

West County Agency

Richmond, California

Independent Auditors' Report and Financial Statements

For the Years Ended June 30, 2017 and 2016



**West County Agency
Financial Statements
For the Years Ended June 30, 2017 and 2016**

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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 sheets as of June 30, 2017 and 2016, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years 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 audits. We conducted our audits 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 audits 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.

Opinion

In our opinion, the financial statements referred to above presents fairly, in all material respects, the financial position of the Agency, as of June 30, 2017 and 2016, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 5 is 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.

The PwC Group, LLP

Walnut Creek, California
January 24, 2018

**West County Agency
Management's Discussion and Analysis (Unaudited)
For the Years Ended June 30, 2017 and 2016**

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 years ended June 30, 2017 and 2016. 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

- In 2017, the Agency's net position decreased (\$46,744) from the prior year.
- In 2016, the Agency's net position increased \$10,492 from the prior year.
- In 2017, operating revenues decreased by (22%) or \$75,410 from \$347,505 to \$272,095, from the prior year, primarily due to a decrease in member contributions.
- In 2016, operating revenues increased by (55%) or \$122,634 from \$224,871 to \$347,505, from the prior year, primarily due to an increase in member contributions.
- In 2017, operating expenses decreased by (6%) or \$19,910 from \$338,749 to \$318,839, from the prior year, primarily due to decreases in other professional services of \$27,909.
- In 2016, operating expenses increased by (58%) or \$124,315 from \$214,434 to \$338,749, from the prior year, primarily due to increases in other professional services of \$51,243 and other expenses of \$50,802.

Required Financial Statements

This annual report consists of a series of financial statements. The Balance Sheets, Statements of Revenues, Expenses and Changes in Net Position and Statements 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 Sheets include 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 Sheets and the Statements 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 (Unaudited) (Continued)
For the Years Ended June 30, 2017 and 2016**

Condensed Balance Sheets

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>Change</u>	<u>June 30, 2015</u>	<u>Change</u>
Assets:					
Current assets	\$ 121,210	\$ 122,258	\$ (1,048)	\$ 117,550	\$ 4,708
Total assets	<u>\$ 121,210</u>	<u>\$ 122,258</u>	<u>\$ (1,048)</u>	<u>\$ 117,550</u>	<u>\$ 4,708</u>
Liabilities:					
Current liabilities	\$ 123,990	\$ 78,294	\$ 45,696	\$ 84,078	\$ (5,784)
Total liabilities	<u>123,990</u>	<u>78,294</u>	<u>45,696</u>	<u>84,078</u>	<u>(5,784)</u>
Net position:					
Unrestricted	(2,780)	43,964	(46,744)	33,472	10,492
Total net position	<u>(2,780)</u>	<u>43,964</u>	<u>(46,744)</u>	<u>33,472</u>	<u>10,492</u>
Total liabilities and net position	<u>\$ 121,210</u>	<u>\$ 122,258</u>	<u>\$ (1,048)</u>	<u>\$ 117,550</u>	<u>\$ 4,708</u>

At the end of fiscal years 2017 and 2016, the Agency showed a deficit balance of (\$2,780) as of June 30, 2017 and a positive balance of \$43,964 as of June 30, 2016 in its unrestricted net position, respectively.

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>Change</u>	<u>June 30, 2015</u>	<u>Change</u>
Operating revenues	\$ 272,095	\$ 347,505	\$ (75,410)	\$ 224,871	\$ 122,634
Operating expenses	(318,839)	(338,749)	19,910	(214,434)	(124,315)
Operating income(loss)	(46,744)	8,756	(55,500)	10,437	(1,681)
Non-operating revenues(expenses), net	-	1,736	(1,736)	18,338	(16,602)
Change in net position	(46,744)	10,492	(57,236)	28,775	(18,283)
Net position:					
Beginning of year	43,964	33,472	10,492	4,697	28,775
End of year	<u>\$ (2,780)</u>	<u>\$ 43,964</u>	<u>\$ (46,744)</u>	<u>\$ 33,472</u>	<u>\$ 10,492</u>

The statements of revenues, expenses and changes in net position shows how the Agency's net position changed during the fiscal years. In the case of the Agency, the Agency's net position decreased by \$46,744 and increased by \$10,492 for the fiscal years ended June 30, 2017 and 2016, respectively.

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.

BASIC FINANCIAL STATEMENTS

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West County Agency
Balance Sheets
June 30, 2017 and 2016

	<u>ASSETS</u>	<u>2017</u>		<u>2016</u>
Assets:				
Cash and cash equivalents (Note 2)		\$ 98,821		\$ 98,640
Accounts receivable		-		3,842
Prepaid items		22,389		19,776
Total assets		<u>\$ 121,210</u>		<u>\$ 122,258</u>
 <u>LIABILITIES AND NET POSITION</u> 				
Liabilities:				
Accounts payable		\$ 13,170		\$ 1,423
Due to members		35,820		1,871
Deposits from members		75,000		75,000
Total liabilities		<u>123,990</u>		<u>78,294</u>
 Net position:				
Unrestricted (Deficit) (Note 3)		<u>(2,780)</u>		<u>43,964</u>
Total net position		<u>(2,780)</u>		<u>43,964</u>
Total liabilities and net position		<u>\$ 121,210</u>		<u>\$ 122,258</u>

West County Agency
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating revenues:		
Member agency contributions	\$ 272,095	\$ 347,505
Total operating revenues	<u>272,095</u>	<u>347,505</u>
Operating expenses:		
Director fees	3,999	5,142
Legal services	1,969	3,881
Audit services	8,000	5,500
Other professional services	33,090	60,999
Insurance	1,988	2,573
Other permits, fees and charges	196,098	191,942
Other expenses	73,695	68,712
Total operating expenses	<u>318,839</u>	<u>338,749</u>
Operating income	<u>(46,744)</u>	<u>8,756</u>
Non-operating revenues (expenses):		
Other revenues	-	1,736
Total nonoperating revenues	<u>-</u>	<u>1,736</u>
Change in net position	<u>(46,744)</u>	<u>10,492</u>
Net position:		
Beginning of year	43,964	33,472
End of year	<u>\$ (2,780)</u>	<u>\$ 43,964</u>

West County Agency
Statements of Cash Flows
For the Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Cash received from member agencies	\$ 275,937	\$ 345,775
Cash payments to vendors for services and supplies	(275,756)	(352,416)
Net cash provided by (used in) operating activities	181	(6,641)
 Net increase (decrease) in cash and cash equivalents	 181	 (6,641)
 Cash and cash equivalents:		
Beginning of year	98,640	105,281
End of year	\$ 98,821	\$ 98,640
 Reconciliation of net operating income to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ (46,744)	\$ 8,756
 Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Other revenues	-	1,736
Change in assets – (increase) decrease:		
Accounts receivable	3,842	(3,466)
Prepaid items	(2,613)	(7,883)
Change in liabilities – increase (decrease):		
Accounts payable	11,747	(5,784)
Due to members	33,949	-
Total adjustments	46,925	(15,397)
Net cash provided by (used in) operating activities	\$ 181	\$ (6,641)

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West County Agency
Notes to the Financial Statements
For the Years Ended June 30, 2017 and 2016

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 Presentation

Financial statement presentation follows the recommendations promulgated by the Governmental Accounting Standards Board (GASB) commonly referred to as accounting principles generally accepted in the United States of America (U.S. GAAP). GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting standards.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Financial Statements (i.e., the balance sheets, the statements of revenues, expenses and changes in net position, and statements of cash flows) report information on all of the activities of the primary government. The Agency accounts for its operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The Financial Statements are reported using the “*economic resources*” measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as all eligibility requirements have been met. Interest associated with the current fiscal period is considered to be susceptible to accrual and so has been recognized as revenue of the current fiscal period.

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, 2017 and 2016 and no allowance for doubtful accounts has been established.

West County Agency
Notes to the Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

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:

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 for operations; however, the appointed directors are paid their director stipend through payroll processing. 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 Years Ended June 30, 2017 and 2016

Note 2 – Cash and Cash Equivalents

Demand Deposits

At June 30, 2017 and 2016, the carrying amounts of the District's demand deposits were \$98,821 and 98,640, respectively and the financial institution balance was \$98,821 and \$108,193, respectively. The \$0 and \$9,553 respective net difference represents outstanding checks, deposits-in-transit and/or other reconciling items, if any.

The California Government Code requires California banks and savings and loan associations to secure an entity's deposits by pledging government securities with a value of 110% of an entity's deposits. California law also allows financial institutions to secure entity deposits by pledging first trust deed mortgage notes having a value of 150% of an entity's total deposits. The entity's Treasurer may waive the collateral requirement for deposits which are fully insured up to \$250,000 by the FDIC.

The collateral for deposits in federal and state chartered banks is held in safekeeping by an authorized agent of depository recognized by the State of California Department of Banking. The collateral for deposits with savings and loan associations is generally held in safekeeping by the Federal Home Loan Bank in San Francisco, California as an agent of depository. These securities are physically held in an undivided pool for all California public agency depositors. Under Government Code Section 53655, the placement of securities by a bank or savings and loan association with an agent of depositor has the effect of perfecting the security interest in the name of the local governmental agency. Accordingly, all collateral held by California agents of depository are considered to be held for, and in the name of, the local government.

Custodial Credit Risk

The 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 deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District's investment policy requires that collateral be held by an independent third party with whom the District has a current custodial agreement.

As of June 30, 2017 none of the District's deposits were exposed to disclosable custodial credit risk.

Note 3 – Unrestricted Net Position (Deficit)

As of June 30, 2017, the Agency had a (\$2,780) unrestricted net position deficit balance. This deficit balance is due to a timing difference of contributions to the Agency from its member agencies. The Agency's fiscal year 2017-2018 budget includes an increase in contributions from its member agencies to cover this shortfall in fiscal year 2016-2017.

Note 4 – Risk Management

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

West County Agency
Notes to the Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

Note 5 – 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 its proportionate share 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.

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. 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 6 – 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.