HUMBOLDT BAY MUNICIPAL WATER DISTRICT

BASIC FINANCIAL STATEMENTS

and

REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2015

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Humboldt Bay Municipal Water District
Eureka, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Humboldt Bay Municipal Water District as of and for the year ended June 30, 2015, and the related notes to the financial statements, which 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 as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express 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 and the State Controller's Minimum Audit Requirements and Reporting Guidelines for California Special Districts. 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. According, 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Humboldt Bay Municipal Water District as of June 30, 2015, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

As discussed in Note 16 of the financial statements, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27 and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment to GASB Statement No. 68. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of local government's proportionate share of the net pension liability, the schedule of pension contributions, and the schedule of funding progress for other post-employment benefits be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Humboldt Bay Municipal Water District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information 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 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards,* we have also issued our report dated February 22, 2016, on our consideration of Humboldt Bay Municipal Water 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 the District's internal control over financial reporting and compliance.

Hunter, Hunter & Hunt

February 22, 2016

MANAGEMENT’S DISCUSSION AND ANALYSIS

HUMBOLDT BAY MUNICIPAL WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For FY 2014-15

The purpose of this section of the financial statements is to present management's discussion and analysis of the Humboldt Bay Municipal Water District's (District) financial performance during the fiscal year that ended on June 30, 2015 (FY 2014-15). We recommend that readers review this in conjunction with the remainder of the financial statements.

INTRODUCTION AND BACKGROUND

We would first like to provide a brief overview of the District and the customers served which will provide a context for the financial statements and the discussion which follows.

The Regional Water System:
The District was formed in 1956 pursuant to the Municipal Water District Act of the California Water Code. The District completed construction of the regional water system in 1961, and service commenced to the Cities of Eureka and Arcata and two pulp mills on the Samoa Peninsula. Since the initial construction, a number of additions and improvements to the regional system have been made, and additional wholesale customers have joined the regional system. Since inception, this regional water system has efficiently and reliably served the municipal and industrial water needs of customers in the Humboldt Bay region.

The regional water system includes the following components: R.W. Matthews Dam (which forms Ruth Lake) and the Gosselin Power House, in Trinity County; and the following facilities in Humboldt County: 1) diversion works on the Mad River northeast of Arcata capable of supplying 75 million gallons per day, 2) treatment facilities, including the Lloyd L. Hecathorn Turbidity Reduction Facility, 3) over 35 miles of pipeline infrastructure around the Humboldt Bay area to deliver water to the wholesale customers, and 4) extensive communication and control systems to operate and control the regional system including the John R. Winzler Operations and Control Center.

Customers Served and Associated Wholesale Water Contracts:
The District supplies treated domestic water to seven municipal agencies on a wholesale basis. The municipalities served by the District are the Cities of: Arcata, Blue Lake and Eureka, and the Community Services Districts of: Fieldbrook/Glendale, Humboldt, Manila and McKinleyville. Via the wholesale relationship, the District serves water to an estimated residential population of 88,000 (approximately 65% of the entire County), and to numerous businesses, industries and educational institutions.

The District provides retail water service to about 200 customers who reside outside the service territory of other water purveyors, but are located in close proximity to District facilities.

The District also has facilities to supply untreated water to customers on the Samoa Peninsula. The District was serving one wholesale industrial customer (pulp mill) until it ceased operations on October 15, 2008.

The District has long-term contracts in place with each of its seven wholesale municipal customers. These contracts have a 20-year term and will be in place through 2019 (or technically until the Safe Drinking Water State Revolving Fund (SRF) Loan Debt service to the State is paid in full shortly thereafter). The wholesale municipal customers have an opportunity to extend these contracts by up to ten years.

These contracts define the terms and conditions by which the District provides water service to its customers. The contracts specify that all operating, maintenance and capital costs associated with the regional water system are paid for by the wholesale customers. The contracts also specify the manner in which these costs are allocated *among* the wholesale customers. Furthermore, they specify that revenues received by the District, other than those associated with wholesale water sales, are credited back to the wholesale customers, and thus offset the costs that the wholesale customers otherwise pay. Examples of such revenues which are credited back to the wholesale customers include the District's share of 1% property taxes, power sales from the hydro-electric facility, interest income, revenues associated with retail water service, and other miscellaneous revenues.

A summary of the current cost allocation provisions of the wholesale contract is as follows:

Type of Cost	Municipal Customers' Cost Share	Industrial Customer(s) Cost Share
Debt Service for Turbidity Reduction Facility	100%	0%
Operation, Maintenance and Capital Expenditures associated with drinking water treatment facilities (i.e. facilities associated with providing safe drinking water in accordance with federal and state requirements)	100%	0%
Operation, Maintenance and Capital Expenditures associated with all other aspects of the regional water supply, pumping and distribution system (other than power for pumping water) *Change in % due to pulp mill closure.	55% increased to 100% effective April 1, 2009*	45% decreased to 0% effective April 1, 2009*
Power Costs for Pumping Water	In proportion to actual power use.	n/a

Additionally, the wholesale contracts provide that "Additions to Reserves" may be charged to the wholesale customers should the District need to replenish its General Reserve level. There were $100,000 in charges for additions to reserves to the wholesale customers for FY 2014-15, and $145,000 in charges for additions to reserves to the wholesale customers for FY 2013-14.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of several components: a) the Statements of Net Position (page 12), b) the Statements of Revenues, Expenses, and Changes in Net Position (page 13), and c) the Statements of Cash Flows (page 14). These financial statements present the District's financial position on an enterprise fund basis. An enterprise fund accounts for goods or services which are provided to outside parties – in the District's case, this is wholesale and retail water service.

BASIC FINANCIAL STATEMENTS

The financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. These statements offer short- and long-term financial information about District activities.

The Statement of Net Position includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). It also provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the results of the District's operations over the past year and can be used to determine the District's general financial well-being and whether the District has recovered its costs through its water charges.

The final financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and the changes in cash resulting from operations and investments. It also provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

There may be minor rounding differences between the following tables and the financial statements.

FINANCIAL HIGHLIGHTS

- The District's net position was $18,838,233 as of June 30, 2015, an increase of $3,998,220 compared to June 30, 2014.
- Revenues were $9,823,844, an increase of $826,976 from FY 2013-14.
- Expenses were $5,825,624, a decrease of $1,637,172 from FY 2013-14.
- Notes payable net of current portion is $4,930,551, a decrease of $685,068 from FY 2013-14.

DISCUSSION AND ANALYSIS

Our analysis of the District begins on page 12 of the financial statements. The Statements of Net Position present information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. A summary of the District's Condensed Statements of Net Position is presented in Table 1.

TABLE 1 CONDENSED STATEMENTS OF NET POSITION				
		As Restated	Change	
ASSETS	**FY 2014-15**	**FY 2013-14**	**$**	**%**
Current Assets	$2,004,777	$4,954,592	-$2,949,815	-59.5%
Restricted Cash & Investments	$3,421,185	$3,800,109	-$378,924	-10.0%
Land, Property & Equipment (net Accumulated Depreciation)	$22,765,357	$18,945,068	$3,820,289	20.2%
Total Assets	$28,191,319	$27,699,769	$491,550	1.8%
Deferred Outflows of Resources	$261,630	$230,637	$30,993	13.4%
LIABILITIES				
Current Liabilities	$1,433,582	$4,317,414	-$2,883,832	-66.8%
Unearned grant revenue	$30,005	$33,321	-$3,316	-10.0%
Post-Retirement Health Benefits Obligation	$691,690	$562,404	$129,286	-23.0%
Net Pension Liability	$1,969,634	$2,561,635	-$592,001	-23.1%
Long-term Debt	$4,930,551	$5,615,619	-$685,068	-12.2%
Total Liabilities	$9,055,462	$13,090,393	-$4,034,931	-30.8%
Deferred Inflows of Resources	$559,254	-	$559,254	N/A
NET POSITION				
Net Investment in Capital Assets	$17,149,715	$12,647,910	$4,501,805	35.6%
Restricted (for debt service)	$707,178	$706,962	$216	0.0%
Restricted (for capital projects)	$1,269,406	$1,685,098	-$415,692	-24.7%
Restricted (for credits to municipalities)	$403,085	$346,872	$56,213	16.2%
Unrestricted	-$691,151	-$546,829	-$144,322	26.4%
TOTAL NET POSITION	**$18,838,233**	**$14,840,013**	**$3,998,220**	**26.9%**

As documented in Note 16 to the audited financial statements, recording the full pension liability for PERS at June 30, 2014, caused the unrestricted net position to be a deficit balance as of June 30, 2014. The deficit continued for the year ended June 30, 2015.

As can be seen from the table above, the net position as of June 30, 2015 was $18,838,233, an increase of $3,998,220 (26.9%) as compared to June 30, 2014. The majority of this increase is related to the grant funded construction projects.

The largest portion of the District's net position is its investment in capital assets called property and equipment (e.g., land, buildings, equipment, and water system infrastructure), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide water services to its wholesale and retail customers, and consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to satisfy these liabilities.

The Statements of Revenues, Expenses, and Changes in Net Position (page 13) present information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g. uncollected taxes, or earned but unused vacation leave). A summary of the District's Condensed Statements of Revenues, Expenses, and Changes in Net Position is presented in Table 2.

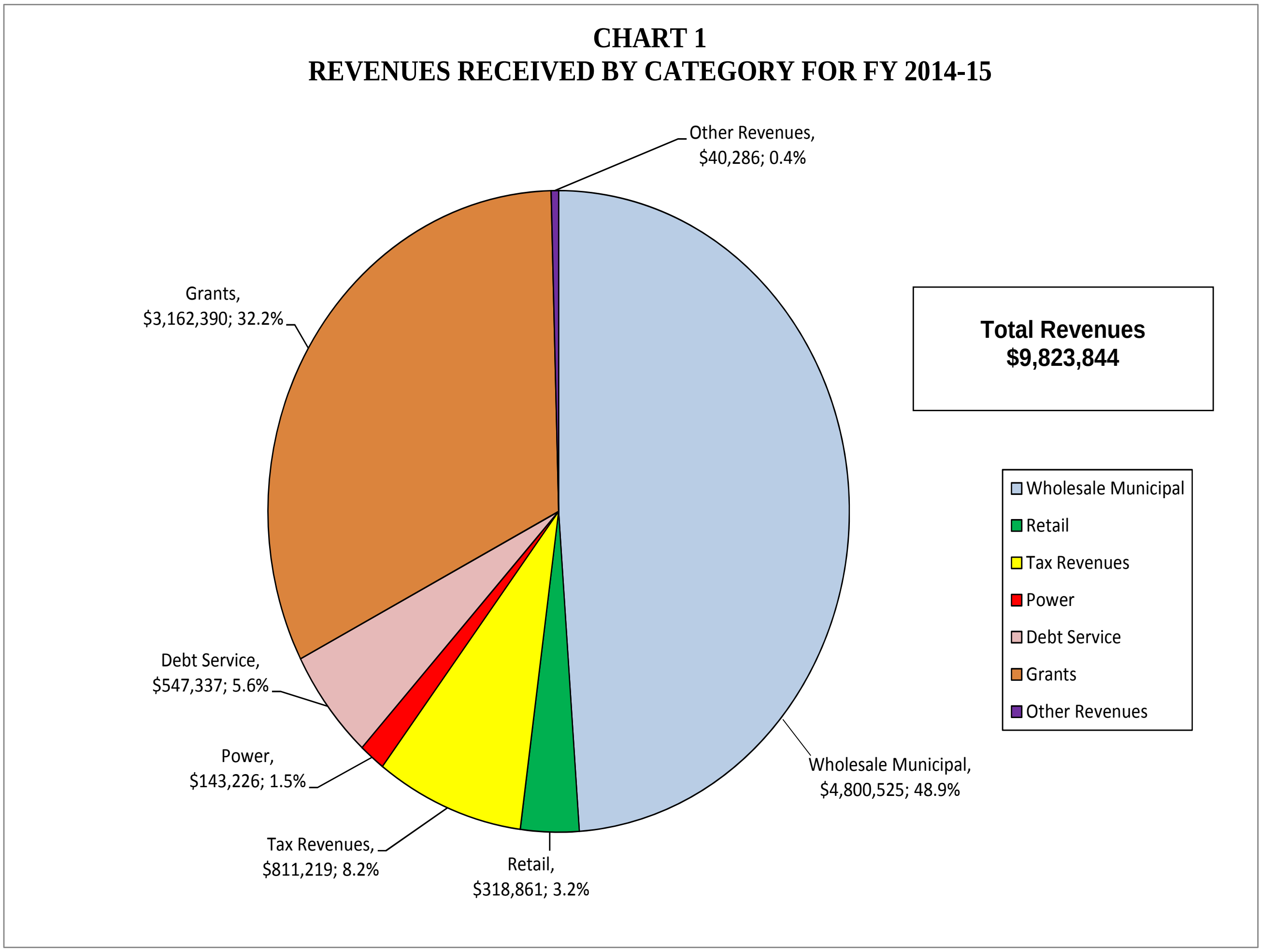
TABLE 2
CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	FY 2014-15	As Restated FY 2013-14	Change $	Change %
REVENUES				
***Operating:**				
Water Sales	$5,119,386	$4,938,217	$181,169	3.7%
Power Sales	$143,226	$122,682	$20,544	16.8%
SRF Debt Service Receipt	$547,337	$547,337	$0	0.0%
Other Operating	$17,026	$11,102	$5,924	53.4%
***Non-Operating:**				
Taxes	$811,219	$764,167	$47,052	6.2%
Interest Income	$23,260	$25,109	-$1,849	-7.4%
Grant Revenues	$3,162,390	$2,588,254	$574,136	22.2%
Total Revenues	$9,823,844	$8,996,868	$826,976	9.2%
EXPENSES				
Operating expense	$4,629,181	$4,491,739	$137,442	3.1%
Non-operating expense	$26,838	$33,007	-$6,169	-18.7%
Loss on asset disposal	$0,000	$4,548	-$4,548	-100.0%
Depreciation	$1,056,242	$975,723	$80,519	8.3%
Grant expenses	$337,671	$2,164,154	-$1,826,483	-84.4%
Less Reimbursements	-$224,308	-$206,375	-$17,933	8.7%
Total Expenses	$5,825,624	$7,462,796	-$1,637,172	-21.9%
Change in Net Position	$3,998,220	$1,534,072	$2,464,148	160.4%
Beginning Net Position	$14,840,013	$15,636,939	-$796,926	-5.1%
Restatement for Pension Liability	-	-$2,330,998	$2,330,998	-100.0%
Ending Net Position	**$18,838,233**	**$14,840,013**	**$3,998,220**	**26.9%**

While the Statements of Net Position show the changes in financial position, the Statements of Revenues, Expenses, and Changes in Net Position explain the nature and source of these changes. As shown in Table 2, the change in net position increased by $3,998,220 compared to the prior year. The changes in revenues and expenses which contributed to this change in net position are reflected in the above line-item detail.

Although the change in current year net position is shown as an increase of $3,998,220, it is important to understand that depreciation (a non-cash expense) is included in the expenses. Absent depreciation, the change in current year net position would be a gain of $5,054,462 ($3,998,220 + 1,056,242). The majority of this increase is related to the grant funded construction projects.

As a supplement to the Statements of Revenues, Expenses, and Changes in Net Position, Chart 1 presents operating and non-operating revenues earned in FY 2014-15 by category along with the proportionate share of the total revenue each category represents. The total revenues reflected in Chart 1 are $9,823,844. The municipal customer receipts of $547,337 for repayment of the District's SRF Loan for the Turbidity Reduction Facility, which is further described in the subsequent Long-Term Debt section and the grant funding receipts of $3,162,390, are associated with repayment of long-term debt and special funding respectively and not current operations. The major fluctuations in revenues and expenses relate to the increased grant funding and related expenditures. The Power revenue was slightly higher due to increased rainfall compared to the prior year and management's decision to reduce outflows to maximize water retention in the reservoir in response to the drought conditions during the prior year.



PROPERTY AND EQUIPMENT

The District has invested approximately $58,200,000 in a broad range of infrastructure for the regional water system. Table 3 presents a summary of the District's property and equipment. The majority of the current year additions in the amount of $5,420,161 is comprised of the Techite transmission line replacement in the amount of $4,193,499. As described below in Capital Improvement Program, this project was partially funded through the FEMA Hazard Mitigation Grant Program. Correspondingly, there was a reduction in Projects in Progress of $655,337 resulting from the reclassification of prior year capitalization of costs related to the Techite project.

TABLE 3 PROPERTY AND EQUIPMENT				
			Change	
	FY 2014-15	FY 2013-14	$	%
Buildings	$1,483,244	$1,221,352	$261,892	21.4%
Equip - Auto/Mobile/Office/Radio/Tools	$2,417,532	$2,280,645	$136,887	6.0%
Water System Infrastructure (excludes land)	$54,312,395	$49,291,013	$5,021,382	10.2%
Total Property and Equipment	$58,213,171	$52,793,010	$5,420,161	10.3%
Less Accumulated Depreciation	-$37,856,493	-$36,817,763	-$1,038,730	2.9%
Add Projects in Progress	$1,036,707	$1,597,849	-$561,142	-35.1%
Total Property & Equipment (net of Depr)	**$21,393,385**	**$17,573,096**	**$3,820,289**	**21.8%**

LONG-TERM DEBT

At FY 2014-15 year-end, the District has two long-term notes payable outstanding for a total amount of $5,615,643. The first has an outstanding balance of $4,652,363 (long-term note payable of $4,105,026 plus current liabilities-current portion of note payable of $547,337). This is the SRF Loan used to finance the Turbidity Reduction Facility. The SRF loan carries no interest (i.e. zero percent), and has a repayment term of 20 years. The initial SRF loan balance at its inception in 2004 was $10,946,736. The debt service for the SRF Loan is paid in its entirety by the District's wholesale municipal customers in accordance with the wholesale water contracts (via Price Factor 1).

The second note payable has an outstanding balance of $963,280 (long-term note payable of $825,525 plus current liabilities-current portion of note payable of $137,755). This is the Water System Improvement Loan or US Bank loan, used to finance various improvements to the water system consisting generally of well and pump improvements, and pipeline replacement. The US Bank loan carries interest at 2.63%, and has a repayment term of 10 years. The District makes semi-annual payments of $81,094 including principal and interest to US Bank, for a resulting annual payment of $162,188. The Water System Improvement loan balance at its inception in 2011 was $1,418,000. The debt service for the Water System Improvement Loan is paid in its entirety by the District's wholesale municipal customers in accordance with the wholesale water contracts (via Price Factor 2).

DESCRIPTION OF CURRENTLY KNOWN FACTS OR CONDITIONS THAT MAY HAVE A SIGNIFICANT EFFECT ON THE FINANCIAL POSITION OR RESULTS OF OPERATIONS

Pulp Mill Closure

On October 15, 2008 (FY2008-09), the District's only industrial customer, Evergreen Pulp, shut down its pulp mill for "three to six months". The mill did not reopen and was sold on February 6, 2009 to Samoa Acquisition Corporation (SAC). The District had an interim agreement with the new owner until April 30, 2009. The District shut off the water supply to the mill on May 1, 2009.

The mill had been paying 45% of the District's operation, maintenance, and capital expenditure costs associated with all aspects of the regional water supply except for the drinking water treatment facilities. For 2008-09, the mill's contribution to the cost of the regional water system would have been approximately $1.1 million.

Under the terms of the District's Ordinance 16 contracts, costs were shifted to the remaining wholesale customers (seven municipal agencies) beginning April 1, 2009. Whereas the municipalities had previously been paying 55% of costs, they now pay 100%.

SAC did try, under the name Freshwater Tissue, to raise financing to restart the mill but announced on September 28, 2010, that it was unsuccessful and was trying to sell off assets. The mill is not expected to reopen in the foreseeable future. This industrial property was recently acquired by the Humboldt Bay Harbor Recreation and Conservation District for development.

In order to replace the revenue that was being generated by its former industrial customers, the District has been conducting a comprehensive water resources planning effort to identify possible new customers or uses for the water that is now available. Any water use options that are deemed feasible will likely take several years to implement.

Capital Improvement Program

Going forward, the District needs to implement a substantial capital improvement program (CIP) given the age of its infrastructure (50 years). Mechanisms to finance CIP projects include pursuing grant funding, issuing new long-term debt, and working with wholesale municipal customers to increase revenues through water rates.

The first completed large infrastructure project undertaken was the Ranney Collector #3 Rehabilitation project. For financing purposes this was bundled with the Techite Pipeline Replacement project. The funding plan for these combined projects consists of the following components:

Collected from District's wholesale customers for the Ranney project	$ 322,000
Utilization of the District's Drinking Water Facilities Plant Reserve	630,000
US Bank Loan (10 year loan at 2.63%)	1,418,000
FEMA Grant for Techite project	2,795,000*
Total Projected Project Costs and Financing	$ 5,165,000

*For the Techite Replacement project, the District received the grant agreement for a Federal Emergency Management Agency (FEMA) grant in the amount of $2,795,000. The project was put out to bid and a contractor was selected prior to the June 30, 2014 fiscal year end. The contractor commenced the construction project in August 2014 and completed it prior to June 30, 2015.

Another large project is replacement of the District's pipeline that crosses over the Mad River to serve the City of Blue Lake and the Fieldbrook-Glendale Community Services District. The project cost is estimated to be $3,500,000 in current dollars. For this project, the District has been awarded a State of California Department of Water Resources Proposition 84 grant via the North Coast Integrated Regional Water Management Plan in the amount of $700,000. Similar to the Techite Replacement project, the District has received a commitment for a Federal Emergency Management Agency (FEMA) Hazard Mitigation grant in the amount of $2,668,750. FEMA has initiated its National Environmental Policy Act (NEPA) process for this project. Once this is completed, the District anticipates receiving the FEMA grant agreement. Any shortfall will be funded by the District through financing and/or water rates.

The Emergency Intertie project is a multijurisdictional project that the District is leading. The project partners are: HBMWD, the City of Arcata, the City of Eureka and the McKinleyville Community Services District. This project installs new water transmission interconnections between the agencies to allow for water supply redundancy in the event of a supply line disruption. A State of California Department of Public Health Proposition 50 grant in the amount of $3,648,550 has been received for this project. The Grant Agreement was executed at the beginning of the 2013/14 fiscal year. The project was put out to bid and a contractor was selected. The construction began prior to the end of the 2013/14 fiscal year and was completed prior to June 30, 2015. The assets created via this construction project were transferred to the respective agencies via the terms and conditions of the Special Facilities Agreement dated May 3, 2013.

BASIC FINANCIAL STATEMENTS

HUMBOLDT BAY MUNICIPAL WATER DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
June 30, 2015

ASSETS:	
CURRENT ASSETS:	
Cash & cash equivalents	$ 535,868
Accounts receivable	773,318
Grants receivable	518,932
Interest receivable	5,408
Prepaid expenses	166,251
Deposits	5,000
TOTAL CURRENT ASSETS	2,004,777
NON-CURRENT ASSETS:	
Restricted cash equivalents	3,421,185
Land	1,371,972
Projects in progress	1,036,707
Property & equipment, net	20,356,678
TOTAL ASSETS	28,191,319
DEFERRED OUTFLOWS OF RESOURCES:	
Pension related deferred outflows	261,630
LIABILITIES:	
CURRENT LIABILITIES:	
Accounts payable	137,568
Accrued wages, payroll taxes & benefits	137,392
Contract retentions payable	125,838
Interest payable	8,444
Accrued absences	271,937
Current other postemployment benefits obligation	67,311
Current portion of notes payable	685,092
TOTAL CURRENT LIABILITIES	1,433,582
LONG-TERM LIABILITIES:	
Unearned grant revenue	30,005
Other postemployment benefits obligation, net	691,690
Net pension liability	1,969,634
Note payables, net	4,930,551
TOTAL LIABILITIES	9,055,462
DEFERRED INFLOWS OF RESOURCES:	
Pension related deferred inflows	559,254
NET POSITION:	
Net investment in capital assets	17,149,714
Restricted for debt service	707,178
Restricted for capital projects	1,269,406
Restricted for credits to municipalities	403,085
Unrestricted	(691,150)
TOTAL NET POSITION	$ 18,838,233

See accompanying notes.

HUMBOLDT BAY MUNICIPAL WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND
For the Year Ended June 30, 2015

OPERATING REVENUES:	
Water sales:	
Municipal customers	$ 4,800,525
Retail customers	318,861
Debt service receipts	547,337
Total water sales	5,666,723
Power sales	143,226
Other operating revenues	17,026
TOTAL OPERATING REVENUES	5,826,975
OPERATING EXPENSES:	
Payroll & related costs	2,716,049
Employee retirement contributions	321,684
Power & pumping	641,850
Engineering	82,218
Materials & supplies	128,631
Repairs & maintenance	190,358
Auto & travel expenses	56,462
Insurance	94,511
Depreciation	1,056,242
Legal & accounting fees	43,016
Professional assistance	126,096
Tax & license	107,420
Training	23,950
Bad debt	333
Other operating expenses	96,603
Total operating expenses before reimbursements	5,685,423
Reimbursements for services & costs	(224,308)
TOTAL OPERATING EXPENSES	5,461,115
OPERATING INCOME (LOSS)	365,860
NONOPERATING REVENUES (EXPENSES):	
Tax revenues	811,219
Grant revenues	3,162,390
Grant expenses	(337,671)
Interest revenues	23,260
Interest expense	(26,838)
TOTAL NONOPERATING REVENUES (EXPENSES)	3,632,360
CHANGE IN NET POSITION	3,998,220
BEGINNING NET POSITION, AS RESTATED	14,840,013
ENDING NET POSITION	$ 18,838,233

See accompanying notes.

HUMBOLDT BAY MUNICIPAL WATER DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	$ 5,812,192
Payments to suppliers	(2,060,222)
Payments to employees	(2,957,649)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	794,321
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Taxes for general operations	811,219
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	811,219
CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES:	
Payments to acquire, construct & improve capital assets	(5,152,001)
Receipts of grants for capital financing	3,511,848
Advances repaid to municipal partnership	(335,427)
Principal paid on capital debt	(681,515)
Interest paid on capital debt	(28,015)
NET CASH PROVIDED (USED) BY CAPITAL & RELATED FINANCING ACTIVITIES	(2,685,110)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received	23,594
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	23,594
INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	(1,055,976)
CASH & CASH EQUIVALENTS AT BEGINNING OF YEAR	5,013,029
CASH & CASH EQUIVALENTS AT END OF YEAR	$ 3,957,053
FINANCIAL STATEMENT PRESENTATION RECONCILIATION:	
Cash & cash equivalents	$ 535,868
Restricted cash equivalents	3,421,185
CASH & CASH EQUIVALENTS AT END OF YEAR	$ 3,957,053
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating Income (loss)	$ 365,860
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	1,056,242
Changes in assets & liabilities:	
Receivables	(238,758)
Prepaid expenses	(5,741)
Accounts payable related to operating activities	(463,366)
Accrued liabilities	80,084
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ 794,321

NONCASH CAPITAL FINANCING ACTIVITIES

Earned grant revenue of $3,316 recognized in the current year was received in the prior year.

Grant funded infrastructure in the amount of $2,501,825 with an offsetting liability was transferred to other jurisdictions.

See accompanying notes.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Humboldt Bay Municipal Water District (the District) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

This summary of significant accounting policies of the District is presented to assist in understanding the financial statements. The financial statements and notes are representations of management, who is responsible for their integrity and objectivity. These accounting policies have been consistently applied in the preparation of the financial statements.

Reporting Entity

The District has no oversight responsibility over any other governmental unit and is not included in any other governmental "reporting entity" as defined in GASB pronouncements. The Board of Directors are elected by the public and have the decision-making authority to levy taxes, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

Nature of Activities

The District is a state-authorized special purpose government established to provide water services to the Humboldt Bay region. It was formed in 1956 under provisions of the Municipal Water District Act of 1911. The District provides retail water service to residential customers, and it contracts with seven municipal agencies for the purchase of treated domestic water for resale.

Basis of Presentation

The financial statements required by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 63, include a statement of net position, a statement of revenues, expenses, and changes in net position, and a statement of cash flows.

The District utilizes an enterprise fund, which is a proprietary fund type. Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Enterprise funds account for goods or services that are provided to outside parties. The District has elected to use the reporting model for special-purpose governments engaged only in business-type activities. In accordance with the business-type activities reporting model, the District prepares its statement of cash flows using the direct method.

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured. Basis of accounting refers to the timing of the recognition of revenues and expenditures in the accounts and their reporting in the financial statements.

Proprietary fund types are accounted for on an economic resources measurement focus using the accrual basis of accounting in which revenues are recognized when earned and expenses are recognized when the related liabilities are incurred.

The proprietary fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

The principal operating revenues of the District are charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the District’s practice to first use specifically designated restricted resources before using unrestricted resources.

Allowance for Doubtful Accounts

The District evaluates the collectability of water sales and grants receivable in order to determine the allowance for doubtful accounts. As of June 30, 2015, the District determined that the various receivables are fully collectible and recorded $0 for the allowance for doubtful accounts. Based on historical experience, the District does not expect amounts to become uncollectible, however if they are, they will be charged to operations as a bad debt expense. The impact of any bad debt expense recorded in the future is expected to be immaterial to the financial statements.

Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand, demand deposits, cash with a fiscal agent, and short-term highly liquid investments that are readily convertible to cash and mature within 90 days of the date acquired. Cash deposited in external investment pools are considered to be cash equivalents when deposits and withdrawals may be made at any time without prior notice or penalty. The District participates in two external investment pools: the Humboldt County Treasurer’s Investment Pool and the Local Agency Investment Fund (LAIF).

LAIF is a fund for pooling surplus cash of local government agencies and is chartered and administered by the California State Treasurer’s Office. LAIF has invested a portion of the pool funds in Structured Notes and Asset-Backed Securities. LAIF’s investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-Backed Securities are subject to market risk as to changes in interest rates.

The Humboldt County Treasurer’s Investment Pool is administered by the County of Humboldt Treasurer’s Office and conforms to the California Government Code. The County’s portfolio normally consists of U.S. Treasury issues, U.S. Agency agreements, banker’s acceptances, and the LAIF. All cash invested by the County in demand deposit accounts is collateralized to 110 percent with approved U.S. Government securities, such as Treasury Bills and other U.S. Treasury issues. Normal cash flow withdrawals for operations are paid on a “one dollar net asset value”. Withdrawals of funds for another purpose, such as total withdrawal from the County Pool or for an alternative investment of funds, may be paid out based on fair market value at the County’s discretion.

The District’s investment policy does not restrict the amount the District may deposit with any one issuer and the policy states that all excess funds not required for immediate use be deposited with LAIF or the Humboldt County Treasurer’s Investment Pool.

The District accounts for cash equivalents in the Humboldt County Treasurer's Investment Pool and the LAIF Pool at cost. Management considers the difference between book value and fair value immaterial. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

Capital Assets

Capital assets are defined as assets with an initial cost of $1,000 and projects costing $5,000 or more. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Assets that individually may be below threshold amounts are capitalized if collectively they are above the threshold amount.

Additions to and replacements of capital assets are recorded at original cost, which includes material, labor, overhead, and an allowance for the cost of funds used during construction, when significant. The costs of betterments or repairs that extend the life of a capital asset are added to capital accounts.

Depreciation of all exhaustible capital assets is charged as an expense against operations, with accumulated depreciation reflected in the statement of net position. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Dam, pipeline, buildings, water collection system, South Bay extension, Fieldbrook extension, Blue Lake extension, Lindley extension, Essex diversion, hydro plant penstock and piping	40 Years
Pump station and related facilities	10 - 40 Years
Hydro plant turbine and generators	20 Years
Tools and shop equipment, office equipment, pipeline connections, and hydro switchgear and controls	10 Years
Radio communication system and computers	5 Years
Vehicles	5 - 10 Years
Supplemental construction – except valves	40 Years
Supplemental construction – valves	20 Years

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Investments

The District's adopted investment policy seeks to promote the safety of principal, provide adequate liquidity for operational needs, earn market rates of return on investments consistent with liquidity needs and investment quality, and conform to legal requirements.

The District follows the authority governing investments for municipal governments set forth in the California Government Code, Sections 53601 through 53686. The Code authorizes the District to invest in obligations of the U.S. Treasury in the form of notes, bonds, bills or instruments for which the faith and credit of the United States are pledged for payment. The District may also invest in registered treasury notes, or bonds of the State of California and commercial paper of "prime" quality as defined by California Government Code Section 53635 and as rated by Standard and Poors Corporation or Moody's Commercial Paper Record.

The District's investment policy states that the District will structure its portfolio to meet cash requirements for ongoing operations thereby avoiding the need to sell securities prior to their maturity. The policy does not place formal limits on investment maturities.

Deferred Outflows and Inflows of Resources

Deferred outflows and inflows of resources represent a consumption of or an addition to net position that applies to a future period. These outflows and inflows will not be recognized as expenses and revenues until the appropriate period.

Net Position

Net position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. The District reports three categories of net position, as follows:

<u>Net investment in capital assets</u> - consists of net capital assets reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows of resources related to those assets.

<u>Restricted net position</u> - net position is considered restricted if its use is constrained to a particular purpose. Restrictions are imposed by creditors, grantors, laws, or regulations. The District has restricted net position for debt service, advance charges related to capital projects per contracts, and for revenue credits to the seven municipal customers per Ordinance 16 (see Notes 6, 9, 10 and 11).

<u>Unrestricted net position</u> - consists of all other net position that does not meet the definition of "net investment in capital assets" or "restricted net position" and is available for general use by the District. A net position deficit of $691,150 exists at June 30, 2015. See Note 16 for further discussion.

Property Taxes

The lien date for secured property taxes is March 1 of each year. Taxes are levied as of July 1 on all secured real property and are due and payable November 1 and February 1 of the following fiscal year. Humboldt County is responsible for assessing, collecting, and distributing property taxes in accordance with enabling legislation.

Since the passage of California Proposition 13, beginning with fiscal year 1978-79, taxes are based either on a 1% rate applied to the 1975-76 assessed value of the property, or on 1% of the sales price of the property on sales transactions and construction which occur after the 1975-76 assessment. Assessed values on properties (exclusive of increases related to sales transactions and improvements) can rise at a maximum of 2% per year. The amount collected by the County is distributed in accordance with State law to the various public agencies. Therefore, the District does not levy a specific tax rate but receives a share of the property tax revenue based on State formula. The District's tax rate is $1.00/$100 of assessed value, the maximum allowable under Proposition 13.

During fiscal year 1993-94, an alternate method of property tax allocation (the “Teeter Plan”) was adopted by the County. Under this plan, the county auditor/controller distributes 100 percent of current secured taxes billed to taxing entities during the current year, whether collected or not. The District recognizes property tax revenues (including tax increment revenues) to the extent of each year’s tax allocation received or to be received within 60 days after the end of each fiscal year.

Restricted Assets

Assets that are restricted as to withdrawal or use for other than current operations, for the liquidation of long-term debts or for expenditure in the acquisition or construction of capital assets are separately reported as restricted assets and not as current assets.

Pensions

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions and pension expense, information about the fiduciary net position of the District’s California Public Employees’ Retirement System (CalPERS) Plan (the "Plan") and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. CalPERS audited financial statements are publically available reports that can be obtained at the CalPERS’ website.

Postemployment Benefits other than Pensions

The District implemented GASB Statement No. 45 prospectively during the transition year ending June 30, 2010. The District records a liability on the Statement of Net Position for the difference between the amount the District contributes for retirees and the actuarially required contribution for funding postemployment benefits other than pension benefits. The District prepared a computation of the required contribution for the year ended June 30, 2015 (see Note 14).

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENT

Cash, cash equivalents, and investment at June 30, 2015, consist of the following:

Cash and cash equivalents:	
Unrestricted:	
U.S. Bank commercial checking (old)	$ 1,105
U.S. Bank commercial checking (new)	436,585
Petty cash	650
LAIF	1,595
Humboldt County Treasurer’s Investment Pool	95,933
Total unrestricted cash and cash equivalents	535,868

Restricted:	
U.S. Bank Money Market Account	159,840
U.S. Bank Money Market Account restricted for loan repayment	547,393
U.S. Bank "Prop 50" Capital Project Fund Account	294,155
Humboldt County Treasurer's Investment Pool	2,419,797
Total restricted cash and cash equivalents	3,421,185
Total cash and cash equivalents	$ 3,957,053

The U.S. Bank commercial checking account balances are carried at cost. One of the U.S. Bank money market accounts is restricted for servicing the Safe Drinking Water State Revolving Fund (SRF) loan (see Note 9). The District transfers $136,834 quarterly from a fund in the Humboldt County Treasurer's Investment Pool to the restricted U.S. Bank money market account. U.S. Bank, acting as a fiscal agent, administers the semiannual loan payments for a total annual payment of $547,337.

Restricted cash and cash equivalents include restrictions imposed by creditors, grantors, laws, regulations, and designations imposed by the Board of Directors (see Note 10). Restricted cash and cash equivalents in the Humboldt County Treasurer's Investment Pool are as follows:

Restricted for debt service	$ 47,822
Restricted for municipalities	422,289
Restricted for capital projects	1,949,686
Total restricted cash in County Investment Pool	$ 2,419,797

At June 30, 2015, the balances in the U.S. Bank accounts exceeded federally insured limits by $1,803,249. The amounts in government accounts held by U.S. Bank are collateralized at 110 percent by the Bank. The District has not experienced any losses in these accounts and management believes that the District is not exposed to any significant credit risk related to these accounts.

The District participates in two external investment pools: the Humboldt County Treasurer's Investment Pool and the LAIF. These investments are exempted from the credit risk categorization requirement because they are not securities.

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable from customers at June 30, 2015, consist of the following:

Resale customers:	
City of Eureka	$ 394,018
City of Arcata	80,648
Humboldt CSD	65,737
McKinleyville CSD	65,230
Others	42,109
Subtotal resale customers	647,742

Maintenance and operations charges to others	71,781
Domestic customers and others	42,410
Hydroelectric sales, Pacific Gas & Electric	11,385
Total accounts receivable	$ 773,318

NOTE 4 - GRANTS RECEIVABLE, UNEARNED GRANT REVENUE, GRANT REVENUES AND GRANT EXPENSES

Federal Emergency Management Agency (FEMA)
The District was awarded a capital grant from FEMA to be used for the Techite pipeline seismic retrofit project. FEMA originally obligated $2,185,178 in funds and has since granted the District's request for supplemental funding in the amount of $610,000. The grant is administered by the California Office of Emergency Services (CalOES), formerly the California Emergency Management Agency (CalEMA). Federal funds are available for 75 percent of the total eligible costs of approximately $3,700,000. Payments are made on a reimbursement basis with 10 percent retention withheld from each payment to be released at the project's closeout.

FEMA and California Department of Water Resources (CDWR)

The District plans to use funding from FEMA and CDWR to replace the District's pipeline that crosses over the Mad River to serve the City of Blue Lake and the Fieldbrook-Glendale Community Services District. The project cost is estimated to be $3,500,000.

The District was awarded a Proposition 84 (Round 1) capital grant from CDWR via the North Coast Integrated Regional Water Management Plan (NCIRWMP) in the amount of $700,000.

FEMA has approved a Phase One funding request for $220,000, of which FEMA has obligated a 75% Federal share of $165,000. These funds are available for eligible reimbursements which include a cultural resource survey and design plans. The District has until September of 2016 to complete Phase One. The grant is administered by CalOES.

Upon FEMA's determination of eligibility for construction funding, FEMA will consider the District's request to increase the project cost from $2,800,000 (with a $2,100,000 Federal share) to $3,558,334 ($2,668,750 Federal share).

CDWR
The District was awarded a Proposition 84 (Round 2) capital grant from CDWR via NCIRWMP in the amount of $667,000 to be used to replace pipe laterals in Collectors 1 and 1A. The Proposition 84 Sub-Grantee Agreement for this grant was entered into on October 29, 2014. Construction is expected to begin in the spring of 2016 and completed in the fall of 2016.

California Department of Public Health (CDPH)
The District was awarded a Proposition 50 capital grant from CDPH not to exceed $3,648,550 to be used for new water transmission interconnections (interties) between the participating jurisdictions to allow for water supply redundancy in the event of a supply line disruption. The grant is administered by the State Water Resources Control Board (SWRCB). Payments are made on a reimbursement basis with 5% retention withheld only on the claims that the District has withheld 5% from the contractor. There is no requirement that the District provide matching funds.

Grants Receivable

Grants receivable for the year ended June 30, 2015, consist of the following:

CalOES Techite project	$ 279,518
CalOES Blue Lake project	20,608
SWRCB Interties project	186,221
CDWR Blue Lake project	32,585
Total grants receivable	$ 518,932

The CalOES Techite project grant receivable includes $279,518 of retentions on claims submitted from April 2012 through June 2015. The CalOES Blue Lake project grant receivable includes $10,341 of retentions on claims submitted from April 2014 through June 2015. The CDWR Blue Lake project grant receivable includes $1,629 of retentions on claims submitted from December 2014 through June 2015. The SWRCB grant receivable at includes $125,838 of retentions on claims submitted from January 2014 through June 2015. As of June 30, 2015, the District has recorded contract retentions payable of $125,838 for amounts withheld from payments to one of the contractors providing services on the Proposition 50 grant funded interties project.

Unearned Grant Revenue

In May 2012, the District received an administrative share allowance of $40,136 from CalOES for the Techite pipeline project. During the year ended June 30, 2014, the District received an additional administrative allowance of $8,133.

For the year ended June 30, 2015, grant administrative expenses incurred and thus earned were $3,316.

For the year ended June 30, 2015, unearned grant revenue was $30,005.

Grant Revenues

Grant revenues for the year ended June 30, 2015, consist of the following:

CalOES Techite project	$ 2,290,175
CalOES Blue Lake project	58,887
SWRCB Interties project	780,743
CDWR Blue Lake project	32,585
Total grant revenues	$ 3,162,390

Grant Expenses

As outlined in a special facilities agreement between the participating jurisdictions, the District has the right and obligation to complete the interties project funded by the Proposition 50 capital grant. For the year ended June 30, 2015, the District transferred portions of the constructed property to the City of Arcata and the McKinleyville Community Services District. Amounts transferred to the City of Arcata and the McKinleyville Community Services District are $1,528,119 and $973,706, respectively.

The transfer is considered to be a voluntary nonexchange transaction and as such, grant expenses and the related liability are recognized in the period when the grantor approves the costs as eligible. The District incurred $780,743 in eligible intertie construction costs during the year ended June 30, 2015. The District has recognized $337,671 as grant expenses, a related liability labeled property transfer payable, and as a current asset labeled property to be transferred (see Notes 6 and 8). The asset and related liability were eliminated when the property ownership was transferred to the City of Arcata and the McKinleyville Community Services District during the year.

NOTE 5 - LAND

Land at June 30, 2015, consists of land and land rights of the General District, South Bay Water extension, and District No. U-1. There were no changes in land during the year ended June 30, 2015.

NOTE 6 - PROPERTY AND EQUIPMENT

Changes in property and equipment during the year ended June 30, 2015, are as follows:

	Balance 06/30/14	Additions	Deletions	Balance 06/30/15
Buildings	$ 1,221,352	$ 261,892	$ -	$ 1,483,244
Equipment:				
Automotive	864,968	98,269	-	963,237
Mobile	462,661	53,229	-	515,890
Office	445,395	16,887	(6,461)	455,821
Radio communications	84,775	-	-	84,775
Tools & shop	422,846	22,053	(47,090)	397,809
Water System Infrastructure:				
Blue Lake extension	13,808	-	-	13,808
Fieldbrook extension	300,559	-	-	300,559
Lindley extension	11,995	-	-	11,995
South Bay water extension	1,490,263	-	-	1,490,263
Essex diversion	7,549,757	52,452	-	7,602,209
Idled industrial pump station	482,819	-	-	482,819
Meters	143,607	-	-	143,607
Pipeline	6,575,392	4,225,727	-	10,801,119
Pumping plant	4,152,131	697,534	-	4,849,665
Storage tank	1,352,300	-	-	1,352,300
Water treatment facility	11,302,573	45,669	-	11,348,242
Ruth Lake Infrastructure:				
Ruth dam & works	7,096,523	-	-	7,096,523
Ruth hydroelectric plant	3,346,347	-	-	3,346,347
Ruth Lake fishing access	118,041	-	-	118,041
District No. U-1:				
Supplemental development	5,354,898	-	-	5,354,898

Total property & equipment	52,793,010	5,473,712	(53,551)	58,213,171
Accumulated depreciation	(36,817,763)	(1,056,242)	17,512	(37,856,493)
Net property & equipment	15,975,247	4,417,470	(36,039)	20,356,678
Projects in progress	1,597,849	717,030	(1,278,172)	1,036,707
Total property & equipment, net	$ 17,573,096	$ 5,134,500	$ (1,314,211)	$ 21,393,385

Total depreciation expense charged to operations for the year ended June 30, 2015, was $1,056,242. All capital assets are depreciable except land and projects in progress.

The Hilfiker Pump Station No. 6 is a direct diversion facility at Essex that supplies industrial water. The pump station was idled on May 1, 2009. The carrying value of the idled industrial pump station is $125,643 as of June 30, 2015. The remainder of the industrial system is fully depreciated. The idled industrial pump station may potentially be put back into service.

Constructed property in the amount of $2,501,825 transferred to other jurisdictions was recognized as a current asset until the date of transfer (see Note 4).

A forklift with a cost of $36,039 was transferred between tools and shop equipment and mobile equipment during the year.

Net investment in capital assets as of June 30, 2015, consist of the following:

Land	$ 1,371,972
Projects in progress	1,036,707
Property & equipment, net	20,356,678
Current portion of notes payable	(685,092)
Notes payable, net	(4,930,551)
Total net investment in capital assets	$ 17,149,714

Net position restricted for capital projects as of June 30, 2015, consist of the following:

Municipal customer advance charges for Ranney projects	$ 975,251
Restricted for Ranney projects	294,155
Total net position restricted for capital projects	$ 1,269,406

NOTE 7 - ACCRUED ABSENCES

Accrued absences consist of estimates of future obligations relating to accumulated unpaid vacation and sick leave compensation. There are predetermined limits to the amount of vacation and sick leave hours that can be accumulated by an employee. The District will pay the employee at the end of each calendar year for any excess vacation time accumulated that year.

Upon retirement, an employee will receive compensation for unused accumulated vacation. The employee also has the option under the District's California Public Employees' Retirement System (CalPERS) contract to convert 100% of the unused sick leave accrual to CalPERS service credit, or to receive a 35% cash payment and convert the remainder to CalPERS service credit. However, if an employee with less than ten years of employment terminates or retires, the unused accumulated sick leave is not eligible for compensation or CalPERS service credit conversion. Accrued absences as of June 30, 2015, consist of the following:

Accrued vacation	$ 141,935
Accrued sick leave	130,002
Total accrued absences	$ 271,937

NOTE 8 - PROJECT ADVANCES FROM MUNICIPAL PARTNERS

The District has had to pay significant construction costs on the multijurisdictional interties project before being reimbursed by the grantor. To help the District cover the cash shortfalls, the City of Arcata and the McKinleyville Community Services District have advanced funds to the District which were repaid when the project was completed. At June 30, 2015, all project advances have been repaid.

NOTE 9 - LONG-TERM NOTES PAYABLE

California Safe Drinking Water State Revolving Fund (SRF) Note
The District has a loan with the California Department of Water Resources (acting on behalf of the California Department of Health Services) under the provisions of the California SRF Law of 1997. The proceeds of the SRF loan were used to finance the construction of the Turbidity Reduction Facility. The loan, which matures in January of 2024, carries no interest and has a repayment term of 20 years. The District pays $547,337 annually in two semiannual payments. A U.S. Bank money market account is restricted for servicing the loan. The debt service for the loan is paid in its entirety by the District's municipal customers. Future debt service on the loan is:

Year Ending June 30	Principal	Interest	Total
2016	$ 547,337	$ -	$ 547,337
2017	547,337	-	547,337
2018	547,337	-	547,337
2019	547,337	-	547,337
2020	547,337	-	547,337
2021 to 2024	1,915,678	-	1,915,678
Total	4,652,363	-	4,652,363
Due within one year	(547,337)	-	(547,337)
Due after one year	$ 4,105,026	$ -	$ 4,105,026

Water System Improvement Loan
The District has a loan, which matures in September of 2021, with Municipal Finance Corporation (MFC) to finance various capital improvements to the water supply system. Under the ten-year installment sales agreement, the District is obligated to pay semiannual installment payments of principal and interest at the rate of 2.63% per annum on the unpaid principal balance. MFC assigned its rights to receive and enforce the payments under the agreement to US Bank. The debt service for the loan is paid in its entirety by the District's municipal water customers. Future debt service on the loan is:

Year Ending June 30	Principal	Interest	Total
2016	$ 137,755	$ 24,433	$ 162,188
2017	141,401	20,787	162,188
2018	145,145	17,043	162,188
2019	148,987	13,201	162,188
2020	152,931	9,257	162,188
2021 to 2022	237,061	6,222	243,283
Total	963,280	90,943	1,054,223
Due within one year	(137,755)	(24,433)	(162,188)
Due after one year	$ 825,525	$ 66,510	$ 892,035

Notes payable as of June 30, 2015, consists of the following:

SRF Note	$ 4,652,363
MFC Note	963,280
Total notes payable	5,615,643
Less current portion	(685,092)
Total notes payable, net	$ 4,930,551

Net position restricted for debt service for the years ended June 30, 2015 was $707,178.

NOTE 10 - NET POSITION

Restrictions on net position are imposed by creditors, grantors, laws, and regulations. Unrestricted net position as of June 30, 2015, has a deficit balance due to the impact of GASB 68 (See Note 16).

Restrictions on net position as designated by the Board of Directors are reported as unrestricted net position. Since the unrestricted net position has a deficit balance for the year ended June 30, 2015, designations of net position are not appropriate.

NOTE 11 - WHOLESALE WATER CONTRACTS

The District is primarily a wholesale water provider. The District's Ordinance 16 as amended in June 2006 establishes rates, charges, and conditions of service for water sales to the municipal water customers. The costs of constructing, operating, maintaining, repairing and replacing the water treatment facilities and maintaining reasonable reserves are allocated among the municipal customers.

The District has long-term contracts with its wholesale customers that govern wholesale rates, charges and conditions of service. The District has twenty-year contracts, effective July 1, 1999, in place with the following wholesale municipal customers:

- City of Arcata
- City of Blue Lake
- City of Eureka
- Fieldbrook-Glendale Community Services District

- Humboldt Community Services District
- McKinleyville Community Services District
- Manila Community Services District

All operating, maintenance, and capital costs associated with the regional water system are paid for by the wholesale customers. The rate structure is based on "Price Factor" formulas which allocate, in proportionate shares, the operating, maintenance and capital costs of the District to each of the wholesale customers. Municipal customers are billed monthly for water usage based on their share of such operating, maintenance and capital costs.

Revenues received by the District, other than those associated with wholesale water sales, are credited back to the wholesale municipal customers. These revenues include property tax revenues, power sales, interest income, retail water service revenues and other miscellaneous revenues. The revenue credit is applied ratably on a monthly basis during the course of the year.

The seven wholesale municipal customers are initially billed based on the District's approved budget, with the costs spread out evenly across the fiscal year. At year-end, the budgeted costs are reconciled with actual costs. Any underpayments or overpayments are divided into even monthly installments and applied to the municipalities' billing during the course of the following year.

The District had a contract with Evergreen Pulp, Inc., to supply wholesale industrial and retail water which was cancelled when the mill was sold in February 2009. The mill had been charged based on actual costs as incurred. The mill had been paying 45% of the District's operation, maintenance, and capital expenditure costs associated with all aspects of the regional water supply except for the drinking water treatment. Beginning April 1, 2009, costs were shifted to the seven municipal customers. Whereas the municipalities had previously been paying 55% of costs, they currently pay 100%.

During the fiscal year ended June 30, 2009, the contracts with the municipal customers were amended to provide greater specificity regarding remedies in the event of inaccuracies due to metering equipment. The contracts were also amended to allow the District to retain $393,358 in overpayments due to the municipal customers as of June 30, 2009. The overpayments were placed into the Municipal Supplemental Reserve Account dedicated for municipal customer purposes and benefit. The account is normally designated as a partially restricted reserve per Board of Director's policy; however, due to the deficit balance of unrestricted net assets, designations are not appropriate for the year ended June 30, 2015 (see Note 10). As of June 30, 2015, the reserve account had a balance of $414,785.

As of June 30, 2015, the municipal customers overpaid $395,581, for operating, maintenance, and capital costs. Overpayments in the amount of $346,435 were credited to the municipalities' 2014/2015 billings. Overpayments in the amount of $395,581 will be credited to the municipalities' 2015/2016 billings. As of June 30, 2015, there were additional credits to the municipalities in the amount of $7,504. At June 30, 2015, total net position restricted for credits to the municipalities was $403,085.

The municipal water customers may be charged in advance in order to fund future capital projects. For the year ended June 30, 2015, the municipal customers had balances in advance charges of $975,251 for improvement projects (see Note 6).

Additions to the District's general reserves may be charged to the wholesale customers should the District need to replenish its general reserve level. For the year ended June 30, 2015, the District charged the wholesale customers $100,000.

NOTE 12 - DEFERRED COMPENSATION PLAN

The District offers its employees a deferred compensation plan created in accordance with the Internal Revenue Code Section 457. The plan, available to all District employees, permits them to defer a portion of their salary until future years. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights, are (until paid or made available to the employee or other beneficiary) placed in trust for the benefit of the participants or their beneficiaries, and are not the assets of the District.

Effective January 1, 2013, the District contributes $25 for each employee who is not currently participating in the deferred compensation program. The District will provide a contribution match of up to $50 per month for employees who are participating in the deferred compensation program.

The District has a fiduciary responsibility to the participating employees in administration of the plan, but is not liable for losses arising from depreciation or other declines in the value of the plan assets.

NOTE 13 - RETIREMENT PLAN

General Information about the Pension Plan

Plan Description
All qualified full-time and part-time employees are eligible to participate in the District's Miscellaneous Employee Pension Plan, a cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions, and membership information. These reports can be obtained at CalPERS' website (www.calpers.ca.gov) under "Forms and Publications".

Benefits Provided
CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members hired prior to January 1, 2013 with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013 with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for the Plan are applied as specified by the Public Employees' Retirement Law.

The Plan's provisions and benefits in effect at June 30, 2015 are summarized as follows:

Hire date	Prior to January 15, 2011	January 15, 2011 through December 31, 2012	On or After January 1, 2013
Benefit formula	2% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	Monthly for life	Monthly for life	Monthly for life
Retirement age	50 - 63	50 - 63	52 - 67
Monthly benefits, as a % of eligible compensation	1.10% to 2.5%	1.092% to 2.418%	1.0% to 2.5%
Required employee contribution rates	6.891%	6.891%	6.891%
Required employer contribution rates	13.741%	13.741%	13.741%

<u>Contributions</u>
Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2014 (the measurement date), the average active employee contribution rate is 6.891 percent of annual pay, and the employer's contribution rate is 13.741 percent of annual payroll. It is the responsibility of the District to make necessary accounting adjustments to reflect the impact due to any Employer Paid Member Contributions or situations where members are paying a portion of the employer contribution.

For the year ended June 30, 2015, the contributions recognized as part of pension expense for the Plan were as follows:

Contributions - employer	$ 229,022

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

As of June 30, 2015, the District reported net pension liabilities for its proportionate shares of the net pension liability in the amount of $1,969,634.

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2014, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the Plan relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for the Plan as of June 30, 2014 was as follows:

	CalPERS
Proportion - June 30, 2013	0.0781%
Proportion - June 30, 2014	0.0797%
Change - Increase (Decrease)	0.0016%

For the year ended June 30, 2015, the District recognized pension expense of $190,051. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outlows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 253,791	
Differences between the employer's contributions and the employer's proportionate share of contributions	7,839	
Change in employer's proportion		434
Net differences between projected and actual earnings on plan investments		$ 558,820
Total	$ 261,630	$ 559,254

$253,791 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	Increase (Decrease) Pension Expense
2016	$ (137,061)
2017	(137,061)
2018	(137,588)
2019	(139,705)
2020	-
Thereafter	-
Total	$ (551,415)

Actuarial Assumptions

For the measurement period ended June 30, 2014 (the measurement date), the total pension liability for the Plan was determined by rolling forward the June 30, 2013 total pension liability. The June 30, 2013 and June 30, 2014 total pension liabilities for the Plan were based on the following actuarial assumptions:

Actuarial Cost Method	Entry-age normal cost method
Actuarial Assumptions:	
Discount Rate	7.5%
Inflation	2.75%
Payroll Growth	3.0%
Projected Salary Increase	Varies by entry age and service
Investment Rate of Return	7.5% (a)
Mortality	Derived using CalPERS's membership data for all funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until purchasing power protection allowance floor applies, 2.75% thereafter

(a) - Net of pension plan investment expense, including inflation

The mortality table used was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality, and retirement rates. Further details of the Experience Study can found on the CalPERS website (www.calpers.ca.gov) under Forms and Publications.

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained at CalPERS’ website (www.calpers.ca.gov) under the GASB 68 section.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. CalPERS deemed this difference to be immaterial to the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in these calculations.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS staff took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	47.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	12.00%	6.83%	6.95%
Real Estate	11.00%	4.50%	5.13%
Infrastructure and Forestland	3.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
Total	100.00%		

(a) - An expected inflation of 2.5% used for this period.
(b) - An expected inflation of 3.0% used for this period.

<u>Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate</u>

The following presents the District's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Discount Rate less 1% 6.5%	Current Discount 7.5%	Discount Rate plus 1% 8.5%
Net pension liability	$ 3,310,216	$ 1,969,634	$ 857,078

Pension Plan Fiduciary Net Position
Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial reports available on CalPERS' website (www.calpers.ca.gov) under Forms and Publications.

Payable to the Pension Plan

At June 30, 2015, the District reported a payable in the amount of $33,103 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS

Plan Description
The District provides a defined benefit healthcare plan (the "Retiree Health Plan"). The District pays a certain percentage of eligible retirees' actual costs subject to a maximum of $640 per month.

The duration of retiree benefits provided by the District depends on the date an employee was hired by the District. For all full-time regular employees hired by the District prior to July 8, 2004, the District will pay the medical costs premium during the life of a retired subject to a maximum of $640 per month.

For all full-time regular employees hired by the District after July 8, 2004, the District will pay 100% of the medical cost premium during retirement, subject to a maximum of $640 per month, for a maximum of 10 years or until the retiree reaches age 65, whichever comes first.

Funding Policy
The District's Board of Directors will not be funding the plan in the current year but will follow a pay-as-you-go approach. The Board will review the funding requirements and policy annually.

Annual OPEB Cost and Net OPEB Obligation
The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The District has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over the remaining period of 30 years.

The following table shows the components of the District's annual OPEB cost of the year, the amount actually contributed to the plan, and changes in its net OPEB obligation to the Retiree Health Plan:

	2015
Annual required contribution	$ 227,019
Interest on net OPEB obligation	34,226
Adjustment to annual required contribution	(32,432)
Annual OPEB cost (expense)	228,813

Estimated contributions made:	
Premiums paid	(61,814)
Implicit subsidy contributions	(32,216)
Increase in net OPEB obligation	134,783
Net OPEB obligation - beginning of year	624,218
Net OPEB obligation - end of year	$ 759,001
Current OPEB obligation	$ 67,311
Noncurrent OPEB obligation	691,690
Total OPEB obligation	$ 759,001

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the last three years is as follows:

Fiscal Year Ended	Annual OPEB Cost	Amount Contributed	% of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
June 30, 2015	$ 228,813	$ 61,814	27%	$ 759,001
June 30, 2014	$ 228,416	$ 57,551	26%	$ 624,218
June 30, 2013	$ 228,013	$ 57,743	25%	$ 484,631

Funding Status and Funding Progress
As of July 1, 2012, the actuarial accrued liability (AAL) for benefits was $2,413,787, all of which was unfunded.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrences of events far into the future. Examples include assumptions about future employment, mortality and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Methods and Assumptions
Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

Retirement age for active employees - Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 59, or at the first subsequent year in which the member would qualify for benefits.

Marital Status - Marital status of members at the calculation date was assumed to continue throughout retirement.

Mortality - Life expectancies at the calculation date are based on the most recent mortality tables published by the National Center for Health Statistics website (www.cdc.gov). The calculation of OPEB liability for each year is based on the assumption that all participants will live until their expected age as displayed in the mortality tables.

Turnover - The probability that an employee will remain employed until the assumed retirement age was determined using non-group-specific age-based turnover data provided in Table 1 in paragraph 35 of GASB Statement No. 45. In addition the expected future working lifetimes of employees were determined using Table 2 in paragraph 35c of GASB Statement No. 45.

Healthcare cost trend rate - Healthcare cost trend rates were selected based on a combination of national and state trend surveys as well as professional judgment. The ultimate trend rate was 3%.

Heath insurance premiums - 2012 health insurance premiums for retirees were used as a basis for calculation of the present value of total benefits to be paid.

Medicare Coordination - Medicare was assumed as the primary payer for current and future retirees at age 65.

Payroll increase - Payroll for current employees is expected to increase at the rate of approximately 2.8% annually.

Discount rate - The calculation uses an annual discount rate of 5.5%. This is based on the assumed long-term return on plan assets or employer assets.

Actuarial cost method - The entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at July 1, 2012, was twenty-seven years.

Plan for Funding

On an ongoing basis, the District will be reviewing its assumptions, comparing them against actual experience and recalculating the needed funding with the goal of paying for postemployment benefits out of interest earned on designated funds.

The schedule of funding progress, presented as required supplemental information following the notes to these financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to actuarial liabilities for benefits.

NOTE 15 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The risk of loss is variable as to the deductible amount per occurrence. Liability losses up to $1 million and property losses up to $50,000, are covered through a pooled self-insurance program, administered by the Association of California Water Agencies – Joint Powers Insurance Authority (ACWA-JPIA). Through participation in ACWA-JPIA, the District is covered by commercial liability insurance for losses in excess of $1 million, up to an insured maximum of

$60 million. Separately, the District insures for property damages in excess of the pooled limit of $1 million, with commercial insurance for losses up to $100 million.

The ACWA-JPIA began operations on October 1, 1979, and has continued without interruption since that time. The District is one of approximately two hundred and eighty-eight districts participating in the pool. The responsibilities of the ACWA-JPIA and the District are as follows:

Responsibilities of the ACWA-JPIA:

a. Provide insurance coverage as necessary.

b. Assist members in obtaining insurance coverage for risks not included within the coverage of the ACWA-JPIA.

c. Assist each member's designated risk manager with the implementation risk management function.

d. Provide loss prevention and safety consulting services to members as required.

e. Provide claims adjusting and subrogation services for claims covered by the ACWA-JPIA's joint protection programs.

f. Provide loss analysis and control in order to identify high exposure operations and to evaluate proper levels of self-retention and deductibles.

g. Review members' contracts to determine sufficiency of indemnity and insurance provisions when requested.

h. Conduct risk management audits to review the participation of each member in the programs.

i. The ACWA-JPIA shall have such other responsibilities as deemed necessary by the Board of Directors and Executive Committee (of the ACWA-JPIA).

Responsibilities of the District:

a. The governing board of each member district shall appoint a representative and at least one alternate representative to the Board of Directors.

b. Each member shall appoint an employee of the member to be responsible for the risk management function within that member and serve as a liaison between the member and the ACWA-JPIA as to risk management.

c. Each member shall maintain an active safety officer and/or committee, and shall consider all recommendations of the ACWA-JPIA concerning unsafe practices.

d. Each member shall maintain its own set of records, including a loss log, in all categories of risk covered by the joint protection program to insure accuracy of the ACWA-JPIA's loss reporting system.

e. Each member shall pay its deposit premium and premium adjustments within thirty days of the invoice date.

f. Each member shall provide the ACWA-JPIA with such other information or assistance as may be necessary for the ACWA-JPIA to carry out the joint protection programs.

g. Each member shall cooperate with and assist the ACWA-JPIA, and any insurer of the ACWA-JPIA, in all matters and covered claims and will comply with all bylaws, rules and regulations adopted by the Board of Directors and Executive Committee of the ACWA-JPIA.

There have been no significant reductions in insurance coverage from the prior year. The amounts of settlements have not exceeded the insurance coverage in each of the past three fiscal years.

NOTE 16 - PRIOR YEAR ADJUSTMENT FOR PENSION LIABILITIES

Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27 was implemented during the fiscal year ended June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB No. 68 requires a state or local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. During the transition year, as permitted, beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by Governmental Accounting Standards Board Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. Beginning net position for governmental and business type activities were restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

	Proprietary Fund
Net Position at June 30, 2014 as previously reported	$ 17,171,011
Net Pension liability at June 30, 2014	(2,561,635)
Change in outflows of resources related to contributions made after the June 30, 2014 measurement date	230,637
Net position June 30, 2014 as restated	$ 14,840,013

The combination of the prior year and current year pension liability adjustments under GASB No. 68 caused the Unrestricted Net Position to be a deficit balance of $691,150 for the year ended June 30, 2015.

NOTE 17 - CONTINGENCIES

The District receives, on a cost-reimbursement basis, federal and state funds to carry out a variety of projects and studies. As a recipient of federal and state funds, the District is responsible for maintaining an internal control structure that ensures compliance with all laws and regulations related to these programs. All federal and state program expenditures are subject to financial and compliance audits by the awarding agency. In addition, federal funds are subject to an annual audit process in accordance with OMB Circular A-133. Such audits could result in claims against the District for disallowed costs or noncompliance with contract provisions. No provision has been made for any liabilities which may arise from the noncompliance or questioned costs since the amounts, if any, cannot be determined at this time.

On January 27, 2016, CalOES issued a draft audit letter questioning $378,404 of costs relating to Federal Hazard Mitigation Grant Program funds for the Techite project. The District believes that the findings from the 2012 audit causing the questioned costs have been resolved. Additionally, the District believes that other District matching costs will qualify for funding under terms of the grant if the $378,404 of questioned costs is ultimately determined to be disallowed. The outcome of this audit is not known at the date the audit report was issued.

NOTE 18 – SUBSEQUENT EVENTS

The District’s management has evaluated subsequent events through February 22, 2016, which is the date the financial statements were available to be issued, and concluded that no additional adjustments to the financial statements or disclosures are required for the year ending June 30, 2015.

REQUIRED SUPPLEMENTARY INFORMATION

HUMBOLDT BAY MUNICIPAL WATER DISTRICT
SCHEDULE OF THE LOCAL GOVERNMENT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
As of June 30, 2015

		2015
Proportion of the net pension liability		0.03165%
Proportionate share of the net pension liability	$	1,969,634
Covered - employee payroll	$	1,644,389
Proportionate share of the net pension liability as a percentage of covered-employee payroll		119.78%
Plan's fiduciary net position	$	8,135,555
Plan fiduciary net position as a percentage of the total pension liability		80.51%

NOTE 1 - CHANGES IN BENEFITS AND ASSUMPTIONS

Benefit changes - There were no changes to benefit terms.

Changes in assumptions - There were no changes in assumptions.

NOTE 2 - TEN YEAR TREND SCHEDULE

The year ended June 30, 2015 was the first year of implementation for GASB 68, therefore, only one year of trend information is shown.

HUMBOLDT BAY MUNICIPAL WATER DISTRICT
SCHEDULE OF PENSION CONTRIBUTIONS
As of June 30, 2015

		June 30, 2015
Contractually required contribution (actuarially determined)	$	229,022
Contributions in relation to the actuarially determined contributions		(229,022)
Contribution deficiency (excess)	$	-
Covered-employee payroll	$	1,644,389
Contributions as a percentage of covered-employee payroll		13.93%

NOTE 1 - VALUATION DATE

Valuation date: June 30, 2013

NOTE 2 - METHODS AND ASSUMPTIONS

Methods and assumptions used to determine contributions rates:

Actuarial cost method	Entry-age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	20 years (a)
Asset valuation method	Smoothed value
Inflation	2.75%
Salary increases	Varies by entry age and service
Investment rate of return	7.5% net of pension plan investment expense, including inflation
Retirement age	60 years
Mortality	CalPERS Mortality Experience Study

(a) - Actuarial policy ACT-96-0SE specifies that all changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methodology are amortized separately over a 20-year period. In addition, all gains or losses are tracked and the net unamortized gain or loss is amortized as a rolling 30-year amortization with the exception of gains and losses in fiscal years 2008-09, 2009-10 and 2010-11 in which each years' gains or losses will be isolated and amortized over fixed and declining 30-year periods (as opposed to the current rolling 30-year amortization). Also, if a plan's accrued liability exceeds the actuarial value of assets, the annual contribution with respect to the total unfunded liability may not be less than the amount produced by a 30-year amortization of the unfunded liability. Finally, all plans are subject to a minimum employer contribution rate equal to the employer normal cost plus a 30-year amortization of surplus, if any.

NOTE 3 - TEN YEAR TREND SCHEDULE

The year ended June 30, 2015 was the first year of implementation for GASB 68, therefore, only one year of trend information is shown.

HUMBOLDT BAY MUNICIPAL WATER DISTRICT
SCHEDULE OF FUNDING PROGRESS FOR OTHER POST-EMPLOYMENT BENEFITS
As of June 30, 2015

Actuarial Valuation Date	Actuarial Accrued Liability Entry Age (a)	Actuarial Value of Assets (b)	Unfunded Liability (UAAL (a-b)	Funded Status (b/a)	Annual Covered Payroll (c)	UAAL as a % of Payroll ([a-b]/c)
July 1, 2012	$ 2,413,787	$ -	$ 2,413,787	0%	$ 1,567,071	154.0%
July 1, 2009	$ 1,994,945	$ -	$ 1,994,945	0%	$ 1,520,676	131.2%

NOTE 1 - SCHEDULE DESCRIPTION

The District sponsors a defined benefit postemployment healthcare plan (the Plan) to subsidize healthcare benefits to eligible retired employees. The above schedule presents information about the funded status for the Plan's two actuarial valuations.

NOTE 2 - ACTUARIAL VALUATIONS

Actuarial valuations of an on-going plan involve estimates of the value of the reported amounts and assumptions about the probability of occurrence of events far into the future. Amounts determined regarding the funded status of the plan and the annual required contribution of the District are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Information regarding the actuarial methods and assumptions for the July 1, 2012 actuarial valuation can be found in Note 14 of the basic financial statements. The next actuarial valuation will be performed during the year ended June 30, 2016.

OTHER SUPPLEMENTARY INFORMATION

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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
Humboldt Bay Municipal Water 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 as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts, the financial statements of the business-type activities of Humboldt Bay Municipal Water District (the District), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which comprise the District's basic financial statements, and have issued our report thereon dated February 22, 2016.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider deficiency 2015-001 described in the accompanying schedule of findings and questioned costs to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider deficiencies 2015-002 to 2015-004 described in the accompanying schedule of findings and questioned costs to be significant deficiencies.

Compliance and Other Matters

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

District's Response to Findings

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

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.

Hunter, Hunter & Hunt

February 22, 2016

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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
Humboldt Bay Municipal Water District

Report on Compliance for Each Major Federal Program

We have audited the Humboldt Bay Municipal Water Districts' 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 District's major federal programs for the year ended June 30, 2015. The District's major federal programs are identified in the summary of auditor's 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 the 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 the 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 the District's compliance.

Opinion on Each Major Federal Program

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2015-004. Our opinion on each major federal program is not modified with respect to these matters.

The District's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the 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 the 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 the District's internal control over compliance.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2015-004 to be a significant deficiency.

The District's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

Hunter, Hunter & Hunt

February 22, 2016

HUMBOLDT BAY MUNICIPAL WATER DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2015

Federal Agency, Pass-through Agency/ Program or Cluster Title	Pass-through Agreement #	CFDA #	Federal Expenditures
U.S. DEPARTMENT OF HOMELAND SECURITY			
Federal Emergency Management Agency			
Pass-through from CA Governor's Office of Emergency Services			
Hazard Mitigation Grant Program	1731-35-53	97.039	$ 2,290,175
Federal Emergency Management Agency			
Pass-through from CA Governor's Office of Emergency Services			
Hazard Mitigation Grant Program	1911-09-09R	97.039	58,887
Total U.S. Department of Homeland Security			2,349,062
Total Expenditures of Federal Awards			$ 2,349,062

NOTE 1 - BASIS OF PRESENTATION

The above schedule includes the federal award activity of the Humboldt Bay Municipal Water District for the year ended June 30, 2015. The information in this schedule is presented in accordance with 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 preparation of, the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, Cost principles for State, Local and Indian Tribal Governments, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

HUMBOLDT BAY MUNICIPAL WATER DISTRICT
SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2015

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	X Yes ______ No
Significant deficiencies identified not considered to be material weakness(es)?	X Yes ______ None reported
Noncompliance material to financial statements noted:	______ Yes X No

Federal Awards

Internal control over major federal programs:	
Material weakness(es) identified?	______ Yes X No
Significant deficiencies identified not considered to be material weaknesses?	X Yes ______ None reported
Type of auditor's report issued:	Unqualified
Any audit findings disclosed that are required to be Reported in accordance with Circular A-133, Section .510(a) of OMB Circular A-133	X Yes ______ No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
97.039	Hazard Mitigation Grant Program

Dollar threshold used to distinguish between Types A and B programs:	$300,000
Auditee qualified as low-risk auditee?	______ Yes X No

SECTION II - FINDINGS AND QUESTIONED COSTS - FINANCIAL STATEMENT AUDIT

Finding 2015-001

Criteria - Expenditures incurred during the prior fiscal year but paid in the current fiscal year should not be recorded as current fiscal year accounts payable. All contract payments held in retention by the District at the fiscal year-end should be recorded as current fiscal year contract retentions payable. Capital additions should be recognized in the same period in which the expenditures (including amounts retained from payment) are incurred.

Condition - For the year ended June 30, 2015, the District did not remove $407,970 of contract expenditures from accounts payable and fixed assets, and did not properly record $125,838 in amounts retained from contract payments as contract retentions payable.

Cause - The District maintains the accounting records on a cash basis during the fiscal year. The accounting records are converted to accrual basis at year-end. The District's internal controls over financial reporting did not identify the misstatements in a timely manner.

Effect or Potential Effect - Although the potential effect of the material weakness would be to overstate accounts payable by $407,970, overstate fixed assets by $407,970 understate contract retentions payable by $125,838, and overstate accounts payable by $125,838, the items noted above were corrected, so there is no effect upon the financial statements issued.

Recommendation - We recommend that the year-end closing procedures include a thorough examination and review of all expenditures and contract retentions to ensure that they are accounted for in the proper period.

Actions Taken - District management reviewed the auditor's findings and respectfully provided the following in response:

Management and the accounting staff have reviewed the internal accounting control procedures relating to grant revenue accrual including retention for proper recording in the financial records to ensure that they are accounted for in the proper period. As mentioned above, the items noted by the auditor were corrected and there was no effect upon the financial statements issued.

This finding is considered a material weakness.

Finding 2015-002

Criteria – The District should properly verify and allocate the value of fixed assets transferred to other municipalities.

Condition – Transfers to municipalities for fixed assets constructed as part of the Intertie project were correct in total, but the amounts transferred to each municipality were incorrect.

Cause - Management did not properly review the individual municipality transfers or confirm balances with engineers and the receiving municipalities.

Effect or Potential Effect - Although the potential effect of the significant deficiency would have no effect upon the financial statements issued, the receiving municipalities could have misstated values of the fixed assets received.

Recommendation - We recommend that management confirm the valuations of fixed assets to be transferred with appropriate professionals and the affected municipalities.

Actions Taken - District management and accounting staff reviewed the auditor's findings and respectfully provided the following in response:

Management and the accounting staff have reviewed its internal accounting control procedures relating to valuing fixed assets. The situation of asset transfers to other municipalities was unique to the Prop 50 Intertie Grant construction project and most likely will not re-occur in the near future. However, staff will endeavor to ensure that proper allocations are performed and communicated to other municipalities. Coordination with the other municipalities did occur once the issue was identified. As mentioned above, the items noted by the auditor were corrected and there was no effect upon the financial statements issued.

This finding is considered a significant deficiency.

Finding 2015-003

Criteria - The District should prepare a depreciation schedule that is reconciled to the capital asset account balances and depreciation expense should be calculated.

Condition - The asset addition and deletion schedules prepared by management did not include all capital additions. As a result, the cost basis of the assets according to the schedules did not match the capital asset account balances according to the general ledger. Depreciation expense was not calculated.

Cause - Management did not prepare a depreciation schedule. The asset additions report that management used to prepare the depreciation schedule was not complete. Management did not calculate depreciation expense.

Effect or Potential Effect - Although the potential effect of the significant deficiency would be a difference of $503,501 in the asset cost basis according to the depreciation schedule compared to the asset cost basis according to the general ledger, as well as the omission of depreciation expense. The items noted above were corrected, so there is no effect upon the financial statements issued.

Recommendation - We recommend that management create a depreciation schedule that reconciles the asset costs to the capital asset account balances, as well as calculating depreciation expense and accumulated depreciation.

Actions Taken - District management and accounting staff reviewed the auditor’s findings and respectfully provided the following in response:

Management and the accounting staff have reviewed the internal accounting control procedures relating to the preparation and reconciliation of the depreciation schedule and capital account balances to ensure that proper reconciliations are performed. As mentioned above, the items noted by the auditor were corrected and there was no effect upon the financial statements issued.

This finding is considered a significant deficiency.

Finding 2015-004

Criteria - The District should reconcile grant revenues recorded in the general ledger to the detail of grant activity maintained outside of the general ledger.

Condition – Grant funds received to reimburse costs incurred by other municipalities were recorded as revenue, and previously unearned revenue earned for administrative expenses was not recorded in the general ledger.

Cause - Management did not prepare a complete reconciliation of grant activity for each grant that provided for timely and detailed identification of reimbursements and unearned grant revenue balances.

Effect or Potential Effect - Although the potential effect of the significant deficiency would be an overstatement of state grant revenue of $10,545 from reimbursements to outside agencies, and an understatement of federal grant revenue for $3,316 from administrative costs, the items noted above were corrected, so there is no effect upon the financial statements issued.

Recommendation - We recommend that management track grant activity in a manner that easily allows for complete tracking of revenues and expenses.

Actions Taken - District management and accounting staff reviewed the auditor's findings and respectfully provided the following in response:

Management and the accounting staff have reviewed and updated its internal accounting control procedures relating to the grant revenues reconciliation to ensure that a more thorough review of the grant revenues reconciliations is performed. As mentioned above, the items noted by the auditor were corrected and there was no effect upon the financial statements issued.

This finding is considered a significant deficiency.

SECTION III - FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

See Finding 2015-004. This finding is considered a significant deficiency and relates to the major programs as follows:

U.S. Department of Homeland Security
Hazard Mitigation Grant Program - CFDA No. 97.039
Grant Period - 2/13/12 to 10/07/15

HUMBOLDT BAY MUNICIPAL WATER DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2014

Finding 2014-001

Criteria - Expenditures incurred during the current fiscal year but paid in the following fiscal year should be recorded as current fiscal year accounts payable. All contract payments held in retention by the District at the fiscal year-end should be recorded as current fiscal year contract retentions payable. Capital additions should be recognized in the same period in which the expenditures (including amounts retained from payment) are incurred.

Condition - For the year ended June 30, 2014, the District did not recognize $407,970 of contract expenditures as accounts payable and property to be transferred, and did not record $95,531 in amounts retained from contract payments as contract retentions payable and property to be transferred.

Cause - The District maintains the accounting records on a cash basis during the fiscal year. The accounting records are converted to accrual basis at year-end. The District's internal controls over financial reporting did not identify the misstatements in a timely manner.

Effect or Potential Effect - Although the potential effect of the material weakness would be to understate accounts payable by $407,970, understate contract retentions payable by $95,531, understate property to be transferred by $503,501, understate property transfer payable by $503,501, and understate grant expenses by $503,501, the items noted above were corrected, so there is no effect upon the financial statements issued.

Recommendation - We recommend that the year-end closing procedures include a thorough examination and review of all expenditures and contract retentions to ensure that they are accounted for in the proper period.

Current Status - Partially Implemented. See current year finding 2015-001.

Finding 2014-002

Criteria - Bank reconciliations at the end of the fiscal year should be prepared for all cash accounts.

Condition - Bank reconciliations at year-end were requested but not provided to the auditors for the cash accounts held with the Humboldt County Treasurer's Pooled Investment Fund. It appeared that the reconciliations were not performed.

Cause - Management did not provide a bank reconciliation for the Humboldt County Treasurer's Pooled Investment Fund. Audit procedures identified a significant error in the ending cash balance of the fund that could have been identified if a bank reconciliation had been prepared.

Effect or Potential Effect - Although the potential effect of the significant deficiency would be to understate cash equivalents by $58,395 and understate tax revenues by the same amount, the items noted above were corrected, so there is no effect upon the financial statements issued.

Recommendation - We recommend that management provide all bank reconciliations for all cash accounts.

Current Status - Implemented.

Finding 2014-003

Criteria - The depreciation schedule should be reconciled to the capital asset account balances.

Condition - The depreciation schedule prepared by management had mathematical inaccuracies and did not include all capital additions. As a result, the cost basis of the assets according to the depreciation schedule did not match the capital asset account balances according to the general ledger, and depreciation expense was understated in the general ledger.

Cause - Management did not reconcile the depreciation schedule to the capital asset account balances. The asset additions report that management used to prepare the depreciation schedule was not complete. Audit procedures identified significant differences that could have been identified if a reconciliation had been prepared.

Effect or Potential Effect - Although the potential effect of the significant deficiency would be a difference of $146,800 in the asset cost basis according to the depreciation schedule compared to the asset cost basis according to the general ledger, as well as an understatement of $1,500 in depreciation expense, the items noted above were corrected, so there is no effect upon the financial statements issued.

Recommendation - We recommend that management reconcile the depreciation schedule to the capital asset account balances.

Current Status - Partially Implemented. See current year finding 2015-003.