

**BURNEY WATER DISTRICT  
AUDIT REPORT  
JUNE 30, 2016**

**BURNEY WATER DISTRICT  
AUDIT REPORT  
JUNE 30, 2016**

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# **FINANCIAL SECTION**

## Independent Auditors' Report

Board of Directors  
Burney Water District  
Burney , CA

We have audited the accompanying financial statements of the business-type activities and each major fund of the Burney Water District (District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of Burney Water District as of June 30, 2016, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Proportionate Share of Net Pension Liability, and Schedule of District's contributions, identified in the table of contents be presented to supplement the basic financial statements. Such information, although not a basic part of the 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 District's basic financial statements. The Water, Sewer, and Pool Fund – Budgetary Comparison Schedule and Statement of Revenues and Expenses by Activity are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The Water, Sewer, and Pool Fund – Budgetary Comparison Schedule and Statement of Revenues and Expenses by Activity are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the Water, Sewer, and Pool Fund – Budgetary Comparison Schedule and Statement of Revenues and Expenses by Activity are fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Respectfully Submitted,



**SingletonAuman PC**  
**Susanville, CA**  
October 28, 2016

**BURNEY WATER DISTRICT**  
**Management's Discussion and Analysis (MD&A)**  
**June 30, 2016**

**INTRODUCTION**

Our discussion and analysis of Burney Water District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2016. It should be read in conjunction with the District's financial statements (including notes and supplementary information), which follow this section.

**FINANCIAL HIGHLIGHTS**

- ❑ Total net position was \$4,650,677 at June 30, 2016. This was a decrease of \$285,772 compared to the prior year.
- ❑ Overall revenues were \$1,536,733, which were less than expenses of \$1,822,505 by \$285,772. The total cost of the District's programs increased by \$172,035 over last year. This was due, primarily, to continuing work on the sludge disposal project, increased depreciation on new assets and increased engineering fees for the new sewer treatment plant.
- ❑ Long-Term liabilities increased by \$287,229 due to increase in pension liabilities and a new loan with Kansas State Bank to finance the purchase of three service trucks.

**OVERVIEW OF FINANCIAL STATEMENTS**

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The three sections together provide a comprehensive overview of the District. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives:

- ❑ **Government-wide financial statements**, which comprise the first two statements, provide both short-term and long-term information about the entity's overall financial position.
- ❑ **Fund financial statements** focus on reporting the individual parts of the District operations in more detail. The fund financial statements comprise the remaining statements.
  - **Proprietary funds** statements provide information about the short and long-term financial information of the district that operate like businesses.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The basic financial statements are followed by a section of required supplementary information that further explains and supports the financial statements. A comparison of the district's budget for the year is included.

**Government-Wide Statements**

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of

the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's net position and how it has changed. Net position, the difference between the assets and liabilities, is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, one needs to consider additional nonfinancial factors such as changes in connections, changes in the property tax base, changes in program funding by the Federal and State governments, and condition of facilities.

The government-wide financial statements of the District are business-type activities. Most of the District's basic services are included here, such as water, sewer and pool services. User fees finance most of these activities.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the District's most significant funds-not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular programs. Some funds are required to be established by state law and by bond covenants. The Board of Directors establishes other funds to control and manage money for particular purposes or to show that the District is meeting legal responsibilities for using certain revenues. The District has one kind of fund:

Proprietary Funds – Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the district-wide financial statements.

## **FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE**

### **Net Position**

The District's combined net position was \$4,650,677 at June 30, 2016. See Table 1.

Many factors contributed to the change in net position. However, certain events of the last year stand out beyond the others:

- Cash decreased due to the purchase of new assets.
- Long-Term Liabilities increased by \$287,229 due to increase in pension liabilities and a new loan with Kansas State Bank to finance purchase of three service trucks.



**Table 1:  
Net Position**

	Governmental Activities		Total %
	2016	2015	Change 2015-2016
<b>Assets</b>			
Cash on hand and in County Treasury	\$ 647,668	\$ 812,050	-20.24%
Accounts Receivable	144,951	160,578	-9.73%
Property, Plant & Equipment, Net	4,679,768	4,608,322	1.55%
<b>TOTAL ASSETS</b>	<b>\$ 5,472,387</b>	<b>\$ 5,580,950</b>	
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Recognition of Contributions to Pension Plan	\$ 68,048	\$ 53,870	
<b>Liabilities</b>			
Accounts Payable	\$ 33,267	\$ 57,122	-41.76%
Unearned Revenue	-	2,661	-100.00%
Utility Deposits	25,257	27,785	-9.10%
Accrued Payroll and Related Liabilities	33,811	41,437	-18.40%
Note Payable	165,505	-	100.00%
Net Pension Liability	574,827	413,495	39.02%
<b>TOTAL LIABILITIES</b>	<b>\$ 832,667</b>	<b>\$ 542,500</b>	
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred Recognition of Pension Plan Earnings	\$ 57,091	\$ 155,871.00	
<b>Net Position</b>			
Net Investment in Capital Assets Unrestricted	\$ 4,514,263 136,414	\$ 4,608,322 328,127	-2.04% -58.43%
<b>TOTAL NET POSITION</b>	<b>\$ 4,650,677</b>	<b>\$ 4,936,449</b>	

**Changes in Net Position**

The District's total revenues were \$1,536,733. A majority of the revenue comes from charges for services (99.7%). Interest Income accounted for another .2% of total revenues. Utility Revenues increased from the prior year and the District received a pool improvements grant of \$2,661.

The total cost of all programs and services was \$1,822,505. The District's expenses are predominately related to water and sewer services 92.0%. Pool services accounted for 8.0% of total costs.

**Table 2:  
Changes in Net Position**

	Governmental Activities		Total % Change
	2016	2015	2015-2016
Operating Revenues:			
Utility Revenue	\$ 1,412,325	\$ 1,235,135	14.35%
Pool Fees	119,339	124,361	-4.04%
Total Operating Revenue	<u>1,531,664</u>	<u>1,359,496</u>	
Operating Expenses:			
Salaries and Benefits	660,720	575,707	14.77%
Insurance	35,756	30,019	19.11%
Professional Services	154,633	117,455	31.65%
Utilities	276,464	247,271	11.81%
Vehicles and Equipment	16,244	17,515	-7.26%
Permits and Fees	21,864	37,007	-40.92%
Depreciation	240,568	223,802	7.49%
Rent	25,972	38,178	-31.97%
Repairs and Maintenance	256,658	255,402	0.49%
Office	29,955	28,852	3.82%
Bad Debts	24,607	-	100.00%
Other Operating Expenses	71,934	79,262	-9.25%
Total Operating Expenses	<u>1,815,375</u>	<u>1,650,470</u>	
Non-Operating Revenues (Expenses):			
Interest Income	2,408	2,002	20.28%
Interest expense	(7,130)	-	100.00%
Grants	2,661	11,997	-77.82%
Total Non-Operating Revenues (Expenses)	<u>(2,061)</u>	<u>13,999</u>	
DECREASE IN NET POSITION	<u>\$ (285,772)</u>	<u>\$ (276,975)</u>	

**Governmental Activities**

Table 3 presents the cost of each of the District's functions as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by charges for services and capital grants and contributions.

The cost of all proprietary fund activities this year was \$1,822,505.

Most of the costs (Charges for Services, \$1,531,664) were paid from people who directly benefited from the programs.

**Table 3**  
**Net Cost of Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2016	2015	2016	2015
Water	\$ 790,582	\$ 757,293	\$ (65,141)	\$ (73,378)
Sewer	885,002	742,114	(198,118)	(190,894)
Pool	146,921	151,063	(24,921)	(14,705)
<b>TOTAL</b>	<b>\$ 1,822,505</b>	<b>\$ 1,650,470</b>	<b>\$ (288,180)</b>	<b>\$ (278,977)</b>

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

The overall financial performance of the District as a whole is reflected in its proprietary funds as well. As the District completed the year, its proprietary funds reported a combined net position balance of \$4,650,677 which is below last year's ending fund balance of \$4,936,449.

**General Fund Budgetary Highlights**

The District did not revise its annual budget during the year. A schedule of the District's original and final budget amounts compared with actual revenues and expenses is provided in the supplemental section of the audited financial report.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At June 30, 2016 the District had invested \$4,679,768 in a broad range of capital assets, including land, buildings and improvements, equipment and vehicles. See Table 4. More detailed information about the District's capital assets is presented in the notes to the financial statements.

**Table 4**  
**Capital Assets**

During the fiscal year the district completed building improvements, purchased three service trucks, and purchased equipment for the sewer operation.

	Governmental Activities		Total %
	2016	2015	Change 2015-2016
Land	\$ 400,067	\$ 400,067	0.00%
Buildings	2,645,399	2,594,983	1.94%
Machinery and Equipment	7,628,400	7,368,386	3.53%
Totals at Historical Cost	10,673,866	10,363,436	3.00%
Total Accumulated Depreciation	(5,994,098)	(5,755,115)	4.15%
<b>NET CAPITAL ASSETS</b>	<b>\$ 4,679,768</b>	<b>\$ 4,608,321</b>	<b>1.55%</b>

The District has not budgeted for capital assets for 2016-2017.

**Table 5**  
**Long-Term Debt**

	6/30/2015	Additions	Repayments	6/30/2016
Note Payable - Kansas State Bank	\$ -	\$ 174,230	\$ 8,725	\$ 165,505

**Net Pension Liability**

As of June 30, 2015, the District reported net pension liabilities for the first time. During 2015-16 this pension liability increased \$154,102 due to more accurate measurements and ongoing implementation of GASB 68.

**ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES**

At the time these financial statements were prepared and audited, the District was aware of several circumstances that could affect its future financial health:

- The District will attempt to control expenses and make adjustments to water and sewer rate structures in an effort to end historic net financial losses due to leaving depreciation costs unfunded.
- The continuing cost increases in materials, contracts, labor, energy and other benefits could have a significant effect on the future financial health of the District.
- The outcome of labor negotiations with the Burney Classified Employees Association could have a significant effect on the future financial health of the District.
- Fees charged by the District for delinquent payments, service shut-offs, account transfers and other administrative functions will need to be increased to cover costs associated with these activities and to help improve timely collection of District revenue.
- Emergency repairs and replacement of aging infrastructure could have a significant effect on the future financial health of the District.
- The inevitable increases in pension contributions which will be needed to pay the unfunded Net Pension Liability will require careful planning and budgeting.

**CONTACTING THE DISTRICT’S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, parents, participants, investors and creditors with a general overview of the District’s finances and to demonstrate the District’s accountability for the money it receives. If you have questions about this report, or need additional financial information, contact:

Willie Rodriguez, General Manager  
Burney Water District  
20222 Hudson Street  
Burney, CA 96013  
530-335-3582

**BURNEY WATER DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2016**

	Business-Type Activities
	Water, Sewer & Pool Fund
<b>ASSETS</b>	
Current Assets:	
Cash on Hand and in County Treasury	\$ 647,668
Accounts Receivable	144,951
Total Current Assets	792,619
Property, Plant & Equipment, Net (Note 4):	4,679,768
<b>Total Assets</b>	<b>\$ 5,472,387</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred Outflows of Resources - Pension Plan	\$ 68,048
<b>LIABILITIES</b>	
Current Liabilities	
Accounts Payable	\$ 33,267
Utility Deposits	25,257
Accrued Payroll and Related Liabilities	33,811
Current Portion of Note Payable	32,918
Total Current Liabilities	125,253
Long-Term Liabilities	
Note payable- Kansas State Bank	132,587
Net Pension Liability	574,827
Total Long-Term Liabilities	707,414
<b>Total Liabilities</b>	<b>\$ 832,667</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred Inflows of Recourses - Pension Plan	\$ 57,091
<b>NET POSITION</b>	
Net Investment in Capital Assets	\$ 4,514,263
Unrestricted	136,414
<b>Total Net Position</b>	<b>\$ 4,650,677</b>

The accompanying notes are an integral part of this statement.

**BURNEY WATER DISTRICT  
STATEMENT OF ACTIVITIES  
JUNE 30, 2016**

		Program Revenue			
	Expenses	Charges For Services	Capital Grants		Net (Expense) Revenue and Changes in Net Position
<b><u>Business-Type Activities</u></b>					
Water	\$ 790,582	\$ 725,441	\$ -	\$	(65,141)
Sewer	885,002	686,884	-		(198,118)
Pool	146,921	119,339	2,661		(24,921)
Total Business-Type Activities	\$ 1,822,505	\$ 1,531,664	\$ 2,661		(288,180)
<b>General Revenues:</b>					
Interest Earnings					2,408
Total General Revenue					2,408
Change in Net Position					(285,772)
Net Position Beginning					4,936,449
Net Position Ending				\$	4,650,677

The accompanying notes are an integral part of this statement.

**BURNEY WATER DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	Water, Sewer & Pool Fund
Operating Revenues:	
Utility Revenue	\$ 1,412,325
Pool Fees	119,339
Total Operating Revenue	1,531,664
Operating Expenses:	
Salaries and Benefits	660,720
Insurance	35,756
Legal, Accounting and Professional Services	154,633
Utilities	276,464
Vehicles and Equipment	16,244
Permits and Fees	21,864
Depreciation	240,568
Rent	25,972
Repairs and Maintenance	256,658
Office	29,955
Bad Debts	24,607
Other Operating Expenses	71,934
Total Operating Expenses	1,815,375
Net Operating Income (Loss)	(283,711)
Non-Operating Revenues (Expenses):	
Interest Income	2,408
Interest Expense	(7,130)
Grant Revenue	2,661
Total Non-Operating Revenues (Expenses)	(2,061)
Change in Net Position	(285,772)
Net Position Beginning	4,936,449
Net Position Ending	\$ 4,650,677

The accompanying notes are an integral part of this statement.

**BURNEY WATER DISTRICT  
STATEMENT OF CASH FLOWS-PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2016**

	Business-Type Activities
	Water, Sewer & Pool Fund
Cash Flows from Operating Activities:	
Cash Received From Customers	\$ 1,547,291
Cash Payments to Employees	(619,972)
Cash Payments to Suppliers for Goods and Services	(947,600)
Net Cash Used by Operating Activities	(20,281)
Cash Flows from Capital and Related Financing Activities:	
Financing received from Kansas Sate Bank	174,230
Payments on Long-Term debt	(8,725)
Purchases of Property and Equipment	(319,215)
Dispositions of Property and Equipment	7,201
Net Cash Used by Capital Financing Activities	(146,509)
Cash Flows from Investing Activities:	
Interest Received	2,408
Net Cash Provided by Investing Activities	2,408
Net Increase (Decrease) in Cash and Cash Equivalents	(164,382)
Cash and Cash Equivalents:	
Balance - July 1	812,050
<b>Balance - June 30</b>	<b>\$ 647,668</b>
Reconciliation:	
Operating Income (Loss)	\$ (290,841)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:	
Depreciation	240,568
(Increase)/Decrease in Accounts Receivable	15,627
Increase/(Decrease) in Accounts Payable	(23,855)
Increase (Decrease) in Pension Liability	154,642
(Increase) Decrease in Deferred Outflows	(10,957)
Increase (Decrease) in Deferred Inflows	(95,311)
Increase/(Decrease) in Utility Deposits	(2,528)
Increase/(Decrease) in Payroll Liabilities	(7,626)
Net Cash Provided by Operating Activities	\$ (20,281)

The accompanying notes are an integral part of this statement.



**Burney Water District**  
**Notes to the Financial Statements**  
**June 30, 2016**

**Note 1 - Summary of Significant Accounting Policies**

Burney Water District (District) accounts for its financial transactions in accordance with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

Burney Water District provides water, sewer and recreational services within the boundaries of the District

1. Reporting Entity

The District's combined financial statements include the accounts of all its operations. The District evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the District's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," include whether:

- The organization is legally separate (can sue and be sued in its name)
- The District holds the corporate powers of the organization
- The District appoints a voting majority of the organization's board
- The District is able to impose its will on the organization
- The organization has the potential to impose a financial benefit/burden on the District
- There is fiscal dependency by the organization on the District

The District also evaluated each legally separate, tax-exempt organization whose resources are used principally to provide support to the District to determine if its omission from the reporting entity would result in financial statements which are misleading or incomplete. GASB Statement No. 14 requires an inclusion of such an organization as a component unit when: 1) The economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the District, its component units or its constituents; and 2) The District or its component units is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization; and 3) Such economic resources are significant to the District.

Based on these criteria, the District has no component units. Additionally, the District is not a component unit of any other reporting entity as defined by the GASB Statement.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Business-type activities generally are financed through fees charged to external parties.

**Burney Water District**  
**Notes to the Financial Statements**  
**June 30, 2016**

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**Fund Financial Statements:** The fund financial statements provide information about the District's funds. Due to the lack of complete financial records for each business-type activity, the Enterprise funds are aggregated and reported as one major fund.

The District reports the following major Enterprise fund:

**Water, Sewer, and Pool Fund.** This is the District's primary operating fund. It accounts for water, sewer and pool activities of the district.

**b. Measurement Focus, Basis of Accounting**

**Government-wide Financial Statements:** These financial statements are reported using the economic resources measurement focus. They are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include county assessments, grants, entitlements, and donations. Revenue from county assessments is recognized in the fiscal year for which the taxes are received. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

**Proprietary Fund Financial Statements:** Enterprise funds are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recognized when earned. Expenditures are recorded when the related fund liability is incurred.

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources.

Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Fund and Other Governmental Entities That Use Proprietary Fund Accounting," all proprietary funds will continue to follow Financial Accounting Standards Board ("FASB") standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either 1) choosing not to apply future FASB standards (including

**Burney Water District**  
**Notes to the Financial Statements**  
**June 30, 2016**

amendments of earlier pronouncements), or 2) continuing to follow new FASB pronouncements unless they conflict with GASB guidance. The District has chosen not to apply future FASB standards.

3. Assets, Liabilities, and Equity

a. Deposits and Investments

The District maintains some of its cash in the County Treasury. Funds are pooled with those of other agencies and invested. These pooled funds are carried at cost, which closely approximates fair market value as determined by the pooled fund manager. Therefore, no adjustment has been made to reflect the current market value in the financial statements. Assumptions made in determining the fair value of the pooled investment portfolios are available from the Shasta County Treasurer. Interest earned is deposited into participating funds. Any investment losses are proportionately shared by all funds in the pool.

Cash balances held in banks and in revolving funds are insured to \$250,000 by the Federal Depository Insurance Corporation. All cash held by the financial institutions is fully insured or collateralized.

The District is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et seq. The funds maintained by the District are secured by federal depository insurance or are collateralized.

b. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. The District uses a \$10,000 capitalization threshold for infrastructure replacement and \$5,000 for equipment.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings and Improvements	20-50
Office Equipment	5-7
Vehicles and Machinery	5-10

**Burney Water District**  
**Notes to the Financial Statements**  
**June 30, 2016**

c. Receivable and Payable Balances

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year end.

The District uses the direct write off method for recording bad debts. This method is not in accordance with GAAP. The difference is considered immaterial.

d. Deferred Inflows and Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses/expenditures) until then. Currently, the District has only one item that qualifies for reporting in this category, deferred amounts from District pension contributions.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has only one type of item that qualifies for reporting in this category, deferred recognition of pension plan earnings.

e. Inventory

Inventories are expensed in the year of purchase. Although this practice is not in accordance with generally accepted accounting principles, the departure is not considered material.

f. Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as liabilities of the District and are accrued when earned by the employee. Accumulated employee sick leave benefits are recognized at a rate of 50% of the number of hours over 240.

g. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of management's estimates. Actual results could differ from those estimates.

h. Budgetary Accounting

**Burney Water District**  
**Notes to the Financial Statements**  
**June 30, 2016**

The District prepares budgets on the accrual basis of accounting.

i. Net Position

Net Position is the excess of all the Agency's assets over all its liabilities. Net position is divided into three categories under GASB Statement No. 34. These categories apply only to net position, which are described below:

*Net Investment in Capital Assets* describes the portion of net position that is represented by the current net book value of the Agency's capital assets, less the outstanding balance of any debt issued to finance these assets.

*Restricted Net Position* describes the portion of net position that are legally restricted for certain purposes.

*Unrestricted* describes the portion of net position that is not restricted to use or invested in capital assets.

**Note 2 - Compliance and Accountability**

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None reported	Not Applicable

2. Deficit Fund Balance or Fund Net Assets of Individual Funds

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None reported	Not Applicable	Not Applicable

**Burney Water District**  
**Notes to the Financial Statements**  
**June 30, 2016**

**Note 3 - Excess of Expenditures Over Appropriations**

As of June 30, 2016, expenditures exceeded appropriations as follows:

Salaries and Benefits	\$ <u>83,720</u>
Insurance	\$ <u>2,356</u>
Legal, Accounting and Professional Services	\$ <u>72,533</u>
Utilities	\$ <u>8,964</u>
Rent	\$ <u>13,472</u>
Depreciation	\$ <u>29,168</u>
Bad Debts	\$ <u>2,607</u>
Rent	\$ <u>13,472</u>
Repairs and Maintenance	\$ <u>83,258</u>
Interest expense	\$ <u>7,130</u>

**Water, Sewer, and Pool Fund:**

Salaries and Benefits - The District incurred additional expenses for retirement benefits, wages and salaries.

Insurance – Liability insurance rates exceeded budgeted amounts slightly.

Legal, Accounting and Professional Services - Engineering fees exceeded budget for upcoming projects.

Utilities – Sewer operations pumping costs exceeded budget.

Depreciation – Depreciation expense on newly acquired vehicles was not budgeted for.

Bad Debts – Write-off of bad debts slightly exceeded budget.

**Burney Water District**  
**Notes to the Financial Statements**  
**June 30, 2016**

Rent – Unbudgeted equipment rental for sludge disposal project.

Repairs and Maintenance – The District incurred unbudgeted costs for the sludge disposal project.

Interest Expense - Interest on the new financing with Kansas State Bank was not budgeted for.

**Note 4 - Fixed Assets**

Changes in fixed assets are summarized as follows:

	<u>6/30/2015</u>	<u>Additions</u>	<u>Disposals</u>	<u>6/30/2016</u>
Land	\$ 400,067	\$ -	\$ -	\$ 400,067
Pumping Plant	228,101			228,101
Sewer Collection System	1,710,477			1,710,477
Sewer Treatment Plant	2,254,997		(1,585)	2,253,412
Transmission and Distribution	4,029,371			4,029,371
Buildings	140,855	52,000		192,855
Office Furniture and Equipment	29,429			29,429
Automobiles	99,880	177,786		277,666
Tools and Equipment	246,350	80,330		326,680
Swimming Pool & Equipment	1,170,237	7,201		1,177,438
Solar Equipment	48,371			48,371
Work in Progress	5,303	1,898	(7,201)	-
<b>Total</b>	<u>10,363,437</u>	<u>319,215</u>	<u>(8,786)</u>	<u>10,673,866</u>
Accumulated Depreciation	<u>(5,755,115)</u>	<u>(240,568)</u>	1,585	<u>(5,994,098)</u>
<b>Net Fixed Assets</b>	<u>\$ 4,608,322</u>	<u>\$ 78,647</u>	<u>\$ (7,201)</u>	<u>\$ 4,679,768</u>

Depreciation was charged to functions as follows:

**Business-Type Activities:**

Water	\$ 102,261
Sewer	103,768
Pool	34,539
<b>Total</b>	<u>\$ 240,568</u>

**Burney Water District**  
**Notes to the Financial Statements**  
**June 30, 2016**

**Note 5- Long-Term Debt**

On February 19, 2016 the District entered into a contract with Kansas State Bank to finance the purchase of three service trucks. The original balance of the note was \$174,230 with interest at 3.5% to be paid off over 60 monthly payments of \$3172.

A schedule of changes in long-term debt as of June 30, 2016 is as follows:

	<u>6/30/2015</u>	<u>Additions</u>	<u>Repayments</u>	<u>6/30/2016</u>
Note Payable - Kansas Sate Bank	-	\$ 174,230	\$ 8,725	\$ 165,505
Total		<u>\$ 174,230</u>	<u>\$ 8,725</u>	165,505
Due within One Year				<u>(32,918)</u>
Long-term portion				<u><u>132,587</u></u>

A schedule of future debt service payments on long-term debt is as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 34,658	\$ 3,397	\$ 38,055
2018	35,452	2,603	38,055
2019	36,266	1,789	38,055
2020	37,097	958	38,055
2021	22,032	167	22,199
	<u>\$ 165,505</u>	<u>\$ 8,914</u>	<u>\$ 174,419</u>

**Note 5- Commitments and Contingencies**

Litigation

The District is not currently involved in litigation. In the opinion of management and legal counsel, the disposition of any litigation pending will not have a material effect on the financial statements.

**Note 6- Risk Management and Litigation**

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and customers; and natural disasters. The District has managed these risks by obtaining coverage from commercial insurance companies and self insurance joint powers authorities as well as providing employee education and prevention programs. All risk management activities are accounted for in the Water, Sewer, and Pool Fund. Expenditures and claims are recognized when it is probable that



**Burney Water District**  
**Notes to the Financial Statements**  
**June 30, 2016**

a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported are considered.

The District estimates that the amount of actual or potential claims against the District as of June 30, 2016 will not materially affect the financial condition of the District. Therefore, the Water, Sewer, and Pool Fund contains no provision for estimated claims. Information relating to an analysis of claims activities for the year was not available.

**Note 7 – Pension Plan**

Plan Description

The District, as the employer, participates in the cost-sharing, multiple-employer defined benefit pension plan administered by the California Public employees' Retirement System (CalPERS). The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members, and beneficiaries. A full description of the pension plan benefit provisions, and assumptions for funding purposes can be obtained in Appendix B of the June 30, 2013 CalPERS actuarial evaluation report available at <https://www.calpers.ca.gov/page/forms-publications>.

Contributions

The contribution requirements of the Plan are established by Section 20814(c) of the California Public Employees' Retirement Law, which requires that employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. For the measurement period ended June 30, 2016 the active employee contribution rate was 6.25% (PEPRA) and 8%(Misc) of annual pay, and the Districts contribution rate was 6.555%(PEPRA) and 11.995% (Misc). Contributions to the pension plan from the District were \$33,436 for the year ended June 30, 2016.

Pension Liabilities, Pension Expense, and Deferred Outflows and Inflows of Resources Related to Pensions

At June 30, 2016, the District reported a net pension liability of \$574,827 for its proportionate share of the total net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015. The District's proportion of the net pension liability was based on the District's contributions received by the pension plan relative to the total contributions received by the pension plan for all participating employers as of June 30, 2015. Based upon this information, the District's proportion was .020923%.

For the year ended June 30, 2016, the District recognized pension expense of \$48,374. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**Burney Water District**  
**Notes to the Financial Statements**  
**June 30, 2016**

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and Actual Experience	\$ 3,453	\$ -
Changes of Assumption	-	(32,664)
Net Difference between Projected and Actual Earnings on Pension Plan Investments	-	(16,375)
Differenece between actual and proportionate share of contributions	17,764	
Adjustment due to Differences in Proportions	4,464	(8,053)
District Contributions Subsequent to the Measurement Date	42,367	-
Total	<u>\$ 68,048</u>	<u>\$ (57,092)</u>

\$42,367 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2015. Any other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2016	\$ 26,024
2017	(17,162)
2018	(18,837)
2019	20,931
Total	<u>\$ 10,956</u>

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2015, using the following actuarial assumptions, applied to all prior periods included in the measurement:

Discount Rate:	7.65%
Inflation:	2.75%

**Burney Water District**  
**Notes to the Financial Statements**  
**June 30, 2016**

Salary Increases:	Varies by Entry Age and Service Investment Rate of Return: 7.50% net of Pension Plan Investment and Administrative Expenses
Mortality Rate Table: Post Retirement Benefit Increase	Derived using CalPERS Membership Data for all Funds  Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The table below reflects long-term expected real rates of return by asset class. The rate of return was calculated using the capital marked assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1-10 <sup>1</sup>	Real Return years 11 + <sup>2</sup>
Global Equity	47.00%	5.25%	5.71%
Global Fixed Income	19.00	0.99	2.43
Inflation Sensitive	6.00	0.45	3.36
Private Equity	12.00	6.83	6.95
Real Estate	11.00	4.50	5.13
Infrastructure and Forestland	3.00	4.50	5.09
Liquidity	2.00	(0.55)	(1.05)

<sup>1</sup>An expected inflation of 2.5% used for this period

<sup>2</sup>An expected inflation of 3.0% used for this period

Discount Rate

The discount rate used to measure the total pension liability was 7.65%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65% is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at the CalPERS' website under the GASB 68 section.

**Burney Water District**  
**Notes to the Financial Statements**  
**June 30, 2016**

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability/(asset) of the Plan as of the measurement date using the discount rate of 7.50%, as well as what the net pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage-point lower (6.50%) or 1 percentage point higher (8.50%) than the current rate:

	Discount Rate - 1% (6.65%)	Current Discount Rate (7.50%)	Discount Rate + 1% (8.65%)
Plan's Net Pension Liability/(Asset)	\$ 964,026	\$ 574,827	\$ 253,499

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report of CalPERS which can be located at <https://www.calpers.ca.gov/page/forms-publications>.

**Note 8 – Joint Venture**

The District participates in two joint ventures under joint powers agreements (JPAs) with the Special District Risk Management Association (SDRMA) and the Laborer's Health and Welfare Trust. The relationship between the JPA and the District is such that the JPA is not component unit of the District.

The SDRMA is a public risk entity pool established to provide liability insurance to its members and to pay for the administration of the Agency and for the cost of excess insurance and related risk management costs. The Laborer's Health and Welfare Trust provides health insurance coverage to its members. The JPA's Boards control the operations of the JPAs, including the selection of management and approval of the operating budgets, independent of any influence by the member districts beyond their representation on the board.

**Note 9– Subsequent Events**

Subsequent events were evaluated through October 28, 2016 which is the date the financial statements were available to be issued.

**REQUIRED SUPPLEMENTARY  
INFORMATION**

**SCHEDULE OF THE BURNEY WATER DISTRICT'S  
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
CALIFORNIA PUBLIC EMPLOYEES RETIREMENT SYSTEM  
(MISCELLANEOUS PLAN)**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
District's Proportion of the Net Pension Liability/(Asset)	0.020923%	0.813000%
Districts Proportionate Share of the Net Pension Liability/(Asset)	\$ 577,536	\$ 420,173
District's Covered-Employee Payroll	\$ 243,402	\$ 244,720
District's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll	237.28%	171.70%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's total Net Pension Liability	79.82%	81.71%

**Notes to Schedule:**

Only two fiscal years are presented because 10-year data is not yet available.

**SCHEDULE OF THE BURNEY WATER DISTRICT'S  
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
CALIFORNIA PUBLIC EMPLOYEES RETIREMENT SYSTEM  
(PEPRA PLAN)**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
District's Proportion of the Net Pension Liability/(Asset)	.000039%	.00000%
District's Proportionate Share of the Net Pension Liability/(Asset)	\$ 2,709	\$ 12
District's Covered-Employee Payroll	\$ 30,164	\$ 59,102
District's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll	8.98%	0.02%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's total Net Pension Liability	198.90%	83.33%

**Notes to Schedule:**

Only two fiscal years are presented because 10-year data is not yet available.

**BURNEY WATER DISTRICT'S  
SCHEDULE OF DISTRICT CONTRIBUTIONS  
CALIFORNIA PUBLIC EMPLOYEES RETIREMENT SYSTEM  
(MISCELLANEOUS PLAN)**

	<u>2016</u>	<u>2015</u>
Actuarially Determined Contribution	\$ 50,247	\$ 60,107
Contributions in Relation to the Actuarially Determined Contribution	<u>(69,737)</u>	<u>(50,247)</u>
Contribution Deficiency (Excess)	<u>\$ (19,490)</u>	<u>\$ 9,860</u>
Covered Employee Payroll	\$ 243,402	\$ 244,720
Contributions as a Percentage of Covered-Employee Payroll	28.65%	20.53%

**Notes to Schedule:**

Only two fiscal years are presented because 10-year data is not yet available.



**BURNEY WATER DISTRICT'S  
SCHEDULE OF DISTRICT CONTRIBUTIONS  
CALIFORNIA PUBLIC EMPLOYEES RETIREMENT SYSTEM  
(PEPRA PLAN)**

	<u>2016</u>	<u>2015</u>
Actuarially Determined Contribution	\$ 3,622	\$ 3,054
Contributions in Relation to the Actuarially Determined Contribution	<u>(3,622)</u>	<u>(3,623)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ (569)</u>
Covered Employee Payroll	\$ 30,164	\$ 59,102
Contributions as a Percentage of Covered-Employee Payroll	12.01%	6.13%

**Notes to Schedule:**

Only two fiscal years are presented because 10-year data is not yet available.

## **OTHER SUPPLEMENTARY INFORMATION**

**BURNEY WATER DISTRICT**  
**COMBINED STATEMENT OF OPERATIONS - BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	Budget Amounts		Actual	Variance with
	Original	Final		Final Budget
				Favorable
				(Unfavorable)
Operating Revenues:				
Utility Revenue	\$ 1,504,000	\$ 1,504,000	\$ 1,412,325	\$ (91,675)
Pool Fees	115,000	115,000	119,339	4,339
Total Operating Revenue	<u>1,619,000</u>	<u>1,619,000</u>	<u>1,531,664</u>	<u>(87,336)</u>
Operating Expenses:				
Salaries and Benefits	577,000	577,000	660,720	(83,720)
Insurance	33,400	33,400	35,756	(2,356)
Legal, Accounting and Professional Services	82,100	82,100	154,633	(72,533)
Utilities	267,500	267,500	276,464	(8,964)
Vehicles and Equipment	28,500	28,500	16,244	12,256
Permits and Fees	27,400	27,400	21,864	5,536
Depreciation	211,400	211,400	240,568	(29,168)
Rent	12,500	12,500	25,972	(13,472)
Repairs and Maintenance	173,400	173,400	256,658	(83,258)
Office	40,200	40,200	29,955	10,245
Bad Debts	22,000	22,000	24,607	(2,607)
Other Operating Expenses	146,500	146,500	71,934	74,566
Total Operating Expenses	<u>1,621,900</u>	<u>1,621,900</u>	<u>1,815,375</u>	<u>(193,475)</u>
Net Operating Income (Loss)	<u>(2,900)</u>	<u>(2,900)</u>	<u>(283,711)</u>	<u>(280,811)</u>
Non-Operating Revenue (Expense):				
Interest Income	2,900	2,900	2,408	(492)
Interest expense	-	-	(7,130)	7,130
Grant Revenue	-	-	2,661	2,661
Total Non-Operating Revenues (Expenses)	<u>2,900</u>	<u>2,900</u>	<u>(2,061)</u>	<u>9,299</u>
Change in Net Position	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (285,772)</u>	<u>\$ (271,512)</u>

**BURNEY WATER DISTRICT**  
**STATEMENT OF REVENUES AND EXPENSES BY ACTIVITY**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Water</u>	<u>Sewer</u>	<u>Pool</u>	<u>Water, Sewer, &amp; Pool Fund Total</u>
<b>Operating Revenues:</b>				
Utility Revenue	\$ 725,441	\$ 686,884	\$ -	\$ 1,412,325
Pool Fees	-	-	119,339	119,339
Total Operating Revenue	<u>725,441</u>	<u>686,884</u>	<u>119,339</u>	<u>1,531,664</u>
<b>Operating Expenses:</b>				
Salaries and Benefits	306,815	277,467	76,438	660,720
Insurance	20,507	11,809	3,440	35,756
Legal, Accounting and Professional Services	68,991	84,616	1,026	154,633
Utilities	156,163	104,025	16,276	276,464
Vehicles and Equipment	7,251	8,520	473	16,244
Permits and Fees	19,971	1,404	489	21,864
Depreciation	102,261	103,768	34,539	240,568
Rent	2,458	23,514	-	25,972
Repairs and Maintenance	42,894	210,628	3,136	256,658
Office	14,870	14,869	216	29,955
Bad Debts	13,436	9,307	1,864	24,607
Other Operating Expenses	31,400	31,510	9,024	71,934
Total Operating Expenses	<u>787,017</u>	<u>881,437</u>	<u>146,921</u>	<u>1,815,375</u>
Net Operating Income (Loss)	<u>(61,576)</u>	<u>(194,553)</u>	<u>(27,582)</u>	<u>(283,711)</u>
<b>Non-Operating Revenues (Expenses):</b>				
Interest Income	1,181	731	496	2,408
Interest Expense	3,565	3,565	-	7,130
Grant Income	-	-	2,661	2,661
Total Non-Operating Revenues (Expenses)	<u>4,746</u>	<u>4,296</u>	<u>3,157</u>	<u>12,199</u>
Change in Net Position	<u>\$ (56,830)</u>	<u>\$ (190,257)</u>	<u>\$ (24,425)</u>	<u>\$ (271,512)</u>

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

Board of Directors  
Burney Water District  
Burney, CA

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and each major fund, of the Burney Water District (District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 28, 2016

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. See Findings 2016-1, 2016-2, and 2016-4.

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A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and questioned costs to be significant deficiencies. See Finding 2016-3.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **District's Response to Findings**

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



**Singleton Auman PC**  
**Susanville, California**  
October 28, 2016

**BURNEY WATER DISTRICT  
COMBINED SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2016**

**EXECUTIVE SUMMARY**

The District provides water, sewer and pool services to the community of Burney, California. The quality of the District's internal controls is highly dependent upon involvement and communication between the volunteer District Board Members and management. Also, due to the limited number of employees of the District, there is an inability to segregate the custody of and accountability for District assets in the manner generally required for model systems of internal accounting controls. A summary of the auditors' results follows:

1. **Type of Auditors' Report on Financial Statements:** Unmodified
2. **Internal Control Findings:** 1 Significant Deficiency. 3 Material Weaknesses.
3. **Material Noncompliance Noted:** None.

**BURNEY WATER DISTRICT  
COMBINED SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2016**

**YELLOW BOOK SECTION**

**Internal Control – Material Weakness**

**Finding 2016-1: Lack of Segregation of Duties**

Criteria upon which audit finding is based (Legal Citation):  
Yellow Book paragraphs 5.10 – 5.14 and Appendix I, SAS No. 109.

Finding (Condition):  
An inadequate segregation of duties exists.

Amount of Questioned Cost, How Computed and Prevalence:  
None.

Effect:  
The Burney Water District has exposure to risk of financial statement misstatement and the potential risk for fraud.

Cause:  
Due to the number of personnel assigned to duties that involve access to the general ledger and other accounting records and who also have custody of and responsibility for handling cash and other assets, an inadequate segregation of duties exists.

Recommendation:  
We recommend that the District employees and board maintain diligence for the potential risks of not having an adequate segregation of duties.

District's Response:  
The District plans to prepare an organization chart and provide documentation for job responsibilities to best separate as many of the duties as possible with the staff we have available.



**BURNEY WATER DISTRICT  
COMBINED SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2016**

**YELLOW BOOK SECTION**

**Internal Control – Material Weakness**

**Finding 2016-2: Financial Statement Preparation**

Criteria upon which audit finding is based (Legal Citation):

Under Statements on Auditing Standards 122 (SAS 122) the District is responsible for preparing complete and accurate financial statements, footnote disclosures, and management's discussion and analysis in accordance with Generally Accepted Accounting Principles (GAAP).

Finding (Condition):

Similar to many other California special districts, the District does not have policies and procedures in place to ensure that complete and accurate financial statements, footnote disclosures, and management's discussion and analysis are prepared in accordance with GAAP prior to the annual audit. Management relies upon the auditor to recommend footnote disclosures for the financial statements and to prepare adjusting journal entries for approval in order to report financial information in accordance with GAAP.

Amount of Questioned Cost, How Computed and Prevalence:

None

Effect:

There is a risk that a material financial statement misstatement may exist and not be prevented or detected by the District's system of internal control.

Cause:

This condition has always existed at the District, and is being reported in accordance with SAS 122.

Recommendation:

The District should consider the cost benefit of hiring an accountant familiar with GAAP or contracting with an independent CPA firm to compile financial statements in conformity with GAAP.

District's Response:

The District concurs with this recommendation.

**BURNEY WATER DISTRICT  
COMBINED SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2016**

**YELLOW BOOK SECTION**

**Internal Control – Significant Deficiency**

**Finding 2016-3: Pool Cash Receipts Internal Control Weakness**

Criteria upon which audit finding is based (Legal Citation):

Internal Control Standards

Finding (Condition):

The District lacks controls over their cash receipts received at the pool. They have receipts for every cash transaction, however, the receipts are not pre-numbered and do not have a way to be tracked sufficiently. The District is not clearing out or reconciling the cash register, or properly filling out cash journals.

Amount of Questioned Cost, How Computed and Prevalence:

None

Effect:

The District could be at risk of fraud and misappropriation of assets.

Cause:

Lack of Internal Controls over cash receipts.

Recommendation:

We recommend the District implement and execute better internal controls over cash receipts.

District's Response:

The District will be implementing policies and procedures to address this risk.

**BURNEY WATER DISTRICT  
COMBINED SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2016**

**YELLOW BOOK SECTION**

**Internal Control – Material Weakness**

**Finding 2016-4: Lack of Controls over Cash Disbursements**

Criteria upon which audit finding is based (Legal Citation):

Internal Control Standards.

Finding (Condition):

The District has not implemented a policy for obtaining proper levels of prior authorization for District purchases.

Amount of Questioned Cost, How Computed and Prevalence:

None

Effect:

The District is at risk of fraud and misappropriation of assets.

Cause:

Lack of policies and procedures.

Recommendation:

We recommend the District implement effective policies over the authorization of Cash Disbursements.

District's Response:

The District is working on developing a policy to address this issue.

**BURNEY WATER DISTRICT  
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
(FINDINGS FROM THE JUNE 30, 2015 AUDIT REPORT)  
JUNE 30, 2016**

**Finding 2016-1: Lack of Segregation of Duties**

Due to the number of employees an inadequate segregation of duties exists.

Status

Ongoing.

**Finding 2016-2: Financial Statement Preparation**

Similar to many other California special districts, the District does not have policies and procedures in place to ensure that complete and accurate financial statements, footnote disclosures, and management's discussion and analysis are prepared in accordance with GAAP prior to the annual audit. Management relies upon the auditor to recommend footnote disclosures for the financial statements and to prepare adjusting journal entries for approval in order to report financial information in accordance with GAAP.

Status

Ongoing.

**Finding 2016-6: Control over Pool Cash Receipts**

The District lacks controls over their cash receipts received at the pool. They have receipts for every cash transaction, however, the receipts are not pre-numbered and do not have a way to be tracked sufficiently. The District is not clearing out or reconciling the cash register, or properly filling out cash journals.

Status

Ongoing.

**Finding 2016-4: Lack of Controls over Cash Disbursements**

The District has not implemented a policy for obtaining proper levels of prior authorization for District purchases.

Status

Ongoing.

**BURNEY WATER DISTRICT  
CORRECTIVE ACTION PLAN  
JUNE 30, 2016**

**Person Monitoring Corrective Action Plan**  
Willie Rodriguez, General Manager

**Finding 2016-1: Lack of Segregation of Duties**

Finding (Condition)

Due to the number of employees an inadequate segregation of duties exists

Corrective Action Planned

The District plans to prepare an organizational chart and provide documentation for job responsibilities to best separate as many duties as possible with the staff we have available.

Expected Completion Date

Ongoing

**Finding 2016-2: Financial Statement Preparation**

Finding (Condition)

Similar to many other California special districts, the District does not have policies and procedures in place to ensure that complete and accurate financial statements, footnote disclosures, and management's discussion and analysis are prepared in accordance with GAAP prior to the annual audit. Management relies upon the auditor to recommend footnote disclosures for the financial statements and to prepare adjusting journal entries for approval in order to report financial information in accordance with GAAP.

Corrective Action Planned

The District has hired a CPA to perform our bookkeeping function and compile our monthly financial statements in conformity with GAAP.

Expected Completion Date

Ongoing.

**BURNEY WATER DISTRICT  
CORRECTIVE ACTION PLAN  
JUNE 30, 2016**

**Finding 2016-3: Pool Cash Receipts**

Finding (Condition)

The District lacks controls over their cash receipts received at the pool. They have receipts for every cash transaction, however, the receipts are not pre-numbered and do not have a way to be tracked sufficiently. The District is also are not clearing out or reconciling the cash register, or properly filling out cash journals.

Corrective Action Planned

The District will be developing policies and procedures to address this risk.

Expected Completion Date

Ongoing.

**Finding 2016-4: Lack of Controls for Cash Disbursements**

Finding (Condition)

The District has not implemented a policy for obtaining proper levels of prior authorization for District purchases.

Corrective Action Planned

The District is working on a policy to address this risk.

Expected Completion Date

Ongoing.