

**GARBERVILLE SANITARY DISTRICT
BOARD OF DIRECTORS SPECIAL MEETING
AGENDA**

**There will be a Special meeting held by the Garberville Sanitary District Board of Directors at the
GSD District Office
919 Redwood Dr. Garberville, CA**

**December 15, 2015
5:00 p.m. - Open Session**

Any writings or documents that are public records and provided to a majority of the Governing Board regarding an open session item on this agenda will be made available for public inspection at the District Office located at 919 Redwood Dr. during normal business hours.

I. REGULAR MEETING CALLED TO ORDER

II. ESTABLISHMENT OF QUORUM

Rio Anderson____, Linda Brodersen____, Doug Bryan____, Bill Stewart____, Vacant____

III. APPROVAL OF AGENDA - Action to add or delete items from any portion of the agenda or to discuss any consent agenda items must be taken before the adoption of the agenda.

IV. OPEN SESSION

V. COMMENTS AND QUESTIONS FROM THE AUDIENCE

Up to fifteen minutes of this portion of the meeting are reserved for members of the public to address the Board on items not listed on the agenda and within the jurisdiction of the GSD Board. Speakers are limited to 3 minutes. The law prohibits the GSD Board from taking action on matters discussed that are not on the Agenda, and no adverse conclusions should be drawn if the GSD Board does not respond to public comment at this time.

General Public / Community Groups

VI. ANNOUNCEMENTS AND COMMUNICATIONS

REPORTS AND PRESENTATIONS – Routine report of activities, operations, meetings/conferences attended by Board members, Staff, and General Manager

Operations:

Office: None

Board Members:

General Manager: Ralph Emerson - Verbal

Government Code Section 54954.3 provides that the public will have an opportunity to address the Board on any item described at a regular or special meeting either before or after the consideration of that item. The Board reserves the right to limit the time of presentation by individuals and groups

VII. REGULAR AGENDA ITEMS

A. CONSENT AGENDA

Notice to the Public

All matters listed under Consent Agenda are considered to be routine, and all will be enacted by one motion and voice vote. There will be no separate discussion of these items unless the Board requests items to be removed from the Consent Agenda for separate action. Any items will be considered after the motion to approve the Consent Agenda.

No Consent Agenda

B. GENERAL BUSINESS – Action items

B.1 Oath of Office for Appointed GSD Board Members
Rio Anderson, Gary Wellborn, Richard Thompson

B.2 Appointment of Officers

a. Nomination of Board Chairperson

Motion: **Second:** **Vote:**

b. Nomination of Vice Chairperson

Motion: **Second:** **Vote:**

c. Approve Authorized Signatures To Sign For District

Motion: **Second:** **Vote:**

d. Approve 2016 calendar

Motion: **Second:** **Vote:**

B.3 Approval of Audit Report for Fiscal Year 2014 – 2015

Review Management Letter

Review GSD June 30, 2015 Financial Audit

Approve June 30, 2015 Financial Audit

Authorize Chairperson to sign Representation Letter

Motion: **Second:** **Vote:**

B.4 Acknowledgement of Bill Stewart And His Service To Garberville
Celebration of Bill Stewart and new Board Members following Meeting

VIII. ITEMS FOR NEXT BOARD MEETING

- 1. Water Ordinance Update, Article 10: Discontinuance of Service
- 2. Replace water valves on Cedar Lane
- 3.
- 4.

IX. ADJOURNMENT

Posting of Notice at the District Office no later than **December 11, 2015**: Agenda is emailed to those who have requested an agenda in writing or e-mail.

By the Americans with Disabilities Act, if you need a special accommodation to participate, please contact the Garberville Sanitary District Office at (707)923-9566 at least 48 hours in advance.

December 2, 2015

To the Board of Directors
Garberville Sanitary District
Garberville, California 95542

Board of Directors and Members of Management:

We have audited the financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the Garberville Sanitary District for the year ended June 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 24, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

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Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Garberville Sanitary District are described in Note 1 to the Financial Statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2015. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The financial statement disclosures are neutral, consistent, and clear.

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Board of Directors
Garberville Sanitary District

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Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule summarized uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The following material misstatements detected as a result of audit procedures were corrected by management:

1. Allowance for Doubtful Accounts	\$	5,000
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Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 2, 2015.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

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Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Garberville Sanitary District and its management and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

ANDERSON, LUCAS, SOMERVILLE, AND BORGES, LLP

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**GARBERVILLE SANITARY DISTRICT
FINANCIAL STATEMENTS
JUNE 30, 2015**

GARBERVILLE SANITARY DISTRICT

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June 30, 2015

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Garberville Sanitary District

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of Garberville Sanitary District as of and for the year ended June 30, 2015, 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Board of Directors
Garberville Sanitary District

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, each major fund, and the aggregate remaining fund information of the Garberville Sanitary District, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that comprise the Garberville Sanitary District's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Board of Directors
Garberville Sanitary District

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2015, on our consideration of the Garberville Sanitary 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 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 Garberville Sanitary District's internal control over financial reporting and compliance.

December 2, 2015
Fortuna, California

BASIC FINANCIAL STATEMENTS

GARBERVILLE SANITARY DISTRICT

Statement of Net Position

June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 779,031	\$ 1,635,856
Accounts Receivable - net of \$5,000		
Allowance for Doubtful Accounts	101,615	111,633
Grants Receivable	39,910	480,849
Prepays and Deposits	41,942	2,255
Total Current Assets	962,498	2,230,593
Restricted Assets		
Cash in County Treasury	322,441	296,368
Total Restricted Assets	322,441	296,368
Noncurrent Assets		
Capital Assets, Net of Depreciation	11,348,175	6,501,897
Construction in Progress: Water Project	-	3,993,477
Annexation Project	155,452	145,076
Tobin Well Project	-	34,364
Alderpoint Tank Project	343,609	75,710
Total Noncurrent Assets	11,847,236	10,750,524
Total Assets	\$ 13,132,175	\$ 13,277,485
LIABILITIES		
Current Liabilities		
Accounts Payable	\$ 247,648	\$ 490,505
Accounts Payable - Retention	-	225,760
Accrued Interest	-	4,281
Accrued Payroll Liabilities	3	1,251
Accrued Vacation	19,345	17,274
Customer Deposits	-	3,000
Current Portion of Long-Term Obligations	78,918	1,011,084
Total Current Liabilities	345,914	1,753,155
Noncurrent Liabilities		
Noncurrent Portion of Long-Term Obligations	1,551,041	985,437
Total Liabilities	1,896,955	2,738,592
NET POSITION		
Invested in Capital Assets, Net of Related Debt	10,217,277	8,754,003
Unrestricted	1,017,943	1,784,890
Total Net Position	\$ 11,235,220	\$ 10,538,893

The accompanying notes are an integral part of these financial statements

GARBERVILLE SANITARY DISTRICT
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2015

	Water	Sewer	Total 2015
OPERATING REVENUES			
Utility Sales	\$ 490,533	\$ 365,128	\$ 855,661
Connection Fees	16,100	22,500	38,600
Other Revenues	6,303	3,387	9,690
<u>Total Operating Revenues</u>	512,936	391,015	903,951
OPERATING EXPENSES			
Salaries and Wages	49,891	43,691	93,582
Payroll Taxes	11,309	8,076	19,385
Employee Benefits	16,393	15,518	31,911
Rent	5,400	4,800	10,200
Materials and Supplies	3,257	2,185	5,442
Transportation	1,719	1,718	3,437
Sewage Collection	-	53,285	53,285
Office Expense	9,277	8,105	17,382
Insurance	19,329	17,164	36,493
Professional Services	17,605	15,540	33,145
Sewage Treatment	-	70,406	70,406
Water Treatment	112,274	-	112,274
Water Distribution	67,694	-	67,694
Permits and Fees	3,493	18,021	21,514
Bad Debts	2,708	3,385	6,093
Other Expenses	5,366	4,830	10,196
Deprecation and Amortization	155,607	149,606	305,213
<u>Total Operating Expenses</u>	481,322	416,330	897,652
OPERATING GAIN	31,614	(25,315)	6,299
NON-OPERATING REVENUES (EXPENSES)			
Capital Grants	687,192	-	687,192
Property Taxes and Exemptions	(12)	23,831	23,819
Interest Income	237	2,378	2,615
Interest Expense	(3,120)	(5,755)	(8,875)
Other Expenses	-	950	950
Gain (Loss) on Dispositions	(10,160)	-	(10,160)
<u>Total Non-operating Revenues (Expenses)</u>	674,137	21,404	695,541
CHANGE IN NET POSITION	\$705,751	(\$3,911)	\$ 701,840
NET POSITION			
BEGINNING OF YEAR			\$ 10,538,893
PRIOR PERIOD ADJUSTMENT			\$ (5,513)
END OF YEAR			\$ 11,235,220

The accompanying notes are an integral part of these financial statements

GARBERVILLE SANITARY DISTRICT
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2014

	Water	Sewer	Total 2014
OPERATING REVENUES			
Utility Sales	\$ 510,833	\$ 368,250	\$ 879,083
Bulk Water Sales	48	-	48
Connection Fees	1,350	150.00	1,500
Other Revenues	4,085	3,320	7,405
<u>Total Operating Revenues</u>	516,316	371,720	888,036
OPERATING EXPENSES			
Salaries and Wages	38,851	35,373	74,224
Payroll Taxes	10,491	8,448	18,939
Employee Benefits	4,670	2,965	7,635
Rent	5,410	4,810	10,220
Materials and Supplies	448	448	896
Transportation	1,837	1,842	3,679
Sewage Collection	-	46,691	46,691
Office Expense	4,351	4,351	8,702
Insurance	26,960	27,568	54,528
Professional Services	13,314	12,399	25,713
Sewage Treatment	-	72,992	72,992
Water Treatment	84,783	-	84,783
Water Distribution	83,910	-	83,910
Permits and Fees	3,138	16,042	19,180
Other Expenses	10,527	9,240	19,767
Depreciation and Amortization	70,957	151,568	222,525
<u>Total Operating Expenses</u>	359,647	394,737	754,384
OPERATING GAIN	156,669	(23,017)	133,652
NON-OPERATING REVENUES (EXPENSES)			
Capital Grants	1,739,281	-	1,739,281
Property Taxes and Exemptions	(12)	23,310	23,298
Interest Income	158	1,673	1,831
Interest Expense	(2)	(6,855)	(6,857)
Other Expenses	(1,315)	707	(608)
Gain (Loss) on Dispositions	-	-	-
<u>Total Non-operating Revenues (Expenses)</u>	1,738,110	18,835	1,756,945
CHANGE IN NET POSITION	\$1,894,779	(\$4,182)	\$ 1,890,597
NET POSITION			
BEGINNING OF YEAR			\$ 8,648,296
END OF YEAR			\$ 10,538,893

The accompanying notes are an integral part of these financial statements

GARBERVILLE SANITARY DISTRICT
Statement of Cash Flows
For the Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash Flows From Operating Activities		
Cash Received from Customers	\$ 874,282	\$ 883,680
Cash Paid for Employees	(144,878)	(100,798)
Cash Paid for Goods and Services	<u>(454,018)</u>	<u>(408,272)</u>
Net Cash Provided by Operating Activities	<u>275,386</u>	<u>374,610</u>
Cash Flows From Non-Capital Financing Activities		
Other Non-Operating Revenue	950	-
Property Tax Revenues	<u>23,819</u>	<u>23,298</u>
Net Cash Provided by Non-Capital Financing Activities	<u>24,769</u>	<u>23,298</u>
Cash Flows From Capital and Related Financing Activities		
Proceeds from Long-Term Debt	1,065,474	1,664,516
Principal Paid on Long-Term Debt	(1,432,036)	(82,450)
Interest Paid on Long-Term Debt	(8,875)	(6,857)
Acquisition of Capital Assets	(1,880,703)	(2,499,319)
Capital Grant	<u>1,122,618</u>	<u>1,837,459</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(1,133,522)</u>	<u>913,349</u>
Cash Flows From Investing Activities		
Interest on Investments	<u>2,615</u>	<u>1,831</u>
Net Cash Provided by Investing Activities	<u>2,615</u>	<u>1,831</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(830,752)	1,313,088
Cash and Cash Equivalents - Beginning of Year	<u>1,932,224</u>	<u>619,136</u>
Cash and Cash Equivalents - End of Year	<u><u>\$ 1,101,472</u></u>	<u><u>\$ 1,932,224</u></u>

The accompanying notes are an integral part of these financial statements

GARBERVILLE SANITARY DISTRICT
Statement of Cash Flows
For the Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Reconciliation of Operating Gain to Net Cash Provided by Operating Activities		
Operating Gain	\$ 6,299	\$ 133,652
Adjustment to Reconcile Operating Gain to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	305,213	222,525
(Increase) Decrease in Accounts Receivable	10,018	(7,267)
(Increase) Decrease in Other Receivable	-	-
(Increase) Decrease in Prepaid Expenses	(39,687)	2,911
Increase (Decrease) in Accounts Payable	-	-
Increase (Decrease) in Accrued Liabilities	<u>(6,457)</u>	<u>22,789</u>
Total Adjustments	<u>269,087</u>	<u>240,958</u>
Net Cash Provided by Operating Activities	<u><u>\$ 275,386</u></u>	<u><u>\$ 374,610</u></u>
 Reconciliation of Cash and Cash Equivalents per Statement of Cash Flows to Cash and Cash Equivalents per Balance Sheet		
Cash and Cash Equivalents per Statement of Cash Flows	<u><u>\$ 1,101,472</u></u>	<u><u>\$ 1,932,224</u></u>
Cash and Cash Equivalents per Balance Sheet:		
Cash and Cash Equivalents	\$ 779,031	\$ 1,635,856
Cash in County Treasury	<u>322,441</u>	<u>296,368</u>
	<u><u>\$ 1,101,472</u></u>	<u><u>\$ 1,932,224</u></u>

The accompanying notes are an integral part of these financial statements

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity - On April 12th, 1932, the Garberville Sanitary District (the “District”) was formed, pursuant to the Sanitary District Act of 1923, Health & Safety Code Section 6400 et seq. for the following purposes:

1. The collection, treatment, and disposal of wastewater for the District and its inhabitants.

In December of 2004, the community voted to purchase the assets of the Garberville Water Company for the following purposes:

1. To supply the inhabitants of the District with water for domestic use, irrigation, sanitation, Industrial use, fire protection and recreation.

Garberville is an unincorporated community in the southern reaches of Humboldt County, California.

Measurement Focus and Basis of Accounting - The financial statements of the District are prepared in accordance with Generally Accepted Accounting Principles (GAAP). The District applies all applicable Governmental Accounting Standards Board (GASB) pronouncements.

The accounts are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The District uses proprietary funds. Proprietary funds are accounted for using the *economic resources measurement focus* and the *accrual basis of accounting*. Accordingly, all of the District’s assets and liabilities including capital assets and long-term liabilities are included in the accompanying Balance Sheet. Under the accrual method of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows. The District reports the following proprietary funds:

Enterprise Funds - These funds are used to account for those operations that are financed and operated in a manner similar to a private business or where the board of directors has decided that the determination of revenues earned, costs incurred, and/or net income is necessary for management accountability.

GARBERVILLE SANITARY DISTRICT
Notes to Financial Statements
June 30, 2015

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgets and Budgetary Accounting - The Business Manager presents proposed budgets to the Board of Directors for approval. The budget is approved by a motion to adopt by the Board of Directors.

The budgets for the enterprise funds are adopted on the full accrual basis of accounting consistent with the comparative actual amounts.

Cash and Cash Equivalents - Cash and cash equivalents for purposes of the statement of cash flows includes amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the District. Restricted assets are included.

The District has a pooled investment which is administered by the County of Humboldt. These approved investments are carried at cost, which approximates market value, and may be liquidated as needed. The investment pool has not been assigned a risk category since the District is not issued securities, but rather owns an undivided beneficial interest in the assets of this pool.

Capital Assets and Depreciation - Capital assets are recorded at cost. Capital asset purchases with values exceeding \$250 and having a life expectancy of at least 3 years are capitalized.

Depreciation is computed under the straight-line method using lives ranging from 3 to 50 years. Depreciation expense is calculated by using annual allowance rates varying from 2% to 33% of the various year-end account balances.

Compensated Absences - Qualified employees of the District accrue vacation, sick, compensatory and other leave time. Upon retirement, resignation, or dismissal, employees are paid in cash for all leave time accumulated except sick leave. No compensation for accrued sick leave upon retirement or termination is made. Accordingly, sick pay is charged to expenditures when taken. No provision has been made in the financial statements for unused sick leave. The liability for compensated absences at June 30, 2015 was \$19,345, and at June 30, 2014 was \$17,274, and has been reflected thus on the Balance Sheet.

Fund Equity - Reservations of the ending retained earnings indicate the portions of retained earnings not appropriable for expenditures or amounts legally segregated for a specific future use. These amounts are not available for appropriation and expenditure at the balance sheet date.

Allowance Method Used to Record Bad Debts - Management has provided an allowance for doubtful accounts equal to the estimated uncollectible amounts. The estimate is based on a review of the current status of trade accounts receivable. It is reasonably possible that the District's estimate of the allowance for doubtful accounts will change. Accounts receivable are presented net of an allowance for doubtful accounts of \$5,000 at June 30, 2015.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

GARBERVILLE SANITARY DISTRICT
Notes to Financial Statements
June 30, 2015

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Policy for Defining Operating and Non-Operating Revenues - The District's proprietary funds make a distinction between operating and non-operating revenues and expenses. Operating revenues and expenses generally result from providing goods and services related directly to the principal operations of the funds. All revenues and expenses not meeting this definition are reported as non-operating including interest income and expense.

Policy for Applying FASB Pronouncements - The District has adopted all applicable FASB Statements and Interpretations, APB Opinions, and ARBs issued after November 30, 1989, except those that are limited to not-for-profit organizations.

Policy for Applying Restricted/Unrestricted Resources - When an expense is incurred for which both restricted and unrestricted retained earnings are available, restricted resources are applied first.

NOTE 2 - CASH AND CASH EQUIVALENTS

The District has no self-directed investments other than the pooled investment administered by the County referred to in Note 1. The District's funds invested and maintained by other agencies are as follows:

<u>2015</u>	<u>Cash in Checking</u>	<u>Cash in Savings</u>	<u>Cash in County</u>	<u>Petty Cash</u>	<u>Total</u>
Insured by FDIC	643,766	135,015	-	-	778,781
Petty Cash	-	-	-	250	250
Subtotal					<u>779,031</u>
Pooled with County	-	-	322,441	-	322,441
Total	<u>643,766</u>	<u>135,015</u>	<u>322,441</u>	<u>250</u>	<u>1,101,472</u>
<u>2014</u>	<u>Cash in Checking</u>	<u>Cash in Savings</u>	<u>Cash in County</u>	<u>Petty Cash</u>	<u>Total</u>
Insured by FDIC	1,535,132	100,474	-	-	1,635,606
Petty Cash	-	-	-	250	250
Subtotal					<u>1,635,856</u>
Pooled with County	-	-	296,368	-	296,368
Total	<u>1,535,132</u>	<u>100,474</u>	<u>296,368</u>	<u>250</u>	<u>1,932,224</u>

GARBERVILLE SANITARY DISTRICT
Notes to Financial Statements
June 30, 2015

DRAFT

NOTE 3 - CAPITAL ASSETS AND DEPRECIATION

Capital Assets for the District for the years ended June 30, 2015 and 2014 consisted of the following:

	Balance 6/30/14	Additions	Deletions Transfers	Balance 6/30/15
Land - Sewer	129,811	-	-	129,811
Land - Water	88,699	-	-	88,699
Water System	120,924	43,823	(11,342)	153,405
Water Easements	177,397	-	-	177,397
Collection Facilities	2,245,631	20,022	-	2,265,653
Kimtu Waterline	1,908,669	-	-	1,908,669
Treatment Facilities	491,574	4,500	-	496,074
Water Project 2015	-	4,968,105	-	4,968,105
Tobin Well 2015	-	40,189	-	40,189
Sewer Project 2011	2,792,452	-	-	2,792,452
Annexation Project	145,075	10,377	-	155,452
Office Equipment	17,765	11,555	-	29,320
Equipment	-	73,456	-	73,456
Vehicles	48,024	-	-	48,024
CIP Water	3,993,477	974,628	(4,968,105.00)	-
CIP Tobin Well	34,364.00	5,825	(40,189.00)	-
CIP Alderpoint Tank	75,710	267,899	-	343,609
Less: Accumulated Depreciation	(1,519,048)	(305,213)	1,182	(1,823,079)
Total	\$ 10,750,524	6,115,166	(5,018,454.00)	\$ 11,847,236

	Balance 6/30/13	Additions	Deletions Transfers	Balance 6/30/14
Land - Sewer	129,811	-	-	129,811
Land - Water	88,699	-	-	88,699
Water System	120,924	-	-	120,924
Water Easements	177,397	-	-	177,397
Collection Facilities	2,245,631	-	-	2,245,631
Kimtu Waterline	1,908,669	-	-	1,908,669
Treatment Facilities	491,038	536	-	491,574
Sewer Project 2011	2,792,452	-	-	2,792,452
Annexation Project	80,864	64,211	-	145,075
Office Equipment	17,765	-	-	17,765
Vehicles	48,024	-	-	48,024
CIP Water	1,332,829	2,660,648	-	3,993,477
CIP Tobin Well	-	34,364	-	34,364
CIP Alderpoint Tank	28,959	46,751	-	75,710
Less: Accumulated Depreciation	(1,296,524)	(222,524)	-	(1,519,048)
Total	\$ 8,166,538	2,583,986	-	\$ 10,750,524

GARBERVILLE SANITARY DISTRICT
Notes to Financial Statements

June 30, 2015

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NOTE 4 - LONG-TERM DEBT

Long-term debt of the District for the years ended June 30, 2015 and 2014 consisted of the following:

	Balance 6/30/14	Additions	Principal Payments	Balance 6/30/15
SWRCB	234,358	-	(21,404)	212,954
MFC	97,648	-	(64,412)	33,236
RCAC	925,269	420,515	(1,345,784)	-
SRF Loan	739,247	640,224	-	1,379,471
Copier Lease	-	4,736	(438.00)	4,298
	1,996,522	1,065,475	(1,432,038)	1,629,959

	6/30/2013	Additions	Principal Payments	Balance 6/30/14
SWRCB	255,342	-	(20,984)	234,358
MFC	159,114	-	(61,466)	97,648
RCAC	-	925,269	-	925,269
SRF Loan	-	739,247	-	739,247
	414,456	1,664,516	(82,450)	1,996,522

Current portion of long-term debt is as follows:

SWRCB	\$ 21,831
RCAC Loan	22,991
Municipal Financial Corp	33,236
Copier	860
	\$ 78,918

Descriptions, terms, and other information on each of the above categories of debt are as follows:

STATE WATER RESOURCES CONTROL BOARD (SWRCB):

On June 28, 2005, the District borrowed \$395,340 for the Sewer System Relocation Project. On September 27, 2006, the District received additional loan funding of \$33,567. The loan is payable in annual installments of \$26,090 each August 1, including 2% interest, through August 1, 2023. Net revenues of the District are pledged as collateral for this loan. Details of this loan are as follows:

- a. Principal Amount at 6/30/14 - \$234,358
- b. Interest rate – 2.0% per annum

GARBERVILLE SANITARY DISTRICT
Notes to Financial Statements
June 30, 2015

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NOTE 4 - LONG-TERM DEBT (Continued)

Following are the principal and interest requirements to maturity for each of the five subsequent fiscal years and in five-year increments thereafter:

SWRCB Loan

Year(s) Ending June 30	Principal	Interest	Total
2016	21,831	4,259	26,090
2017	22,267	3,823	26,090
2018	22,712	3,378	26,090
2019	23,110	2,980	26,090
2020	23,631	2,459	26,090
2021-2024	99,403	4,955	104,358
	\$ 212,954	\$ 21,854	\$ 234,808

STATE REVOLVING FUND (SRF)

The District was indebted to the California Department of Public Health Safe Drinking Water State Revolving Fund for one loan. Details of this loan are as follows:

- a. Principal Amount at 6/30/13 - \$0 (Loan was paid in full prior to 6/30/13)
- b. Interest rate - 2.32% per annum

MUNICIPAL FINANCE CORPORATION (MFC)

On August 24, 2010, the District borrowed \$300,000 for a Wastewater Construction Project. The loan is payable in semi-annual installments of \$34,233.36, including 4.95% interest. Details of this loan are as follows:

- a. Principal Amount at 6/30/14 - \$97,648
- b. Interest Rate – 4.95% per annum

RURAL COMMUNITY ASSISTANCE CORPORATION (RCAC)

The District entered into two grant anticipation notes on August 5, 2013. This bridge loan was increased to \$1,175,000 on January 23, 2014. The maturity date is September 1, 2015 with interest at 5.50 %. (See Note 8) This note was paid off in 2015.

- a. Principal Amount at 6/30/14 - \$925,269
- b. Interest Rate – 5.5%

GARBERVILLE SANITARY DISTRICT
Notes to Financial Statements
 June 30, 2015

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NOTE 4 - LONG-TERM DEBT (Continued)

STATE REVOLVING FUND (SRF)

The District entered into a funding agreement (Project 1210008-006C) under the provisions of California Safe Drinking Water State Revolving Fund in April 2013 for a total Project cost of \$4,379,431. Under this agreement, the Loan amount is not to exceed \$1,379,471 at 0% interest, over 30 years, with principal payments of \$22,991.18 due semiannually on January 1 and July 1 commencing January 2016.

- a. Principal Amount at 6/30/15 - \$1,379,471
- b. Interest Rate – 0%

Following are the principal and interest requirements to maturity for each of the five subsequent fiscal years and in five-year increments thereafter:

MFC Loan

<u>Year(s) Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	33,364	827	34,191

Following are the details for the MFC Loan reflecting the respective loan portions used for each of the Water or Sewer Funds:

MFC Loan – Water Project Portion

<u>Year(s) Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	25,021	620	25,641

MFC Loan – Sewer Project Portion

<u>Year(s) Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	8,343	207	8,550

**GARBERVILLE SANITARY DISTRICT
Notes to Financial Statements**

June 30, 2015

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NOTE 5 - INSURANCE

The District is exposed to various risks of loss related to torts; damage to, and theft or destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District was a member of the Special District Risk Management Authority (SDRMA), an intergovernmental risk sharing joint powers authority created pursuant to California Government Code Sections 6500, et. seq., effective July 1, 2013 through June 30, 2014. During its membership, the following policies were in effect:

	Limits
General and Auto Liability, Public Officials' and Employees' Errors and Omissions and Employment Practices Liability (per occurrence)	2,500,000
Employee Dishonesty Coverage (per loss)	400,000
Property Loss (per occurrence)	1,000,000,000
Boiler and Machinery (per occurrence)	100,000,000
Public Officials Personal Liability (per occurrence)	500,000

NOTE 6 - PROPERTY TAXES/EXEMPTIONS

The County Board of Supervisors has authorized the District's receipt of taxes and exemptions from the County-wide \$1 per \$100 assessed valuation general purpose tax, as well as special taxes assessed for purposes of the general obligation bonds. The purpose of these appropriations is to assist the District in providing water and solid waste utility services. Following is a listing of the District's receipts by source:

	2015	2014
Current Secured Taxes	23,743	21,897
Current Unsecured Taxes	868	839
Taxes-Prior Years	26	14
Taxes-Current-Supplemental Rolls	141	170
State-Homeowners' Exemptions	329	350
Taxes-Prior Years-Supplemental	36	40
Total Taxes/Exemptions	25,143	23,310

GARBERVILLE SANITARY DISTRICT
Notes to Financial Statements
June 30, 2015

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**NOTE 7 – SURFACE WATER TREATMENT PLANT AND INFRASTRUCTURE
CAPITAL IMPROVEMENT PROJECT**

The project was expected to cost \$4.5 million dollars. Funding for this project is from CDPH, in Funding Agreement SRFCX103, executed on May 10, 2013 in the amount of \$4,060,478. The grant amount is \$3,000,000 and the loan amount is \$1,060,478 with 0% interest and a 30-year term. The Funding agreement was amended September 2014 to increase the total cost to \$4,379,471 with the original loan amount increased to \$1,379,471. (See Note 4) The project was completed January 29, 2015.

The total amount of interest cost capitalized for this project was \$15,510 and \$29,259 as of June 30, 2015 and 2014, respectively.

At June 30, 2015 and 2014 grant receivables in the amount of \$39,909 and \$480,849 were recorded by the District.

NOTE 8 – ANNEXATION (JURISDICTIONAL BOUNDARY, SOI EXPANSION, CHANGE IN PLACE OF USE, AND MSR) PROJECT

Every five years, the Humboldt County Local Agency Formation Commission (LAFCo) is mandated to review the Spheres of Influence (SOI's) of all government entities within the District. A Municipal Service Review (MSR) is prepared by LAFCo as part of the SOI review. The District participates in the preparation of the document and provides the data necessary for the LAFCo to perform the review. As part of the MSR/SOI review, in 2011, the District identified numerous parcels that are being provided with water service which are outside of the existing District's Jurisdictional Boundary and SOI. The LAFCo process for remedy of this condition is to complete an annexation of these parcels into the boundaries by petitioning LAFCo for the proposed change. As part of this project the District also needs to modify the Place of Use for the Diversion License and Permit as regulated by the State Water Resources Control Board Division of Water Rights to be consistent with the areas served. Upon completion of the Annexation, the Change in Place of Use, the Municipal Services Review and Sphere of Influence Update, the District will not need to complete this planning process for five years or until a property asks to be annexed into the District Boundary or Sphere of Influence.

NOTE 9 – PRIOR PERIOD ADJUSTMENT

A prior period adjustment was required during the year ended June 30, 2015. This adjustment was needed to correct the balance of the grant receivable Claim 7 recorded in 2014 for an engineering invoice that was not approved.

	<u>2014</u>
Write-off invoice for Arc-Sine	<u>\$ 5,513</u>

GARBERVILLE SANITARY DISTRICT
Notes to Financial Statements
June 30, 2015

NOTE 10 – CONTRACT

Management has entered a contract with Canyon Springs Enterprises dba RSH Construction Inc. to install the Alderpoint Road Tank Replacement at a cost of \$457,575.

NOTE 11 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 2, 2015, the date the financial statements were available to be issued.

In August 2015, the District obtained funding for the Alderpoint Road Tank construction project from Rural Community Assistance Corporation (RCAC) in an amount of \$250,000 with a 5 year repayment term at 5% interest.

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SINGLE AUDIT REPORTS

INDEPENDENT AUDITORS' 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

To the Board of Directors
Garberville Sanitary District

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, each major fund, and the aggregate remaining fund information of the Garberville Sanitary District as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Garberville Sanitary District's basic financial statements, and have issued our report thereon dated December 2, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Garberville Sanitary 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 Garberville Sanitary District's internal control. Accordingly, we do not express an opinion on the effectiveness of Garberville Sanitary District's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Directors
Garberville Sanitary District
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Garberville Sanitary 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*.

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.

Fortuna, California
December 2, 2015

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors
Garberville Sanitary District

Report on Compliance for Each Major Federal Program

We have audited Garberville Sanitary District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Garberville Sanitary District's major federal programs for the year ended June 30, 2015. Garberville Sanitary District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Garberville Sanitary District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Garberville Sanitary District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Garberville Sanitary District's compliance.

Board of Directors
Garberville Sanitary District
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Opinion on Each Major Federal Program

In our opinion, Garberville Sanitary District's, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of Garberville Sanitary District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Garberville Sanitary District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Garberville Sanitary District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Directors
Garberville Sanitary District
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The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Fortuna, California
December 2, 2015

GARBERVILLE SANITARY DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	No
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	No
Major programs are as follows:	
66.468 U.S. Environmental Protection Agency Capitalization Grants For Clean Water State Revolving Funds Passed through State Of California Department of Public Health Safe Drinking Water State Revolving Fund	
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee?	Yes

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters reported

SECTION III- FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters reported

GARBERVILLE SANITARY DISTRICT
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2015

SECTION I - SUMMARY OF PRIOR AUDIT FINDINGS

Financial Statements

No Prior Audit Findings

Federal Awards

No Prior Audit Findings

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters reported

SECTION III- FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters reported

GARBERVILLE SANITARY DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Environmental Protection Agency Passed through State of California Department of Public Health: Capitalization Grants For Clean Water , State Revolving Funds	66.468	08-758-550-1 1210008-006C	<u>\$ 1,136,178</u>
Total Expenditures of Federal Awards			<u>\$ 1,136,178</u>

The above schedule of expenditures of federal awards includes the federal grant activity of the Garberville Sanitary District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying notes.

Board of Directors and Management
Garberville Sanitary District

We have previously issued reports dated December 2, 2015 to the Board of Directors and management of the Garberville Sanitary District. These items reported 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* and on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.

In order to keep the Board apprised of other issues we feel to be of importance, we offer the following management letter. It contains our comments and recommendations on the operating methods, accounting policies and procedures, and other related matters which came to our attention during the course of our annual audit, including the progress made on addressing items identified in previous letters.

PRIOR YEAR ITEMS

ACCOUNTS RECEIVABLE BALANCES

Comment

It was noted that certain accounts receivable balances, relating to what are identified as inactive accounts, remain part of the overall accounts receivable balances in the general ledger and financial statements for the District. Per our discussions with staff, it is unlikely that these amounts will be collected in the future. This creates a situation which results in the potential overstatement of accounts receivable and income.

Recommendations

We recommend that the District consider either adopting an allowance for bad debts, including any potential amounts related to the inactive receivable customers, or, alternatively, consider a direct write-off of inactive accounts which are clearly not collectible in the future. Either of these approaches will result in more accurate accounts receivable and revenue amounts.

Status

The District adopted an Allowance for Doubtful accounts based on current status of accounts receivable.

Board of Directors
Garberville Sanitary District
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CURRENT YEAR ITEMS

No Matters Reported

This communication is intended solely for the information and use of management, the Board of Directors and others within the District, and is not intended to be and should not be used by anyone other than these specified parties.

We realize that the District's small staff is limited by time constraints in regard to implementing recommendations that we make. We would like to commend the District's staff on continued progress over the past year and encourage them to continue their efforts.

We would like to take this opportunity to thank all of the Sanitary District staff for their courtesies and for the opportunity to be of service. We look forward to working with the District again next year.

Very truly yours,

ANDERSON, LUCAS, SOMERVILLE & BORGES



GARBERVILLE SANITARY DISTRICT

P. O. BOX 211 GARBERVILLE CA 95542
PHONE (707) 923-9566 / FAX (707) 923-3130

December 2, 2015

Anderson, Lucas, Somerville & Borges
Certified Public Accountants
1338 Main Street
Fortuna, California 95540

This representation letter is provided in connection with your audits of the financial statements of Garberville Sanitary District, which comprise the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows for the year then ended, and the related notes to the financial statements, for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of December 2, 2015, the following representations made to you during your audit.

Financial Statements

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated July 9, 2015, including our responsibility for the preparation and fair presentation of the financial statements and for preparation of the supplementary information in accordance with the applicable criteria.
- 2) The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.

- 3) We acknowledge our responsibility for 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.
- 4) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- 5) Significant assumptions we used in making accounting estimates are reasonable.
- 6) Related party relationships and transactions, if any, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
- 7) All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed. No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements or in the schedule of findings and questioned costs.
- 8) The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements. A list of the uncorrected misstatements is attached to the representation letter.
- 9) The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
- 10) Guarantees, whether written or oral, under which the Garberville Sanitary District is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

- 11) We have provided you with:
 - a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
 - b) Additional information that you have requested from us for the purpose of the audit.
 - c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - d) Minutes of the meetings of Garberville Sanitary District or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 12) All material transactions have been recorded in the accounting records and are reflected in the financial statements and the schedule of expenditures of federal awards.
- 13) We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

- 14) We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - a) Management,
 - b) Employees who have significant roles in internal control, or
 - c) Others where the fraud could have a material effect on the financial statements.
- 15) We have no knowledge of any allegations of fraud or suspected fraud affecting the entity's financial statements communicated by employees, former employees, regulators, or others.
- 16) We have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
- 17) We have disclosed to you all known actual or possible litigation, claims, and assessments, if any, whose effects should be considered when preparing the financial statements.
- 18) We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware, if any.

Government—Specific

- 19) We have made available to you all financial records and related data.
- 20) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 21) We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- 22) We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report, if required.
- 23) The Garberville Sanitary District has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
- 24) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
- 25) There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.

- 26) As part of your audit, you assisted with preparation of the financial statements and related notes and schedule of expenditures of federal awards. We have designated an individual with suitable skill, knowledge, or experience to oversee your services and have assumed all management responsibilities. We have reviewed, approved, and accepted responsibility for those financial statements and related notes and schedule of expenditures of federal awards.
- 27) The Garberville Sanitary District has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- 28) The Garberville Sanitary District has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- 29) We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
- 30) If applicable, the financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
- 31) The financial statements properly classify all funds and activities.
- 32) All funds that meet the quantitative criteria in GASB No 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
- 33) Components of net position (net investment in capital assets; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.
- 34) Provisions for uncollectible receivables, if needed, have been properly identified and recorded.
- 35) Interfund, internal, and intra-entity activity and balances, if any, have been appropriately classified and reported.
- 36) Deposits and investment securities and derivative instruments, if any, are properly classified as to risk and are properly disclosed.
- 37) Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
- 38) We have appropriately disclosed the Garberville Sanitary District's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.
- 39) We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

40) With respect to federal award programs:

- a) We are responsible for understanding and complying with and have complied with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, including requirements relating to preparation of the schedule of expenditures of federal awards.
- b) We acknowledge our responsibility for presenting the schedule of expenditures of federal awards (SEFA) in accordance with the requirements of OMB Circular A-133 §310.b, and we believe the SEFA, including its form and content, is fairly presented in accordance with OMB Circular A-133 §310.b. The methods of measurement or presentation of the SEFA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement or presentation of the SEFA.
- c) If the SEFA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the SEFA no later than the date we issue the SEFA and the auditor's report thereon.
- d) We have identified and disclosed to you all of our government programs and related activities subject to OMB Circular A-133 and included in the SEFA made during the audit period for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.
- e) We are responsible for understanding and complying with, and have complied with, the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major program.
- f) We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance requirements applicable to federal programs that provides reasonable assurance that we are managing our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended.
- g) We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relevant to federal programs and related activities.
- h) We have received no requests from a federal agency to audit one or more specific programs as a major program.
- i) We have complied with the direct and material compliance requirements, including when applicable, those set forth in the *OMB Circular A-133 Compliance Supplement*, relating

to federal awards and have identified and disclosed to you all amounts questioned and all known noncompliance with the requirements of federal awards.

- j) We have disclosed any communications from grantors and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditors' report.
- k) We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditors' report.
- l) Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB Circular A-87, *Cost Principles for State, Local, and Tribal Governments*, and OMB's *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*.
- m) We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
- n) We have made available to you all documentation related to compliance with the direct material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- o) We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.
- p) There are no such known instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditors' report.
- q) No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies in internal control over compliance (including material weaknesses in internal control over compliance), have occurred subsequent to the date as of which compliance was audited.
- r) Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.
- s) The copies of federal program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
- t) We have charged costs to federal awards in accordance with applicable cost principles.

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- u) We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133 and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
- v) We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by OMB Circular A-133.
- w) We are responsible for preparing and implementing a corrective action plan for each audit finding, if any.

Signed: _____

Title: _____