but the auditor determined that these costs should be capitalized.

Specific operating expense categories with a significantly high (10% or more) variance between budgeted and actual results include: Audit/Legal \$200 (10%) due to unanticipated legal fees associated with proposition 218 requirements, Water System Labor \$1,472 (30%) due to unanticipated system repair needs along with time spent conducting leak detection, Water tests \$1,327 (166%) due to an unanticipated water testing directive from the State of California, Office expense \$506 (50%) due to the carryover of an office supply bill that got lost in the mail from the previous year combined with the fact that the district changed banks and had to purchase new checking supplies, mileage \$236 (23%) related directly to the unanticipated water tests mentioned above as well as trips related to repair needs, miscellaneous/contingency \$1,217 (811%) due to an appreciation award offset by the restricted donations noted under "revenues" above.

**ALLEGHANY COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2016**

Specific operating expense categories with a significantly low (10% or more) variance between budgeted and actual results include: Planning Project Engineering \$248,000 (100%) due to the decision to capitalize these expenses, Administration \$685 (38%) due to donated bookkeeping services, Utilities \$903 (20%) due to water conservation efforts (less water produced), Loan payment debt service \$6,780 (100%) as this amount is a balance sheet change (cash-basis versus accrual accounting) as noted above with the interest portion of these payments in the amount of \$762 moved to "other expenses".

Non-operating revenues came in approximately as projected with the exception of fundraising and donation income which came in 100% higher than projected because it was not counted on during the budget process (conservative approach to revenue projection).

Non-operating expenses came in approximately as projected with the exception of interest expense which was included in the debt service category of "operating expenses" on the budget sheet and Historical Church Repairs & Maintenance which came in \$623 (31%) lower than projected due to less work accomplished on the building in FY 15/16 than was hoped for.

The year-end results show a net gain of \$38,579 primarily due to planning project income of \$50,557 and the corresponding expenditures which were allocated to fixed assets.

ALLEGHANY COUNTY WATER DISTRICT

Statement of Net Position

June 30, 2016

ASSETS

Current assets

Cash	\$	16,764
Accounts receivable		<u>21,416</u>
Total current assets		38,180

Capital assets

Land		101,000
Other capital assets, net of depreciation		<u>183,881</u>
Total capital assets, net of depreciation		<u>284,881</u>

TOTAL ASSETS

\$ 323,061

LIABILITIES

Current liabilities

Current portion of long-term debt		6,370
Deferred revenues		941
Accounts payable		<u>21,469</u>
Total current liabilities		28,780

Long-term debt

Loans payable, net of current portion		<u>3,006</u>
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TOTAL LIABILITIES

31,786

NET POSITION

Net Position

Invested in capital assets, net of related debt		275,505
Unrestricted		<u>15,770</u>

TOTAL NET POSITION

\$ 291,275

See notes to financial statements.

ALLEGHANY COUNTY WATER DISTRICT
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2016

Operating revenues	
Water sales	\$ 27,187
Grant income	50,557
Other	1,771
	<hr/>
Total operating revenues	79,515
	<hr/>
Operating expenses	
Pumping	4,491
Treatment	9,498
Transmission and distribution	4,387
General and administrative	10,697
Depreciation	16,667
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Total operating expenses	45,740
	<hr/>
Operating income	33,775
	<hr/>
Non-operating revenue (expenses)	
Property taxes	4,682
Miscellaneous income	120
Historical Church	
Rental	1,500
Fundraising/donations	1,482
Historical Church expenses	(1,818)
Fundraising expense	(512)
Park	
Fundraising/donations	283
Repairs/maintenance/utilities	(171)
Interest expense	(762)
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Total non-operating revenue	4,804
	<hr/>
CHANGE IN NET POSITION	38,579
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Beginning net position	252,696
	<hr/>
ENDING NET POSITION	\$ 291,275
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See notes to financial statements.

ALLEGHANY COUNTY WATER DISTRICT

Statement of Cash Flows
For the Year Ended June 30, 2016

Reconciliation of operating income to net cash used for operating activities:	
Operating income	\$ 33,775
Adjustments to reconcile operating income to net cash used for operating activities:	
Depreciation	16,667
Changes in operating assets and liabilities:	
(Increase) Decrease in:	
Receivables	(20,441)
Increase (Decrease) in:	
Deferred revenues	941
Payables	19,993
Net cash provided by operating activities	<u>50,935</u>
Cash flows from noncapital financing activities:	
Property taxes	4,682
Net Historical Church activity	772
Net Park activity	112
Cash flows from capital and related financing:	
Construction in Progress	(50,548)
Principal payments - loans	(6,018)
Interest expense	<u>(762)</u>
Net cash used for non-operating activities	<u>(51,762)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(827)
Cash at beginning of year July 1, 2015	<u>17,591</u>
CASH AT END OF YEAR, JUNE 30, 2016	<u>\$ 16,764</u>
Supplementary information	
Cash paid for interest	<u>\$ 762</u>

See notes to financial statements.

ALLEGHANY COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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, 2016

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, 2016:

Petty cash	\$ 150
Cash in bank – checking	5,185
Cash in bank – checking (library/park)	<u>11,429</u>
	<u>\$ 16,764</u>

All deposits, except petty cash, were covered by Federal depository insurance.

ALLEGHANY COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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
Construction in Progress	-	50,548	-	50,548
Accumulated Depreciation	<u>(578,544)</u>	<u>(16,667)</u>	<u>-</u>	<u>(595,211)</u>
Capital Assets, net of depreciation	<u>\$251,000</u>	<u>\$ 33,881</u>	<u>\$ -</u>	<u>\$284,881</u>
Depreciation expense for the year year ended June 30, 2016				<u>\$ 16,667</u>

Note 5 Net Investment in Capital Assets

	<u>Total</u>
Capital Assets	\$284,881
Less: related debt	<u>(9,376)</u>
Net investment in capital assets:	<u>\$275,505</u>

ALLEGHANY COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Note 6 Long-Term Debt

	<u>Current</u>	<u>Long-Term</u>
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.	<u>\$ 6,370</u>	<u>\$ 3,006</u>

Loan payments for the year ended June 30,

	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2017	\$ 410	\$ 6,370	\$ 6,780
2018	<u>76</u>	<u>3,006</u>	<u>3,082</u>
	<u>\$ 486</u>	<u>\$ 9,376</u>	<u>\$ 9,862</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 2016 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 8, 2016.

ALLEGHANY COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2016

ALLEGHANY COUNTY WATER DISTRICT
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
Operating Revenues				
Water service fees	\$ 27,200	\$ 27,200	\$ 27,187	\$ (13)
Grant income	250,000	250,000	50,557	(199,443)
Other	310	310	1,771	1,461
Total Operating Revenues	277,510	277,510	79,515	(197,995)
Operating Expenditures:				
Planning project engineering	248,000.00	248,000.00	-	248,000
Insurance	4,629	4,629	4,379	250
Audit/Legal	2,000	2,000	2,200	(200)
Administration	1,800	1,800	1,115	685
Water system labor	4,864	4,864	6,336	(1,472)
Utilities	4,392	4,392	3,489	903
Water tests	800	800	2,127	(1,327)
Office expense	1,000	1,000	1,506	(506)
System maintenance/repairs	3,200	3,200	3,365	(165)
Permit fees and dues	910	910	965	(55)
Mileage	1,034	1,034	1,270	(236)
Chemicals	1,000	1,000	954	46
Miscellaneous/contingency	150	150	1,367	(1,217)
Loan payment - debt service	6,780	6,780	-	6,780
Depreciation	-	-	16,667	(16,667)
Total Operating Expenditures	280,559	280,559	45,740	(13,181)
Excess of Operating Revenues/(Expenditures)				
Over Operating Expenditures/(Revenues)	(3,049)	(3,049)	33,775	36,824
Non-Operating Revenues				
ACWD - Property taxes	5,000	5,000	4,682	(318)
ACWD - Historical Church administration	120	120	120	-
Historical Church - Rental	1,500	1,500	1,500	-
Historical Church - Fundraisers	-	-	1,482	1,482
Park - Fundraisers	-	-	30	30
Park - Donations	-	-	253	253
Total Non-Operating Revenues	6,620	6,620	8,067	1,447

**ALLEGHANY COUNTY WATER DISTRICT
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Non-Operating Expenditures:				
ACWD - Interest expense	-	-	762	(762)
Historical Church - Insurance	250	250	250	-
Historical Church - Utilities	200	200	71	129
Historical Church - Fundraiser expense	-	-	512	(512)
Historical Church - Administration	120	120	120	-
Historical Church - Repairs/maintenance	2,000	2,000	1,377	623
Park - Supplies and maintenance	-	-	17	(17)
Park - Solid waste fee	154	154	154	-
Total Non-Operating Expenditures	<u>2,724</u>	<u>2,724</u>	<u>3,263</u>	<u>223</u>
Excess of Non-Operating Revenues Over Non-Operating Expenditures	3,896	3,896	4,804	908
Total Excess of Revenues Over Expenditures	847	847	38,579	37,732
Fund Balance, beginning of year	<u>252,696</u>	<u>252,696</u>	<u>252,696</u>	
Fund Balance, end of year	<u>\$ 253,543</u>	<u>\$ 253,543</u>	<u>\$ 291,275</u>	

ALLEGHANY COUNTY WATER DISTRICT

SUPPLEMENTARY INFORMATION

JUNE 30, 2016

ALLEGHANY COUNTY WATER DISTRICT

Operating Expenses
For the Year Ended June 30, 2016

Pumping		
Electricity	\$ 3,288	
Water system management	<u>1,203</u>	
Total pumping expenses		\$ 4,491
Treatment		
Testing, chemicles, permits, & fees	4,118	
Water system management	<u>5,380</u>	
Total treatment		9,498
Transmission and distribution		
Repairs and hookups	3,365	
Meter reading	432	
Water system management	<u>590</u>	
Total transmission and distribution		4,387
General and administrative		
Bank charges	10	
Legal and audit	2,200	
Billing and bookkeeping	1,115	
Insurance	4,379	
Postage	422	
Telephone	201	
Office/supplies	<u>2,370</u>	
Total general and administrative		10,697
Depreciation		<u>16,667</u>
TOTAL OPERATING EXPENSES		<u>\$ 45,740</u>