

West County Agency

Richmond, California

Independent Auditors' Report and Financial Statements

For the Year Ended June 30, 2015



**West County Agency
Financial Statements
For the Year Ended June 30, 2015**

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of the West County Agency
Richmond, California

Report on Financial Statements

We have audited the accompanying financial statements of the West County Agency (Agency), which comprise the balance sheet as of June 30, 2015, and the related statements of revenues, expenses, and change in net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements.

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 an opinion 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 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 opinion.

To the Board of Directors
of the West County Agency
Richmond, California
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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency, as of June 30, 2015, 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 be presented to supplement the financial statements. Such information, although not a 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 financial statements in an appropriate operational, economic, or historical context. The Agency has not presented a management's discussion and analysis that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be a part of, the basic financial statements. Our opinion is not modified with respect to this matter.

The PwC Group, LLP

Santa Ana, California
December 31, 2015

West County Agency
Management's Discussion and Analysis (Continued) (Unaudited)
For the Year Ended June 30, 2015

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the West County Agency (Agency) provides an introduction to the financial statements of the Agency for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with the basic financial statements and related notes, which follow this section.

Financial Highlights

- The Agency's net position increased (612%) or \$28,775 from the prior year.
- Operating revenues decreased by (22%) or \$(64,696) from \$289,567 to \$224,871, from the prior year, primarily due to a decrease in member contributions.
- Operating expenses decreased by (26%) or \$73,912 from \$288,567 to \$214,434, from the prior year, primarily due to a decrease in other expenses of \$77,759.

Required Financial Statements

This annual report consists of a series of financial statements. The Balance Sheet, Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows provide information about the activities and performance of the Agency using accounting methods similar to those used by private sector companies.

The Balance Sheet includes all of the Agency's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing a rate of return, evaluating the capital structure of the Agency and assessing the liquidity and financial flexibility of the Agency. All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the Agency's operations over the past year and can be used to determine if the Agency has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness. The final required financial statement is the Statement of Cash Flows, which provides information about the Agency's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of the Agency

One of the most important questions asked about the Agency's finances is, "*Is the Agency better off or worse off as a result of this year's activities?*" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Position report information about the Agency in a way that helps answer this question.

These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting method used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the Agency's *net position* and changes in them. You can think of the Agency's net position – the difference between assets and liabilities – as one way to measure the Agency's financial health, or *financial position*. Over time, *increases or decreases* in the Agency's net position are one indicator of whether its *financial health* is improving or deteriorating.

**West County Agency
Management's Discussion and Analysis (Continued) (Unaudited)
For the Year Ended June 30, 2015**

Condensed Balance Sheet

	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>Change</u>
Assets:			
Current assets	\$ 117,550	\$ 88,974	\$ 28,576
Total assets	<u>\$ 117,550</u>	<u>\$ 88,974</u>	<u>\$ 28,576</u>
Liabilities:			
Current liabilities	\$ 84,078	\$ 84,277	\$ (199)
Total liabilities	<u>84,078</u>	<u>84,277</u>	<u>(199)</u>
Net position:			
Unrestricted	33,472	4,697	28,775
Total net position	<u>33,472</u>	<u>4,697</u>	<u>28,775</u>
Total liabilities and net position	<u>\$ 117,550</u>	<u>\$ 88,974</u>	<u>\$ 28,576</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Agency, assets of the District exceeded liabilities by \$33,472 and \$4,697 as of June 30, 2015 and 2014, respectively.

At the end of fiscal years 2015 and 2014, the District showed a positive balance in its unrestricted net position of \$33,472 and \$4,697, respectively, which may be utilized in future years.

Condensed Statement of Revenues, Expenses and Changes in Net Position

	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>Change</u>
Operating revenues	\$ 224,871	\$ 289,567	\$ (64,696)
Operating expenses	<u>(214,434)</u>	<u>(288,346)</u>	<u>73,912</u>
Operating income(loss)	10,437	1,221	9,216
Non-operating revenues(expenses), net	<u>18,338</u>	<u>-</u>	<u>18,338</u>
Change in net position	28,775	1,221	27,554
Net position:			
Beginning of year	<u>4,697</u>	<u>3,476</u>	<u>1,221</u>
End of year	<u>\$ 33,472</u>	<u>\$ 4,697</u>	<u>\$ 28,775</u>

The statement of revenues, expenses and changes in net position shows how the District's net position changed during the fiscal years. In the case of the District, the District's net position increased by \$28,775 and \$1,221 for the fiscal years ended June 30, 2015 and 2014, respectively.

**West County Agency
Management's Discussion and Analysis (Continued) (Unaudited)
For the Year Ended June 30, 2015**

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Requests for Information

This financial report is designed to provide the Agency's stakeholder's with a general overview of the Agency's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact West County Agency, Finance Department, 2910 Hilltop Drive, Richmond, CA 94806 or (510) 222-6700.

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BASIC FINANCIAL STATEMENTS

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**West County Agency
Balance Sheet
June 30, 2015**

ASSETS

Assets:

Cash and cash equivalents	\$ 105,281
Accounts receivable	376
Prepaid items	<u>11,893</u>
Total assets	<u><u>\$ 117,550</u></u>

LIABILITIES AND NET POSITION

Liabilities:

Due to members	\$ 9,078
Deposits from members	<u>75,000</u>
Total liabilities	<u>84,078</u>

Net position:

Unrestricted	<u>33,472</u>
Total net position	<u>33,472</u>
Total liabilities and net position	<u><u>\$ 117,550</u></u>

West County Agency
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2015

Operating revenues:	
Member agency contributions	\$ 224,871
Total operating revenues	224,871
Operating expenses:	
Director fees	4,246
Legal service	2,081
Audit services	5,500
Other professional services	9,756
Insurance	2,167
Other permits, fees and charges	172,774
Other expenses	17,910
Total operating expenses	214,434
Operating income	10,437
Non-operating revenues(expenses):	
Other revenues	18,338
Total nonoperating revenues	18,338
Change in net position	28,775
Net position:	
Beginning of year	4,697
End of year	\$ 33,472

West County Agency
Statement of Cash Flows
For the Year Ended June 30, 2015

Cash flows from operating activities:	
Cash received from member agencies	\$ 244,749
Cash payments to vendors for professional services and supplies	<u>(199,365)</u>
Net cash provided by operating activities	<u>45,384</u>
Cash flows from non-capital financing activities:	
Other revenues	<u>18,338</u>
Net cash provided by operating activities	<u>18,338</u>
Net increase in cash and cash equivalents	<u>63,722</u>
Cash and cash equivalents:	
Beginning of year	<u>41,559</u>
End of year	<u>\$ 105,281</u>
Reconciliation of net operating income to net cash provided by operating activities:	
Operating income	<u>\$ 10,437</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Change in assets – (increase)decrease:	
Accounts receivable	19,878
Prepaid items	15,268
Change in liabilities – increase(decrease):	
Accounts payable	(2,442)
Due to members	<u>2,243</u>
Total adjustments	<u>34,947</u>
Net cash provided by operating activities	<u>\$ 45,384</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS

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West County Agency
Notes to the Financial Statements
For the Year Ended June 30, 2015

Note 1 – Reporting Entity and Summary of Significant Accounting Policies

The West County Agency (Agency) was formed by a joint exercise of powers agreement dated February 15, 1977. On June 15, 1984, that agreement was amended and restated by the current members, which are the West County Wastewater District, the City of Richmond and the Richmond Municipal Sewer District, a component unit of the City of Richmond. The Agency was formed to plan, acquire, construct, manage, maintain, operate and control certain joint sewerage facilities. The board members are appointed by the member agencies and serve at the pleasure of the appointing agency.

The financial statements of the Agency contain only the funds of the Agency. The Agency is a joint venture that is legally separate from its participants. The Agency operates under a joint exercise of powers agreement between the West County Wastewater District, the City of Richmond and the Richmond Municipal Sewer District. It is governed by a Board of Directors appointed by and from the governing boards of its members. The Board of Directors establishes the Agency's operating budget, sets the contributions required from each member, and exercises the other powers specified in the joint exercise of powers agreement. The Agency continues to function until terminated by the mutual agreement of its members.

Basis of Accounting and Measurement Focus

The Agency reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the Agency is that the costs of providing services be financed or recovered primarily through user (member) charges, capital grants and similar funding. Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Financial Reporting

The Agency's basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States Board (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Agency solely operates as a special-purpose government which means it is only engaged in business-type activities; accordingly, activities are reported in the Agency's proprietary fund.

Operating revenues and expenses result from exchange transactions associated with the principal activity of the Agency. Exchange transactions are those in which each party receives and gives up essentially equal values. Management administration and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

Cash and Cash Equivalents

The Agency's cash and cash equivalents are considered to be cash on hand and short-term investments with original maturities of three months or less from the date of acquisition.

Accounts Receivable

Accounts receivable are deemed by management to be fully collectible at June 30, 2015 and there no allowance for doubtful accounts has been established.

West County Agency
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

Net Position

The financial statements utilize a net position presentation. Net position is categorized as follow:

Net Investment in Capital Assets – This component of net position consists of capital assets, net of accumulated depreciation and reduced by any debt outstanding against the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt is included in this component of net position.

Restricted – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

Unrestricted – This component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets or restricted component of net position.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Member Contributions

Contribution revenue consists of payments from members that are planned to match operating expenses.

Member's Equity

In the event of a member withdrawal, member termination, or dissolution of the Agency, any property interest remaining in the Agency, following a discharge of all obligations shall be disposed of pursuant to the Joint Powers Agreement as adopted by the Board of Directors.

Joint Facilities and Capital Costs

The joint facilities constructed by the Agency are owned by the members of the West County Agency. Per the joint exercise of powers agreement, ownership of joint facilities is equal to the portion of capital costs each member contributes. Therefore, capital costs paid by the West County Agency are expensed and costs reimbursed by the members and grantors are revenue to the Agency rather than capital contributed.

Agency Operations

The Agency does not have any employees. The Agency has designated employees from each member entity to fill necessary management and staff positions.

West County Agency
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 2 – Cash and Cash Equivalents

The carrying amount of the Agency's cash deposits was \$105,281 at June 30, 2015.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party.

The California Government Code and the Agency's investment policy do not contain legal or policy requirements that would limit the exposure to custodial risk for deposits, other than the following provision for deposits. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. Of the bank balances, up to \$250,000 is federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the Agency's name.

Note 3 – Risk Management

The Agency is insured by the West County Wastewater District (District), which participates in a general liability program through the California Sanitation Risk Management Agency, a risk-pooling self-insurance authority. The District also carries commercial property insurance coverage through an insurance broker.

Note 4 – Joint Operating Agreement

Joint Operating Fund

A joint operating fund shall be established, which shall be used to pay all direct costs, operating, legal, engineering and other noncapital expenses incurred by the Agency *in* connection with its business and operations. Each member shall pay to the Agency its share of estimated expenses within thirty (30) days of billing and said amount shall be deposited into the joint operating fund upon receipt from the member.

Distribution of Direct Costs

Direct costs of the Agency shall be allocated on a 50/50 basis to each member except where the costs are incurred on behalf of, or for the benefit of one or more of the members, in which case the member shall bear 100% of those costs. The Agency board, by resolution passed by no less than three votes, may determine other ratios, based on a pro-rata share of projects or on other means, where circumstances require deviation from the above.

West County Agency
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 4 – Joint Operating Agreement (Continued)

Payment of Direct Costs

Upon adoption of the general budget for the ensuing year, and from time to time during the fiscal year, the Agency shall bill each member its estimated share of operating costs and direct costs of an amount not to exceed six months at a time. Each member hereby agrees to include in each annual budget approved by the governing body of such member, amounts estimated to be sufficient to pay all such costs. Each member shall pay to the Agency within thirty (30) days of the billing statement its allocated share of the direct costs and operating costs for the billing period as determined by the Agency board. Adjustment shall be made on succeeding bills to take into account actual costs incurred during the preceding billing period. The Agency is hereby authorized to take any or all legal actions necessary and permitted by law to enforce the collection of such charges or any other compliance with the Agreement, including, but not limited to, actions or proceedings in mandamus to require each member to include the amounts estimated to be necessary in each such estimated annual budget, or to collect such charges from the taxpayers, land owners or users of any other facilities.

Note 5 – Commitments and Contingencies

In the ordinary course of operations, the Agency is subject to claims and litigation from outside parties. Nevertheless, after consultation with management, the Agency believes that these actions are not likely to have a material adverse effect on the Agency's financial position, results of operations, or cash flows.