

GARBERVILLE SANITARY DISTRICT

FINANCIAL STATEMENTS

June 30, 2011

GARBERVILLE SANITARY DISTRICT

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June 30, 2011

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ANDERSON, LUCAS, SOMERVILLE & BORGES, LLP

C E R T I F I E D P U B L I C A C C O U N T A N T S

ART STEWART (1945-1964)
RICHARD RODRIGUE (1950-1985)
DAVID J. SOMERVILLE (1971-1982)
DONALD J. HARRIS (1962-1994)

1338 MAIN STREET
FORTUNA, CALIFORNIA 95540
(707)725-4483 & (707) 725-4442

Toll Free: 800-794-1643

FAX: (707) 725-6340

E-mail: team@alsb.com

www.alsb.com

DAVID A. SOMERVILLE, II
KEITH D. BORGES

KEVIN COLLIER

JAMES M. ANDERSON, *Inactive*
EUGENE B. LUCAS, *Inactive*

INDEPENDENT AUDITORS' REPORT

Board of Directors
Garberville Sanitary District

We have audited the accompanying financial statements of the business-type activities of the Garberville Sanitary District as of and for the years ended June 30, 2011 and 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Garberville Sanitary District's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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 of the Garberville Sanitary District as of June 30, 2011 and 2010, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and State regulations governing special districts.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2011, 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* and should be considered in assessing the results of our audits.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Garberville Sanitary District's financial statements as a whole. The accompanying 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 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The District has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Anderson, Lucas, Pomerville & Borges

BASIC FINANCIAL STATEMENTS

GARBERVILLE SANITARY DISTRICT

Statement of Net Assets

June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 401,874	\$ 107,650
Accounts Receivable	73,524	62,120
Due from KIMTU	19,441	0
Grants Receivable	291,498	316,479
Prepays and Deposits	13,711	2,653
Total Current Assets	<u>800,048</u>	<u>488,902</u>
Restricted Assets		
Cash in County Treasury	408,005	194,419
Total Restricted Assets	<u>408,005</u>	<u>194,419</u>
Noncurrent Assets		
Capital Assets, Net of Depreciation	2,323,966	2,416,769
Construction in Progress	3,255,007	1,321,307
Total Noncurrent Assets	<u>5,578,973</u>	<u>3,738,076</u>
Total Assets	<u>\$ 6,787,026</u>	<u>\$ 4,421,397</u>
 LIABILITIES		
Current Liabilities		
Accounts Payable	\$ 437,176	\$ 484,542
Accrued Payroll Liabilities	8,614	10,379
Accrued Vacation	21,221	18,706
Current Portion of Long-Term Obligations	85,959	23,942
Other Accrued Liabilities	0	0
Total Current Liabilities	<u>552,970</u>	<u>537,569</u>
Noncurrent Liabilities		
Noncurrent Portion of Long-Term Obligations	524,684	383,860
Total Liabilities	1,077,654	921,429
 NET ASSETS		
Invested in Capital Assets, Net of Related Debt	4,968,330	3,330,274
Unrestricted	741,042	169,694
Total Net Assets	<u>\$5,709,372</u>	<u>\$3,499,968</u>

The accompanying notes are an integral part of these financial statements.

GARBERVILLE SANITARY DISTRICT
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2011

	Water	Sewer	Total 2011
OPERATING REVENUES			
Utility Sales	\$ 364,639	\$ 321,368	\$ 686,007
Bulk Water Sales	10,756		10,756
Connection Fees	0	-	0
Other Revenues	5,915	1,947	7,862
<u>Total Operating Revenues</u>	381,310	323,315	704,625
OPERATING EXPENSES			
Salaries and Wages	47,612	48,212	95,824
Payroll Taxes	6,453	7,247	13,700
Employee Benefits	6,627	5,813	12,440
Rent	5,400	4,800	10,200
Materials and Supplies	1,248	1,477	2,725
Transportation	238	236	474
Sewage Collection	-	49,131	49,131
Office Expense	2,058	2,064	4,122
Insurance	12,935	14,066	27,001
Professional Services	14,950	11,041	25,991
Sewage Treatment	-	50,457	50,457
Water Treatment	66,618	-	66,618
Water Distribution	35,127	-	35,127
Permits and Fees	3,069	10,934	14,003
Other Expenses	9,020	8,008	17,028
Deprecation and Amortization	33,332	66,320	99,652
<u>Total Operating Expenses</u>	244,687	279,806	524,493
OPERATING GAIN	136,623	43,509	180,132
NON-OPERATING REVENUES (EXPENSES)			
Capital Grant	174,636	1,834,294	2,008,930
Property Taxes and Exemptions	-	21,930	21,930
Interest Income	899	2,577	3,476
Interest Expense	(822)	(13,742)	(14,564)
<u>Total Non-operating Revenues (Expenses)</u>	174,713	1,845,059	2,019,772
CHANGE IN NET ASSETS	\$311,336	\$1,888,568	2,199,904
NET ASSETS			
BEGINNING OF YEAR			3,499,968
PRIOR PERIOD ADJUSTMENT			9,500
END OF YEAR			\$ 5,709,372

The accompanying notes are an integral part of these financial statements.

GARBERVILLE SANITARY DISTRICT
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2010

	Water	Sewer	Total 2010
OPERATING REVENUES			
Utility Sales	\$ 274,117	\$ 283,207	\$ 557,324
System Reserve Fees	5,678	5,755	11,433
Connection Fees	0	-	0
Other Revenues	6,719	8,165	14,884
<u>Total Operating Revenues</u>	286,514	297,127	583,641
OPERATING EXPENSES			
Salaries and Wages	55,317	49,587	104,904
Payroll Taxes	7,055	6,247	13,302
Employee Benefits	10,954	10,013	20,967
Rent	5,400	4,800	10,200
Materials and Supplies	237	237	474
Transportation	485	663	1,148
Sewage Collection	-	25,675	25,675
Office Expense	2,049	2,049	4,098
Insurance	9,492	9,154	18,646
Professional Services	15,234	15,769	31,003
Sewage Treatment	-	43,087	43,087
Water Treatment	69,194	-	69,194
Water Distribution	42,647	-	42,647
Permits and Fees	3,015	10,899	13,914
Other Expenses	7,436	7,439	14,875
Depreciation and Amortization	31,448	64,962	96,410
<u>Total Operating Expenses</u>	259,963	250,581	510,544
OPERATING GAIN	26,551	46,546	73,097
NON-OPERATING REVENUES (EXPENSES)			
Capital Grant	-	501,489	501,489
Property Taxes and Exemptions	-	20,416	20,416
Gain on Property Exchange	-	95,000	95,000
Other Revenue	75	-	75
Interest Income	155	2,451	2,606
Interest Expense	(2,417)	(6,704)	(9,121)
<u>Total Non-operating Revenues (Expenses)</u>	(2,187)	612,652	610,465
CHANGE IN NET ASSETS	\$24,364	\$659,198	683,562
NET ASSETS			
BEGINNING OF YEAR			2,816,406
END OF YEAR			\$ 3,499,968

The accompanying notes are an integral part of these financial statements.

GARBERVILLE SANITARY DISTRICT
Statement of Cash Flows
For the Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash Flows From Operating Activities		
Cash Received from Customers	\$ 693,221	\$ 583,700
Cash Paid for Employees	(123,729)	(137,472)
Cash Paid for Goods and Services	(378,226)	(254,801)
	<u>191,266</u>	<u>191,427</u>
Cash Flows From Non-Capital Financing Activities		
Other Revenue	-	75
Property Tax Revenues	21,930	20,416
	<u>21,930</u>	<u>20,491</u>
Cash Flows From Capital and Related Financing Activities		
Proceeds from Long-Term Debt	300,000	-
Principal Paid on Long-Term Debt	(97,159)	(44,733)
Interest Paid on Long-Term Debt	(14,564)	(9,121)
Acquisition of Capital Assets	(1,931,050)	(289,983)
Capital Grant	2,033,911	185,010
	<u>291,138</u>	<u>(158,827)</u>
Cash Flows From Investing Activities		
Interest on Investments	3,476	2,606
	<u>3,476</u>	<u>2,606</u>
Net Increase (Decrease) in Cash and Cash Equivalents	507,810	55,697
Cash and Cash Equivalents - Beginning of Year	302,069	246,372
Cash and Cash Equivalents - End of Year	<u>\$ 809,879</u>	<u>\$ 302,069</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, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Reconciliation of Operating Gain to Net Cash Provided by Operating Activities		
Operating Gain	\$ 180,132	\$ 73,097
Adjustment to Reconcile Operating Gain to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	99,652	96,410
(Increase) Decrease in Accounts Receivable	(11,404)	59
(Increase) Decrease in Other Receivable	(19,440)	
(Increase) Decrease in Prepaid Expenses	(11,058)	(997)
Increase (Decrease) in Accounts Payable	(47,366)	2,451
Increase (Decrease) in Accrued Liabilities	750	20,407
Total Adjustments	<u>11,134</u>	<u>118,330</u>
Net Cash Provided by Operating Activities	<u>\$ 191,266</u>	<u>\$ 191,427</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>\$ 809,879</u>	<u>\$ 302,069</u>
Cash and Cash Equivalents per Balance Sheet:		
Cash and Cash Equivalents	\$ 401,874	\$ 107,650
Cash in County Treasury	408,005	194,419
	<u>\$ 809,879</u>	<u>\$ 302,069</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

GARBERVILLE SANITARY DISTRICT
Notes to Financial Statements
June 30, 2011

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. To supply the inhabitants of the District with water for domestic use, irrigation, sanitation, industrial use, fire protection and recreation;
2. The collection, treatment, or disposal of sewage, waste and storm water of the District and its inhabitants.

In December of 2005, the community voted to purchase the assets of the Garberville Water Company.

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, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgets and Budgetary Accounting - The General 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. Complete details of the capital asset balances and of the annual depreciation calculations are not available. 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, 2011 was \$21,221, and at June 30, 2010 was \$18,706, and has been reflected thus on the Balance Sheet.

Fund Equity - Reservations of the ending retained earnings indicate the portions of retained earnings not appropriate 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.

Bad Debts - The direct write-off method is used for recording bad debts relating to accounts receivable. Management believes use of this method, which is not in accordance with Generally Accepted Accounting Principles, does not result in amounts which would be materially different if the allowance method was used.

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, 2011

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>2011</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	326,981	74,699			401,680
Petty Cash				194	<u>194</u>
Subtotal					401,874
Pooled with County			408,005		408,005
Total	<u>326,981</u>	<u>74,699</u>	<u>408,005</u>	<u>194</u>	<u>809,879</u>

<u>2010</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	56,926	50,493			107,419
Petty Cash				232	<u>232</u>
Subtotal					107,651
Pooled with County			194,419		194,419
Total	<u>56,926</u>	<u>50,493</u>	<u>194,419</u>	<u>232</u>	<u>302,070</u>

GARBERVILLE SANITARY DISTRICT
Notes to Financial Statements
June 30, 2011

NOTE 3 - CAPITAL ASSETS AND DEPRECIATION

Capital Assets for the District for the years ended June 30, 2011 and 2010 consisted of the following:

	Balance 6/30/10	Additions (Provisions)	Deletions and Transfers	Balance 6/30/11
Land-Sewer	34,811			34,811
Land-Water	88,699			88,699
Water System	112,642			112,642
Water Easements	177,397			177,397
Collection Facilities	2,246,746	3,745		2,250,491
Treatment Facilities	682,787	2,845		685,632
Building	0			0
Office Equipment	18,079	260		18,339
Vehicles	28,802			28,802
CIP Sewer	1,006,636	1,869,739		2,876,375
CIP Water	314,672	63,962		378,634
Less: Accumulated Depreciation	(973,195)	(99,652)		(1,072,847)
Total	<u>3,738,076</u>	<u>1,840,899</u>	<u>0</u>	<u>5,578,975</u>

	Balance 6/30/09	Additions (Provisions)	Deletions and Transfers	Balance 6/30/10
Land-Sewer	34,811			34,811
Land-Water	88,699			88,699
Water System	90,150	22,492		112,642
Water Easements	177,397			177,397
Collection Facilities	2,246,746			2,246,746
Treatment Facilities	682,787			682,787
Building	29,742		(29,742)	0
Office Equipment	14,563	3,516		18,079
Vehicles	19,061	9,741		28,802
CIP Sewer	364,193	642,443		1,006,636
CIP Water	241,296	73,376		314,672
Less: Accumulated Depreciation	(906,527)	(96,410)	29,742	(973,195)
Total	<u>3,082,918</u>	<u>655,158</u>	<u>0</u>	<u>3,738,076</u>

GARBERVILLE SANITARY DISTRICT
Notes to Financial Statements
June 30, 2011

NOTE 4 - LONG-TERM DEBT

Long-term debt of the District for the years ended June 30, 2011 and 2010 consisted of the following:

	Balance 6/30/10	Additions	Principal Payments	Balance 6/30/11
SWRCB	315,856		(19,774)	296,082
GWC	0			0
SRF	91,946		(50,577)	41,369
MFC	0	300,000	(26,808)	273,192
Total	<u>407,802</u>	<u>300,000</u>	<u>(97,159)</u>	<u>610,643</u>

	Balance 6/30/09	Additions	Principal Payments	Balance 6/30/10
SWRCB	335,242		(19,386)	315,856
GWC	21,274		(21,274)	0
SRF	96,019		(4,073)	91,946
Total	<u>452,535</u>	<u></u>	<u>(44,733)</u>	<u>407,802</u>

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 6/30/11 - \$296,082
- b. Interest rate – 2.0% per annum

GARBERVILLE WATER COMPANY (GWC)

On December 1, 2004, the District issued a note for \$220,000, payable through November 1, 2009. The loan is payable in monthly installments of \$4,067.07. The note is secured by a first security interest in the assets, including all water rights, as well as the District's accounts receivable. Details of this loan are as follows:

- a. Principal Amount at 6/30/11 - \$0
- b. Interest rate – 4.0% per annum

GARBERVILLE SANITARY DISTRICT
Notes to Financial Statements
June 30, 2011

NOTE 4 - LONG-TERM DEBT (Continued)

STATE REVOLVING FUND (SRF)

The District is 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 6/30/11 - \$41,369
- 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 6/30/11 - \$273,192
- b. Interest Rate – 4.95% per annum

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
2012	20,169	5,921	26,090
2013	20,572	5,518	26,090
2014	20,984	5,106	26,090
2015	21,403	4,687	26,090
2016	21,831	4,259	26,090
2017-2021	115,881	14,570	130,451
2022-2024	75,242	3,030	78,272
Totals	<u>\$ 296,082</u>	<u>\$ 43,091</u>	<u>\$ 339,173</u>

GWC Loan

Year(s) Ending June 30	Principal	Interest	Total
2012	\$ 0	\$ 0	\$ 0
Totals	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

GARBERVILLE SANITARY DISTRICT
Notes to Financial Statements
June 30, 2011

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:

SRF Loan

Year(s) Ending June 30	Principal	Interest	Total
2012	10,166	829	10,995
2013	20,683	359	21,042
2014	10,520		10,520
Totals	<u>\$ 41,369</u>	<u>\$ 1,188</u>	<u>\$ 42,557</u>

MFC Loan

Year(s) Ending June 30	Principal	Interest	Total
2012	55,624	12,843	68,467
2013	58,411	10,056	68,467
2014	61,338	7,129	68,467
2015	64,412	4,055	68,467
2016	33,407	827	34,234
Totals	<u>\$ 273,192</u>	<u>\$ 34,910</u>	<u>\$ 308,102</u>

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, 2010 through June 30, 2011. During its membership, the following policies were in effect:

	<u>Limits</u>
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

GARBERVILLE SANITARY DISTRICT
Notes to Financial Statements
June 30, 2011

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:

	2011	2010
Current Secured Taxes	20,549	18,870
Current Unsecured Taxes	860	876
Taxes-Prior Years	17	17
Taxes-Current-Supplemental Rolls	109	245
State-Homeowners' Exemptions	342	339
Taxes-Prior Years-Supplemental	54	69
Total Taxes/Exemptions	21,931	20,416

NOTE 7 – KIMTU MEADOWS CONSOLIDATION

The District is currently in the process of consolidation with the Kimtu Mutual Water Company (KMWC). The California Department of Public Health (CDPH) has determined the KMWC water quality did not meet drinking water standards. In studying the remediation issues and CDPH policies, the State agency determined the most cost effective corrective measure was a consolidation of KMWC with the Garberville Sanitary District (GSD). To effectively accomplish this, CDPH funded the construction of a new eight inch water main between the two water providers. As of end of the June 30, 2011 fiscal year, the construction for this pipe line had begun. The construction is expected to be completed before the end of the 2012 calendar year. Upon GSD's acceptance of the project, the District will have acquired twenty additional water connections. The Kimtu project is being done at no cost to the District. The amount shown in the financial statements as Receivable from Kimtu is for expenses incurred by the District for attorney and consultant fees related to the new system and which will be reimbursed by Kimtu.

GARBERVILLE SANITARY DISTRICT

Notes to Financial Statements

June 30, 2011

**NOTE 8 – SURFACE WATER TREATMENT PLANT AND INFRASTRUCTURE
CAPITAL IMPROVEMENT PROJECT**

In November 2004, the District purchased the assets of the Garberville Water Company. This acquisition enabled the community with the responsibility of providing water for their District. Along with this acquisition came a lengthy letter from the California Department of Public Health (CDPH), the regulatory agency for water. This letter addresses the many deficiencies with the operations, primarily infrastructure associated issues. The District knew of these deficiencies prior to the acquisition and was in contact the CDPH to define the needed improvements and possible funding. The District did the minor improvements in-house, funded by loans from its wastewater reserve account. When new Surface Water Treatment Regulations were implemented, the scope of the needed improvements drastically expanded. To date, the needed project is expected to cost \$5.5 million dollars. The District is nearing completion of the planning phase for these improvements. Funding for this project is expected to be from CDPH, in the form of a \$3 million dollar Prop 184 Grant, and the balance funded by a loan from the State Revolving Fund (SRF). It is anticipated the SRF loan will be 0% interest and a 30-year term.

NOTE 9 – PRIOR PERIOD ADJUSTMENTS

Certain adjustments of the books were required for the year ended June 30, 2011. These adjustments were necessitated in order to bring into alignment the proper capitalization of amounts related to the Construction in Progress – Water account. Details of the required adjustments are as follows:

	<u>2011</u>	<u>2010</u>
Adjust Construction in Progress - Water	\$ 9,500	\$ 0

NOTE 10 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 18, 2011, the date the financial statements were available to be issued, and no subsequent events exist.



ANDERSON, LUCAS, SOMERVILLE & BORGES, LLP

C E R T I F I E D P U B L I C A C C O U N T A N T S

ART STEWART (1945-1964)
RICHARD RODRIGUE (1950-1985)
DAVID J. SOMERVILLE (1971-1982)
DONALD J. HARRIS (1962-1994)

1338 MAIN STREET
FORTUNA, CALIFORNIA 95540
(707)725-4483 & (707) 725-4442

Toll Free: 800-794-1643

FAX: (707) 725-6340

E-mail: team@alsb.com

www.alsb.com

DAVID A. SOMERVILLE, II
KEITH D. BORGES

KEVIN COLLIER

JAMES M. ANDERSON, *Inactive*
EUGENE B. LUCAS, *Inactive*

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

Board of Directors
Garberville Sanitary District

We have audited the financial statements of the business-type activities of the Garberville Sanitary District, as of and for the year ended June 30, 2011, which collectively comprise the Garberville Sanitary District's basic financial statements and have issued our report thereon dated November 18, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Garberville Sanitary District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Garberville Sanitary District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Garberville Sanitary District's internal control over financial reporting.

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 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.

Our consideration of the internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Garberville Sanitary District's financial statements are free of 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*.

We noted certain matters that we reported to management of the Garberville Sanitary District, in a separate letter dated November 18, 2011.

This report is intended solely for the information and use of management, the Board of Directors others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Lucas, Pomerville & Borges

Fortuna, California
November 18, 2011



ANDERSON, LUCAS, SOMERVILLE & BORGES, LLP

CERTIFIED PUBLIC ACCOUNTANTS

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1338 MAIN STREET
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www.alsb.com

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
Garberville Sanitary District

Compliance

We have audited the 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 its major federal programs for the year ended June 30, 2011. The 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Garberville Sanitary District's management. Our responsibility is to express an opinion on the Garberville Sanitary District's compliance based on our audit.

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 the 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. Our audit does not provide a legal determination of the Garberville Sanitary District's compliance with those requirements.

In our opinion, the Garberville Sanitary District complied, in all material respects, with the 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, 2011.

Internal Control Over Compliance

Management of the Garberville Sanitary District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Garberville Sanitary District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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 the 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Green, Swartzell & Stojke

November 18, 2011

GARBERVILLE SANITARY DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

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:	
66.458 U.S. Environmental Protection Agency	
ARRA-Capitalization Grants For Clean Water State Revolving Funds	
Passed through State Of California State Water Resources Control Board	
Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	No

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
Year Ended June 30, 2011

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
Year Ended June 30, 2011

<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 State Water Resources Control Board: ARRA - Capitalization Grants For Clean Water State Revolving Funds	66.458	08-758-550-1 C-06-4926-110	\$ 1,834,294
Total Expenditures of Federal Awards			<u>\$ 1,834,294</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.



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Board of Directors and Management
Garberville Sanitary District

We have previously issued reports dated November 18, 2011 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

While the District continued to include the inactive accounts in the year-end receivable balances, the amount at June 30, 2011 was clearly not material.

YEAR-END BALANCE ADJUSTMENTS

Comment

Certain account balances of the District, particularly the accounts receivable, accrued interest expense and accrued vacation liability accounts, had either not been recorded or adjusted as of each particular year-end reporting period. Even though the amounts of the potential adjustments were not deemed material to the overall audit, and were therefore not proposed as audit adjusting entries, the District should consider the propriety of making these traditional year-end entries prior to the annual audits.

Recommendations

As indicated above, we recommend that all traditional balance sheet accounts, if necessary, be adjusted to their calculated or estimated balances periodically. At a minimum, this would be as of the end of each reporting period, if not more frequently.

Status

As part of the closing of the books for the year ended June 30, 2011, all of the above accounts were adjusted prior to the start of the annual audit.

CURRENT YEAR ITEMS

None

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

ANDERSON, LUCAS, SOMERVILLE & BORGES