

**Graton Community Services District**

Independent Auditor's Report, Management's  
Discussion and Analysis, Basic  
Financial Statements and Supplementary Information

Fiscal Year Ended June 30, 2013

**Graton Community Services District  
For the Fiscal Year Ended June 30, 2013**

**Table of Contents**

	<u>Pages</u>
<b>Independent Auditor’s Report</b> .....	1 - 2
<b>Management’s Discussion and Analysis</b> .....	3 - 8
<b>Basic Financial Statements:</b>	
Statement of Net Position .....	9
Statement of Revenues, Expenses, and Changes in Net Position.....	10
Statement of Cash Flows .....	11 - 12
Notes to the Basic Financial Statements .....	13 - 21
<b>Supplementary Information:</b>	
Schedule of Expenditures of Federal Awards.....	22
Notes to Schedule of Expenditures of Federal Awards .....	23 - 24
<b>Compliance:</b>	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	25 - 26
Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance in accordance with OMB Circular A-133.....	27 - 28
Schedule of Findings and Questioned Costs.....	29 - 30
Summary Schedule of Prior Audit Findings.....	31

## **Independent Auditor's Report**

Board of Directors  
Graton Community Services District  
Graton, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Graton Community Services District (the "District"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This responsibility includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

#### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2013, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Local partnership. Global solutions.*

## **Independent Auditor's Report (continued)**

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents 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 District's basic financial statements. The schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and the related notes to the schedule of expenditures of federal awards are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of expenditures of federal awards and the related notes are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

#### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2014, on our considerations of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants and 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 the 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.

*PricewaterhouseCoopers LLP*

Petaluma, California  
March 7, 2014

## **Management's Discussion and Analysis**

As management of the Graton Community Services District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with the District's basic financial statements and the accompanying notes to the basic financial statements as listed in the Table of Contents.

### **Reporting Entity**

The District was formed in 2004 by a resolution of the Local Agency Formation Commission of the County of Sonoma, California approving a reorganization consisting of the dissolution of the Graton Sanitation Zone of the Sonoma County Water Agency, forming the District, designating the District as the successor in interest to the Graton Sanitation Zone, and establishing a sphere of influence for the District.

Please refer to the definition of the reporting entity within the notes to the financial statements for additional detail.

### **Financial Highlights**

#### *Net Position*

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$6,696,378, a decrease of \$117,250 from the prior fiscal year. Unrestricted net position at the end of the fiscal year amounted to a deficit of \$525,568. The deficit is due to timing of cash flows and revolving loan funding associated with the collection system improvement project which will be forgiven upon completion of the project and related contingencies. The project is expected to be complete in early 2014.

#### *Revenues*

The District recognized total operating revenues of \$998,914 during the fiscal year ended June 30, 2013, which consisted of flat charges of \$980,917 and charges for services of \$17,997.

#### *Expenses*

The District incurred operating expenses totaling \$1,276,871 during the fiscal year ended June 30, 2013. This amount represents expenses related to the general administration and operation of the sanitation system.

### **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 financial report is comprised of three components: 1) management's discussion and analysis, 2) basic financial statements, and 3) notes to the basic financial statements.

**Overview of the Financial Statements (continued)**

*Management's Discussion and Analysis*

Management's Discussion and Analysis is intended to provide a narrative overview that users need to interpret the basic financial statements. Management's Discussion and Analysis also provides analysis of key data presented in the basic financial statements.

*Basic Financial Statements*

The District is engaged only in the business-type activities of the collection, treatment, or disposal of sewage, waste and storm water within its service area. The District accounts for its financial activity utilizing fund accounting, specifically, enterprise fund accounting, to ensure and demonstrate compliance with finance-related legal requirements. An enterprise fund is a proprietary fund type used to report activities for which a fee is charged to external customers for goods or services provided. The focus of an enterprise fund is the determination of operating income, changes in net position (or cost recovery), financial position, and cash flow. The basic financial statements presented are the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows.

*Notes to the Basic Financial Statements*

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

*Financial Analysis*

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities by \$6,696,378 at the close of the fiscal year ended June 30, 2013.

The largest portion of the District's net position reflects its net investment in capital assets (e.g., land, infrastructure, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide sanitation services to its customers; 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 liquidate these liabilities.

**Overview of the Financial Statements (continued)***Financial Analysis (continued)***Condensed Statements of Net Position**

	June 30, 2012	June 30, 2013	Percentage Change
Current assets	\$ 780,364	\$ 999,638	28.1%
Noncurrent assets	8,580,560	13,368,198	55.8%
<b>Total Assets</b>	<b>9,360,924</b>	<b>14,367,836</b>	<b>53.5%</b>
<b>Total Deferred Outflows of Resources</b>	<b>5,755</b>	<b>46,367</b>	<b>705.7%</b>
Current liabilities	513,422	1,701,933	231.5%
Noncurrent liabilities	2,039,629	6,015,892	195.0%
<b>Total Liabilities</b>	<b>2,553,051</b>	<b>7,717,825</b>	<b>202.3%</b>
Net Position			
Net investment in capital assets	6,413,356	6,704,334	4.5%
Restricted for capital projects	-	517,612	100.0%
Unrestricted	400,272	(525,568)	-231.3%
<b>Total Net Position</b>	<b>\$ 6,813,628</b>	<b>\$ 6,696,378</b>	<b>-1.7%</b>

The increase in the current assets balance is due to an addition to deposits with others for contract retention totaling \$265,449. The increase in capital assets is due to increases to construction in progress associated with the collection system improvement project. The increase in current liabilities is due to the increase in construction payables associated with construction in progress. Increases in noncurrent liabilities were due to advances from governments in the amount of \$3,416,200 received during the year and \$529,309 in additional capital project financing obtained while refinancing the District's construction loan.

**Overview of the Financial Statements (continued)***Financial Analysis (continued)***Condensed Statement of Changes in Net Position**

Year ended June 30,	2012	2013	Percentage Change
Revenues			
Operating	\$ 974,686	\$ 998,914	2.5%
Nonoperating	34,565	31,550	-8.7%
<b>Total revenues</b>	<b>1,009,251</b>	<b>1,030,464</b>	<b>2.1%</b>
Expenses			
Operating	992,348	1,276,871	28.7%
Nonoperating	22,756	-	-100.0%
<b>Total expenses</b>	<b>1,015,104</b>	<b>1,276,871</b>	<b>25.8%</b>
<b>Loss before capital contribution</b>	<b>(5,853)</b>	<b>(246,407)</b>	<b>4109.9%</b>
Capital contributions			
Connection fees	10,294	-	-100.0%
Intergovernmental	124,340	129,157	3.9%
<b>Increase (decrease) in net position</b>	<b>128,781</b>	<b>(117,250)</b>	<b>-191.0%</b>
<b>Net Position - Beginning of Year</b>	<b>6,684,847</b>	<b>6,813,628</b>	<b>1.9%</b>
<b>Net Position - End of Year</b>	<b>\$ 6,813,628</b>	<b>\$ 6,696,378</b>	<b>-1.7%</b>

Operating revenues, consisting of sanitation service charges, increased by \$24,228 from the prior fiscal year due to an increase in the flat charges rate.

The increase in operating expense was mainly due to increases in legal costs of financing ongoing construction activities as well as increased depreciation expense due to assets placed in service in the prior fiscal year.

Investment income increased this year by \$9,509 (138.1%) due to higher collection of penalties and interest from direct charges receivable.

Connection fees decreased during the fiscal year by \$10,294 (100.0%) due to no new customers connecting to the District's system during the current fiscal year.

**Overview of the Financial Statements (continued)***Expenses by Function*

Expenses for the District for the fiscal year ended June 30, 2013 totaled \$1,276,871. Costs associated with the administration of the sanitation system totaled \$1,071,238 and represent 83.9% of the District's total operating costs during the fiscal year. The remaining 16.1% of operating expenses consists of \$205,633 towards depreciation and amortization.

**Capital Asset and Debt Administration***Capital assets*

The District's investment in capital assets as of June 30, 2013, amounts to \$12,816,534 (net of accumulated depreciation). The components of capital assets are summarized below.

	June 30, 2012	June 30, 2013	Percentage Change
Land	\$ 417,205	\$ 417,205	-
Intangible	-	18,930	-
Construction in progress	3,000,273	7,414,952	147.1%
Infrastructure	7,601,193	7,601,193	-
Machinery and equipment	110,459	118,457	7.2%
Accumulated depreciation	(2,548,570)	(2,754,203)	8.1%
<b>Total</b>	<b>\$ 8,580,560</b>	<b>\$ 12,816,534</b>	<b>49.4%</b>

Additional information on the District's capital assets can be found in the notes to the basic financial statements.

**Capital Asset and Debt Administration (continued)**

*Long-term debt*

At the end of the current fiscal year, the District had a total of \$2,996,000 in outstanding current and non-current long-term debt. The District's long-term debt consists of general obligation bonds issued in 1976, a construction loan restructured in 2013, and a Rural Community Assistance Corporation (RCAC) note issued in 2010. Long-term debt obligations are summarized below.

	<u>June 30, 2012</u>	<u>June 30, 2013</u>	<u>Percentage Change</u>
General obligation bonds	\$ 81,000	\$ 66,000	-18.5%
Note payable	300,000	300,000	-
Construction loan	<u>2,086,204</u>	<u>2,630,000</u>	<u>26.1%</u>
<b>Total</b>	<u>\$ 2,467,204</u>	<u>\$ 2,996,000</u>	<u>21.4%</u>

The District's total long-term debt increased \$528,796 during the fiscal ended June 30, 2013 as a result of new financing from restructuring of the construction loan, net of annual principal payments on the general obligation bonds totaling \$15,000 and on the construction loan totaling \$112,575.

During the fiscal year ended June 30, 2013, the District recorded \$3,416,200 in advances from other governments which helped finance the collection system improvement project. The funding was provided by the California State Water Resources Control Board (WRCB) as pass through funding from the U.S. Environmental Protection Agency Office of Water. The WRCB has agreed to forgive the principal of the loan upon completion of the project and related contingencies.

Additional information on the District's long-term debt can be found in the notes to the basic financial statements.

**Request for Additional Information:**

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Graton Community Services District, P.O. Box 534, Graton, CA 95444.

## **Basic Financial Statements**

## Statement of Net Position

June 30, 2013

<b>Assets</b>	
Current assets:	
Cash and investments	\$ 691,599
Deposits with others	265,449
Accounts receivable	42,590
<b>Total current assets</b>	<b>999,638</b>
Non-current assets:	
Cash and investments restricted for capital projects	517,612
Accounts receivable	34,052
Capital assets not being depreciated:	
Land	417,205
Intangible assets - easement	18,930
Construction in progress	7,414,952
Capital assets, net of accumulated depreciation:	
Infrastructure	4,909,115
Machinery and equipment	56,332
<b>Total capital assets, net of accumulated depreciation</b>	<b>12,816,534</b>
<b>Total assets</b>	<b>14,367,836</b>
<b>Deferred outflows of resources</b>	
Deferred charge on refunding	46,367
<b>Total deferred outflows of resources</b>	<b>46,367</b>
<b>Liabilities</b>	
Current liabilities:	
Accounts payable and accrued expenses	949,696
Contract retention payable	324,712
General obligation bonds payable, current portion	16,000
Note payable	300,000
Construction loan, current portion	80,308
Accrued interest payable	31,217
<b>Total current liabilities</b>	<b>1,701,933</b>
Non-current liabilities:	
General obligation bonds payable	50,000
Advances from other governments	3,416,200
Construction loan	2,549,692
<b>Total non-current liabilities</b>	<b>6,015,892</b>
<b>Total liabilities</b>	<b>7,717,825</b>
<b>Net position</b>	
Net investment in capital assets	6,704,334
Restricted for capital projects	517,612
Unrestricted	(525,568)
<b>Total net position</b>	<b>\$ 6,696,378</b>

The notes to the basic financial statements are an integral part of this statement.

**Graton Community Services District**

**Statement of Revenues, Expenses, and Changes in Net Position**

**For the Fiscal Year Ended June 30, 2013**

<b>Operating revenues</b>	
Flat charges	\$ 980,917
Charges for services	17,997
<hr/>	
Total operating revenue	998,914
<hr/>	
<b>Operating expenses</b>	
Services and supplies	1,071,238
Depreciation and amortization	205,633
<hr/>	
Total operating expenses	1,276,871
<hr/>	
Operating loss	(277,957)
<hr/>	
<b>Nonoperating revenues</b>	
Interest income	16,397
Property taxes	15,153
<hr/>	
Total nonoperating revenues	31,550
<hr/>	
<b>Loss before capital contributions</b>	(246,407)
<hr/>	
Capital contributions - intergovernmental	129,157
<hr/>	
<b>Change in net position</b>	(117,250)
<hr/>	
<b>Net position at beginning of year</b>	6,813,628
<hr/>	
<b>Net position at end of year</b>	\$ 6,696,378

The notes to the basic financial statements are an integral part of this statement.

**Graton Community Services District**

**Statement of Cash Flows**

**For the Fiscal Year Ended June 30, 2013**

<b>Cash flows from operating activities</b>	
Receipts from customers	\$ 1,003,983
Payments to employees for salaries and benefits	(367,588)
Payments to suppliers	(665,911)
<hr/>	
Net cash used in operating activities	(29,516)
<hr/>	
<b>Cash flows from noncapital financing activities</b>	
Intergovernmental revenue received	36,135
Taxes	15,153
<hr/>	
Net cash provided by noncapital financing activities	51,288
<hr/>	
<b>Cash flows from capital and related financing activities</b>	
Intergovernmental revenue - state funds	74,538
Proceeds from state and federal loans	3,416,200
Purchases of capital assets	(3,425,773)
Proceeds from issuance of debt	532,809
Principal payments - bonds	(15,000)
Principal payments - construction loan	(55,613)
Interest paid on capital debt	(73,255)
<hr/>	
Net cash provided by capital and related financing activities	453,906
<hr/>	
<b>Cash flows from investing activities</b>	
Interest received on pooled cash	16,397
<hr/>	
<b>Net increase in cash and investments</b>	<b>492,075</b>
<hr/>	
<b>Cash and investments at beginning of year</b>	<b>717,136</b>
<hr/>	
<b>Cash and investments at end of year</b>	<b>\$ 1,209,211</b>
<hr/>	
<b>Reconciliation to the statement of net position:</b>	
Cash and investments	\$ 691,599
Restricted cash and investments	517,612
<hr/>	
<b>Total cash and cash equivalents</b>	<b>\$ 1,209,211</b>

The notes to the basic financial statements are an integral part of this statement.

Graton Community Services District

Statement of Cash Flows (Continued)

---

For the Fiscal Year Ended June 30, 2013

---

**Reconciliation of operating loss to net cash  
used in operating activities:**

Operating loss \$ (277,957)

Adjustments to reconcile operating loss to net cash  
used in operating activities:

Depreciation expense 205,633

Change in assets and liabilities:

Decrease in operating receivables 5,069

Increase in accounts payable and accrued expenses 37,739

---

Net cash used in operating activities \$ (29,516)

---

**Noncash investing, capital and financing activities:**

Increase in accounts payable and  
accrued expenses associated with capital projects \$ 1,152,172

---

Interest capitalized to construction in progress \$ 128,948

---

Transfer of deferred refunding expenses  
pursuant to GASB 65 \$ 5,755

---

**Note A. Defining the Financial Reporting Entity**

Graton Community (an unincorporated area) Services District (the District) provides sanitation services for the Graton community in Sonoma County, California. Established on July 1, 2004, the District is publicly owned. Operations are governed by the Board of Directors who are elected by registered voters of the Graton community. The District is responsible for operating and maintaining the local sanitation collection systems, pump stations, and treatment plant. The District is governed by an ordinance defining policies, including user fees.

**Note B. Summary of Significant Accounting Policies**

A summary of significant accounting policies is included below:

*Financial Statement Presentation*

The District's basic financial statements display information for the District as a whole. The District does not have any activities that are considered government-type or fiduciary activities. The statement of net position presents the financial position of all District activities at year end. The District is not a component unit of another governmental entity.

*Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

The District uses a proprietary (enterprise) fund to account for its activities. An enterprise fund may be used to report any activity for which a fee is charged to external users for goods or services. Enterprise funds are required for any activity whose principal external revenue sources meet any of the following criteria: (1) issued debt is backed solely by fees and charges, (2) the cost of providing services for any activity (including capital costs such as depreciation or debt service) must be legally recovered through fees or charges, or (3) if the government's policy is to establish activity fees or charges designed to recover the cost of providing services.

The District's financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. All assets, deferred outflows of resources, and liabilities associated with the operation of the District are included on the statement of net position. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor have been met. Revenues from charges for sanitary services are recognized once the services have been delivered.

Proprietary funds distinguish operating revenues and expenses from nonoperating 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 for services. Operating expenses for the District include expenses relating to the collection, treatment, disposal, and reclamation of effluent as well as administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

*Cash and Investments*

The District reports cash and investments in the statement of net position at amortized cost, which approximates fair value. Funds maintained in the Sonoma County Treasury Investment Pool are available on demand and are considered cash equivalents.

**Note B. Summary of Significant Accounting Policies** (continued)*Accounts Receivable*

Accounts receivable consist of uncollected fees for sanitation services and grant receivables as of June 30, 2013. Management periodically evaluates the need to recognize an allowance for uncollectable accounts receivable. Management has deemed an allowance for uncollectible accounts receivable unnecessary at June 30, 2013.

*Capital Assets*

Capital assets are stated at cost or estimated historical cost. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Depreciation has been provided, excluding land, using the straight-line method over estimated lives ranging from 3 to 100 years. Useful lives of machinery and equipment are generally estimated to be 3 to 15 years. Infrastructure assets are generally estimated to have useful lives ranging from 30 to 100 years.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for infrastructure assets are capitalized as projects are constructed. Infrastructure under construction and not yet placed in service is recorded as construction in progress. Interest incurred during the construction phase of such projects is included as part of the capitalized value of the assets constructed.

*Compensated Absences*

Vacation and sick leave accumulation policies for the District apply to regular employees in all classifications. Upon termination, the District shall compensate the employee for accumulated vacation time at the employee's straight time rate of pay at the time of termination. Upon termination for non-cause reasons sick leave in excess of 30 days shall be bought back by the District at a rate of one-quarter day for each whole day accrued. Termination for cause shall result in loss of all accrued sick leave.

*Deferred outflows/inflows of resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The District's only item that qualifies for reporting in this category is the deferred charge on refunding reported in the statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will *not* be recognized as an inflow of resources (revenue) until that time. The District does not have any items reported in the statement of net position which qualify as deferred inflows of resources.

**Note B. Summary of Significant Accounting Policies** (continued)*Net Position*

Net position represents the difference between all other elements in a statement of financial position and is displayed in three components—*net investment in capital assets; restricted; and unrestricted*. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use, either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulation of other governments. The flow assumption used by the District is that, when both restricted and unrestricted resources are available for the same purpose, restricted resources are expended before unrestricted resources.

*Budget and Budgetary Accounting*

The Board of Directors of the District adopts a budget annually to be effective July 1<sup>st</sup> for the ensuing fiscal year. Transactions not included in the original budget require approval from the Board of Directors.

*Property Tax Revenue*

Property taxes, including tax rates, are regulated by the State and are administered locally by the County of Sonoma (the County). The County is responsible for assessing, collecting, and distributing property taxes to the District.

The County has adopted the Teeter Alternative Method of Property Tax Allocation known as the "Teeter Plan". The State Revenue and Taxation Code allows counties to distribute secured real property and supplemental property taxes on an accrual basis resulting in full payment to the District each fiscal year. Any subsequent delinquent payments and related penalties and interest revert to the County.

Property taxes are recognized as revenue when they are levied. Liens on real property are established January 1 for the ensuing fiscal year. The property tax is levied as of July 1 on all taxable property located in the County. Secured property taxes are due in two equal installments on November 1 and February 1, and are delinquent after December 10 and April 10, respectively. Additionally, supplemental property taxes are levied on a pro rata basis when changes in assessed valuation occur due to sales transactions or the completion of construction. Property tax collection and valuation information is disclosed in the County's Comprehensive Annual Financial Report.

*Other Revenues*

Intergovernmental revenue substantially relates to the District's capital improvement projects provided by other governments. Intergovernmental revenue is recognized when the District has made the qualifying expenditure for which the funding is provided, compliance with all substantive contingency requirements have been met, and collectability is reasonably assured.

The District received State of California Proposition 50 (Prop. 50), the Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002, funds for plant improvements in the amount of \$128,948 during the fiscal year ended June 30, 2013. The County of Humboldt has been designated by the State of California as the program administrator for Prop. 50.

**Note B. Summary of Significant Accounting Policies** (continued)*Use of Estimates*

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates. Estimates significant to the financial statements of the District include the allowance for uncollectible accounts and the estimated useful life of capital assets.

*Current Governmental Accounting Standards*

The District adopted Governmental Accounting Standards Board (GASB) *Statement No. 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* as of July 1, 2012. The adoption primarily had the effect of replacing the term “net assets” with “net position” and did not affect the recorded assets or liabilities of the District.

The District opted to early implement GASB *Statement No. 65 - Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

**Note C. Cash and Investments***Investment in the Sonoma County Treasurer's Investment Pool*

Cash and investments are comprised of cash pooled with the Sonoma County Treasury Pool (the Treasury Pool), an external investment pool. The Sonoma County Treasurer's office also acts as a disbursing agent for the District. The fair value of the District's investment in this pool is based upon the Districts' pro-rata share of the fair value provided by the Treasury Pool for the entire Treasury Pool portfolio (in relation to the amortized cost of that portfolio) and is \$7,579 less than the reported amount in the statement of net position.

The balance available for withdrawal is based on accounting records maintained by the Treasury Pool, which are recorded on an amortized cost basis. Interest earned on investments pooled with the Treasury Pool is allocated quarterly to the appropriate fund based on its respective average daily balance for that quarter. The Treasury Oversight Committee of the Treasury Pool has regulatory oversight for all monies deposited into the Treasury Pool.

*Treasury Pool Investment Guidelines*

The District's pooled cash and investments are invested pursuant to investment policy guidelines established by the County Treasurer and approved by the Board of Supervisors. The objectives of the policy are, in order of priority: safety of capital, liquidity, and maximum rate of return. The policy addresses the soundness of financial institutions in which the County will deposit funds, types of investment instruments as permitted by the California Government Code 53601, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity.

A copy of the Treasury Pool investment policy is available upon request from the Sonoma County Auditor-Controller Treasurer-Tax Collector at 585 Fiscal Drive, Room 100, Santa Rosa, California, 95403-2871.

**Note C. Cash and Investments (continued)***Interest Rate Risk*

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Due to the highly liquid nature of the District's investment with the Treasury Pool, the District's exposure to interest rate risk is deemed by management to be insignificant.

The weighted average maturity of Treasury Pool investments at June 30, 2013 was 1,102 days.

*Custodial Credit Risk*

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

At June 30, 2013, all of the District's investments are in the Treasury Pool, an external investment pool, and are therefore not exposed to custodial credit risk.

*Concentration of Credit Risk*

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There were no non-pooled investments in any one issuer that represent 5% or more of total District investments at the end of the fiscal year.

*Credit Risk*

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Treasury Pool is not rated by a credit rating agency. Other information regarding the individual investments in the Treasury Pool for the fiscal year 2012-13 are disclosed in the County of Sonoma's 2012-13 Comprehensive Annual Financial Report.

*Restricted Cash and Investments*

The unspent proceeds of new funding received from the Municipal Financing Corporation Construction Loan (discussed in Note F below) are restricted for the purpose of acquisition and construction of additional improvements to the existing facilities and property owned by the District in connection with the collection, treatment, and disposal of wastewater.

**Note D. Accounts Payable and Accrued Expenses**

Accounts payable consist of payments due to vendors for goods and services in the amount of \$939,796 as well as expenses for accrued salaries and benefits totaling \$9,900.

## Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

**Note E. Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2013 was as follows:

	Beginning Balance July 1, 2012	Additions	Retirements	Transfers & Adjustments	Ending Balance June 30, 2013
Capital assets					
not being depreciated:					
Land	\$ 417,205	\$ -	\$ -	\$ -	\$ 417,205
Intangible Assets	-	18,930	-	-	18,930
Construction in progress	3,000,273	4,414,679	-	-	7,414,952
Total capital assets, not being depreciated	3,417,478	4,433,609	-	-	7,851,087
Capital assets, being depreciated:					
Infrastructure	7,601,193	-	-	-	7,601,193
Machinery and equipment	110,459	7,998	-	-	118,457
Total capital assets being depreciated	7,711,652	7,998	-	-	7,719,650
Less accumulated depreciation for:					
Infrastructure	(2,496,989)	(195,089)	-	-	(2,692,078)
Machinery and equipment	(51,581)	(10,544)	-	-	(62,125)
Total accumulated depreciation	(2,548,570)	(205,633)	-	-	(2,754,203)
Total capital assets, being depreciated, net	5,163,082	(197,635)	-	-	4,965,447
Total capital assets, net	\$ 8,580,560	\$ 4,235,974	\$ -	\$ -	\$ 12,816,534

Depreciation expense amounted to \$205,633 for the fiscal year ended June 30, 2013.

**Note F. Long Term Liabilities***General Obligation Bonds*

The District issued general obligation bonds in prior years to provide funds for the acquisition and construction of major capital facilities. The original amount of general obligation bonds issued in 1976 was \$350,000.

General obligation bonds are direct obligations and pledge the full faith and credit of the District. General obligation bonds outstanding at June 30, 2013 amounted to \$66,000 with an annual interest rate of 5%. The serial maturity of the general obligation bonds concludes in September 2016.

## Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

**Note F. Long Term Liabilities** (continued)*General Obligation Bonds (continued)*

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year ending June 30,	Principal	Interest
2014	\$ 16,000	\$ 2,900
2015	16,000	2,100
2016	17,000	1,275
2017	17,000	425
<b>Total</b>	<b>\$ 66,000</b>	<b>\$ 6,700</b>

*Note Payable*

On January 13, 2010, the District entered into a note payable agreement with the Rural Community Assistance Corporation (RCAC). The loan amount is \$300,000 and bears an annual interest rate of 5.50%. The original maturity date was February 1, 2011, but was extended several times by loan modification agreements with the RCAC. The note was paid by the District in October 2013.

*Construction Loan*

On December 30, 2005, the District entered into an agreement with Municipal Finance Corporation for the purpose of refinancing the District's share in the outstanding Sonoma County Water & Wastewater Financing Authority Revenue Bonds of 1995, and the financing of wastewater system improvement projects. This loan was refinanced on April 5, 2013 with a new funding component for construction of additional improvements. The financing agreement bears an annual interest rate of 4.85% and matures on April 5, 2033.

Annual debt service requirements to maturity for the construction loan are as follows:

Year ending June 30,	Principal	Interest
2014	\$ 80,308	\$ 126,593
2015	84,250	122,651
2016	88,385	118,515
2017	92,724	114,176
2018	97,276	109,625
2019-2023	562,869	471,634
2024-2028	715,265	319,238
2029-2033	908,923	125,580
<b>Total</b>	<b>\$ 2,630,000</b>	<b>\$ 1,508,012</b>

## Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

**Note F. Long Term Liabilities** (continued)*Construction Loan Refinancing*

Of the \$2,630,000 of debt issued in April 2013, \$2,100,691 was issued to refinance the previously existing construction loan. The reacquisition price exceeded the net carrying amount of the old debt by \$46,367 and is classified as a deferred charge on refunding in the Statement of Net Position. This amount is being amortized over the remaining life of the refunding debt. The cash flows required to service the refinanced debt and to complete the refinancing are as follows:

	Principal	Interest	Total
Original Cash Flows-			
1995 Municipal Finance Corp Loan (refunded debt)	\$ 1,973,629	\$ 681,464	\$ 2,655,093
New debt used for refunding-			
2013 Municipal Finance Corp Loan	2,630,000	1,508,012	4,138,012
Difference in cash flows	\$ (656,371)	\$ (826,548)	\$ (1,482,919)

*Changes in Long-Term Obligations*

Long-term obligation activity for the fiscal year ended June 30, 2013 was as follows:

	Beginning Balance July 1, 2012	Additions	Retirements	Transfer Pursuant to GASB 65	Ending Balance June 30, 2013	Due Within One Year
General Obligation Bonds	\$ 81,000	\$ -	\$ 15,000	\$ -	\$ 66,000	\$ 16,000
Note Payable	300,000	-	-	-	300,000	300,000
Construction Loan	2,086,204	2,630,000	2,086,204	-	2,630,000	80,308
Deferred refunding expenses	(5,755)	-	-	(5,755)	-	-
Total	\$ 2,461,449	\$ 2,630,000	\$ 2,101,204	\$ (5,755)	\$ 2,996,000	\$ 396,308

**Note G. Risk Management**

The District is covered under an insurance policy from the Special District Risk Management Authority for general liability, auto liability, public employee's performance/dishonesty, and property insurance. Settled claims have not exceeded coverage in any of the past three years.

**Note H. Current and Future Governmental Accounting Standards**

In March 2012, the GASB issued Statement No. 66, *Technical Corrections – 2012*, an amendment of GASB Statements No. 10 and No. 62. The objective of this Statement is to improve accounting and financial reporting by state and local governmental entities by resolving conflicting guidance that resulted from the issuance of two pronouncements—Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Since the release of these Statements, questions have arisen concerning differences between the provisions in Statement 54 and Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, regarding the reporting of risk financing activities. Questions also have arisen about differences between Statement 62 and Statements No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, regarding the reporting of certain operating lease transactions, and No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, concerning the reporting of the acquisition of a loan or a group of loans and the recognition of servicing fees related to mortgage loans that are sold. GASB Statement No. 66 is effective for financial statements for fiscal years beginning after December 15, 2012. The effect of this issued but not yet adopted statement on the District's financial statements is not known at this time.

**Note I. Contingencies**

The District is exposed to the possibility of fines in relation to failure to meet certain pollution mitigation requirements. Management believes that the levying of fines is unlikely and is unable to estimate the possible amount of such fines, and therefore no liability has been recorded in connection with these fines as of June 30, 2013.

Schedule of Expenditures of Federal Awards

Fiscal Year Ended June 30, 2013

Federal Grantor / Pass-Through Grantor / Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. Environmental Protection Agency</b>			
Office of Water			
Passed through the State of California State Resources Control Board			
Capitalization Grants for Clean Water State Revolving Funds:			
Wastewater Treatment Plant Improvement Project	66.458	C-06-4986-110	\$ 4,377,120
Total expenditures of federal awards			\$ 4,377,120

See accompanying Notes to Schedule of Expenditures of Federal Awards

**Notes to Schedule of Expenditures of Federal Awards**

---

**For the Fiscal Year Ended June 30, 2013**

---

**Note A. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (“SEFA”) presents the federal grant activity of the Graton Community Service District (“GCSD”) under programs of the federal government for the year ended June 30, 2013. The SEFA is presented under the accrual basis of accounting in which expenditures are recorded when incurred, regardless of the timing of the related cash flow.

The information in the SEFA schedule is presented in accordance with the requirements of Office of Management and Budget (“OMB”) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the SEFA presents only a selected portion of the operations of GCSD, it is not intended to and does not present the financial position, changes in net position, or cash flows of GCSD.

**Note B. Summary of Significant Accounting Policies**

Expenditures on the SEFA 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. Pass-through entity identifying numbers are presented where available.

**Note C. Catalog of Federal Domestic Assistance (CFDA) Numbers**

The CFDA numbers included in the accompanying SEFA were determined based on the program name, review of grant contract information, and the OMB’s Catalog of Federal Domestic Assistance.

**Note D. Contingent Principal Forgiveness**

As a special condition to the Clean Water State Revolving Fund Project Finance Agreement, the Division of Financial Assistance of the California State Water Board has committed \$6,000,000 in principal forgiveness based on the estimated total Wastewater Treatment Plant Improvement Project Cost. The principal forgiveness is contingent on GCSD’s performance of its obligations under the Project Finance Agreement.

**Notes to Schedule of Expenditures of Federal Awards**

---

**For the Fiscal Year Ended June 30, 2013**

---

**Note E. Federal Expenditures Incurred in Prior Years**

The District's costs under the Capitalization Grant for Clean Water State Revolving Funds federal award program were incurred in the following fiscal years:

Fiscal Year Ended June 30,	
2010	\$ 38,816
2011	358,442
2012	134,656
2013	3,845,206
<b>Total</b>	<b>\$ 4,377,120</b>

**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***

**Independent Auditor's Report**

Board of Directors  
Graton Community Services District  
Graton, California

We have audited, 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, the financial statements of the Graton Community Services District (the "District"), which comprise the statement of net position as of June 30, 2013, the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the notes to the financial statements, and have issued our report thereon dated March 7, 2014.

**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 opinion 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.

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

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

**Compliance and Other Matters**

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

**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* (continued)**

**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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Pasenti & Brinker LLP*

Petaluma, California  
March 7, 2014

**Report on Compliance for Each Major Federal Program  
and Report on Internal Control Over Compliance  
in Accordance with OMB Circular A-133**

**Independent Auditor's Report**

Board of Directors  
Graton Community Services District  
Graton, California

**Report on Compliance for Each Major Federal Program**

We have audited Graton Community Services District's (the "District") 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 the major federal program for the year ended June 30, 2013. The District's major federal program is 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.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for 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 the 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 its major federal program for the year ended June 30, 2013.

*Local partnership. Global solutions.*

**Report on Compliance for Each Major Federal Program  
and Report on Internal Control Over Compliance  
in Accordance with OMB Circular A-133 (continued)**

**Independent Auditor's Report (continued)**

**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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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.

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

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

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.

*PricewaterhouseCoopers*

Petaluma, California  
March 7, 2014

**Schedule of Findings and Questioned Costs**

**Year Ended June 30, 2013**

**I. Summary of Auditor's Results**

***Financial Statements***

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified? No

Significant deficiencies identified that are not considered to be material weaknesses? None reported

Noncompliance material to financial statements noted? No

***Federal Awards***

Internal control over major programs:

Material weaknesses identified? No

Significant deficiencies identified that are not considered to be material weaknesses? None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? No

***Identification of major programs***

Federal

CFDA

Number Federal Program Name

66.458 Capitalization Grants for Clean Water State Revolving Funds

Dollar threshold used to distinguish between type A and type B program: \$300,000

Auditee qualified as low-risk auditee? No

**Schedule of Findings and Questioned Costs**

---

**Year Ended June 30, 2013**

---

**II. Financial Statement Findings**

*No matters are reportable*

**III. Federal Award Findings and Questioned Costs**

*No matters are reportable*

Summary Schedule of Prior Audit Findings

---

Year Ended June 30, 2013

---

No matters were reported in the prior year.