

Graton Community Services District

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

Fiscal Year Ended June 30, 2015

**Graton Community Services District
For the Fiscal Year Ended June 30, 2015**

Table of Contents

	<u>Pages</u>
Independent Auditor’s Report	1 - 2
Management’s Discussion and Analysis	3 - 8
Basic Financial Statements:	
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
Supplementary Information:	
Schedule of Expenditures of Federal Awards	22
Notes to Schedule of Expenditures of Federal Awards.....	23 - 24
Compliance:	
Report on Internal Control over Financial Reporting 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



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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, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This 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, 2015, 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.

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 28, 2016, on our consideration 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

Santa Rosa, California
March 28, 2016

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, 2015. 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 \$7,305,452, an increase of \$113,453 from the prior fiscal year. Unrestricted net position at the end of the fiscal year amounted to \$803,417.

Revenues

The District recognized total operating revenues of \$1,023,415 during the fiscal year ended June 30, 2015, which consisted of flat charges of \$984,070 and charges for services of \$39,345.

Expenses

The District incurred operating expenses totaling \$1,307,185 during the fiscal year ended June 30, 2015. 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 \$7,305,452 at the close of the fiscal year ended June 30, 2015.

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, 2014	June 30, 2015	Percentage Change
Current assets	\$ 467,709	\$ 882,202	88.6%
Noncurrent assets	556,681	725,789	30.4%
Capital assets	14,267,732	14,314,923	0.3%
Total Assets	15,292,122	15,922,914	4.1%
Total Deferred Outflows of Resources	42,503	38,639	-9.1%
Current liabilities	242,153	262,044	8.2%
Noncurrent liabilities	7,900,473	8,394,057	6.2%
Total Liabilities	8,142,626	8,656,101	6.3%
Net Position			
Net investment in capital assets	6,777,670	6,502,035	-4.1%
Unrestricted	414,329	803,417	93.9%
Total Net Position	\$ 7,191,999	\$ 7,305,452	1.6%

The increase in the current assets balance is due to an increase in cash and investments. The increase in non-current assets is due to a increase in prior year direct charges receivable and a increase in restricted cash and investments. The increase in capital assets is due to increases to construction in progress associated with the collection system improvement project.

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

Year ended June 30,	2014	2015	Percentage Change
Revenues			
Operating	\$ 1,022,144	\$ 1,023,415	0.1%
Nonoperating	23,383	35,628	52.4%
Total revenues	1,045,527	1,059,043	1.3%
Expenses			
Operating	1,263,587	1,307,185	3.5%
Nonoperating	-	1,833	N/A
Total expenses	1,263,587	1,309,018	3.6%
Loss before contributions	(218,060)	(249,975)	14.6%
Contributions			
State disaster relief	93,378	81,016	-13.2%
Federal disaster relief	280,137	223,551	-20.2%
Connection fees - Capital	18,629	58,861	216.0%
Intergovernmental	321,537	-	-100.0%
Increase in net position	495,621	113,453	-77.1%
Net Position - Beginning of Year	6,696,378	7,191,999	7.4%
Net Position - End of Year	\$ 7,191,999	\$ 7,305,452	1.6%

Operating revenues, consisting of sanitation service charges, increased by \$1,271 from the prior fiscal year due to an increase in sanitation services and direct charges.

Connection fees increased during the fiscal year by \$40,232 due to 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, 2015 totaled \$1,309,018. Costs associated with the administration of the sanitation system totaled \$1,101,785 and represent 84.2% of the District's total operating costs during the fiscal year. The remaining 15.8% of operating expenses consists of \$207,233 of depreciation.

Capital Asset and Debt Administration*Capital assets*

The District's investment in capital assets as of June 30, 2015, amounts to \$14,314,923 (net of accumulated depreciation). The components of capital assets are summarized below.

	<u>June 30, 2014</u>	<u>June 30, 2015</u>	<u>Percentage Change</u>
Land	\$ 417,205	\$ 417,205	-
Intangible	19,055	19,055	-
Construction in progress	9,073,259	9,327,682	2.8%
Infrastructure	7,601,193	7,601,193	-
Machinery and equipment	118,457	118,457	-
Accumulated depreciation	<u>(2,961,437)</u>	<u>(3,168,669)</u>	<u>7.0%</u>
Total	<u>\$ 14,267,732</u>	<u>\$ 14,314,923</u>	<u>0.3%</u>

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 \$8,499,442 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 loan from the State Water Resources Control Board. The principal of \$6,000,000 was forgiven in October 2015 due to project completion. Long-term debt obligations are summarized below.

	June 30, 2014	June 30, 2015	Percentage Change
General obligation bonds	\$ 50,000	\$ 34,000	-32.0%
Advances from other governments	5,401,030	6,000,000	11.1%
Construction loan	2,549,693	2,465,442	-3.3%
Total	\$ 8,000,723	\$ 8,499,442	6.2%

The District's total debt increased \$498,720 during the fiscal year ended June 30, 2015 due to the receipt of state loan proceeds totaling \$598,970, offset by principal payments on the general obligation bond totaling \$16,000 and the construction loan totaling \$84,251.

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

Graton Community Services District

Statement of Net Position

June 30, 2015

Assets	
Current assets:	
Cash and investments	\$ 869,843
Accounts receivable	12,359
Total current assets	882,202
Non-current assets:	
Cash and investments restricted for capital projects	686,554
Accounts receivable	39,235
Capital assets not being depreciated:	
Land	417,205
Intangible assets - easement	19,055
Construction in progress	9,327,682
Capital assets, net of accumulated depreciation:	
Infrastructure	4,518,938
Machinery and equipment	32,043
Total capital assets, net of accumulated depreciation	14,314,923
Total assets	15,922,914
Deferred outflows of resources	
Deferred charge on refunding	38,639
Total deferred outflows of resources	38,639
Liabilities	
Current liabilities:	
Accounts payable and accrued expenses	127,860
General obligation bonds payable, current portion	17,000
Construction loan	88,385
Accrued interest payable	28,799
Total current liabilities	262,044
Non-current liabilities:	
General obligation bonds payable	17,000
Advances from other governments	6,000,000
Construction loan	2,377,057
Total non-current liabilities	8,394,057
Total liabilities	8,656,101
Net position	
Net investment in capital assets	6,502,035
Unrestricted	803,417
Total net position	\$ 7,305,452

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, 2015

Operating revenues	
Flat charges	\$ 984,070
Charges for services	39,345
Total operating revenue	1,023,415
Operating expenses	
Services and supplies	1,099,952
Depreciation	207,233
Total operating expenses	1,307,185
Operating loss	(283,770)
Nonoperating revenues (expenses)	
Interest income	18,768
Property taxes	16,649
Interest expense	(1,833)
Intergovernmental revenue	211
Total nonoperating revenues	33,795
Loss before contributions	(249,975)
State disaster relief	81,016
Federal disaster relief	223,551
Connection fees	58,861
Change in net position	113,453
Net position at beginning of year	7,191,999
Net position at end of year	\$ 7,305,452

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, 2015

Cash flows from operating activities	
Receipts from customers	\$ 1,037,296
Payments to employees for salaries and benefits	(473,744)
Payments to suppliers	(610,220)
<hr/>	
Net cash used in operating activities	(46,668)
<hr/>	
Cash flows from noncapital financing activities	
Intergovernmental revenue	211
Taxes	16,649
<hr/>	
Net cash provided by noncapital financing activities	16,860
<hr/>	
Cash flows from capital and related financing activities	
Intergovernmental revenue - state & federal funds	304,567
Proceeds from state and federal loans	598,970
Purchases of capital assets	(128,873)
Principal payments - bonds	(16,000)
Principal payments - construction loan	(84,250)
Connection fees	58,861
Interest paid on capital debt	(124,751)
<hr/>	
Net cash provided by capital and related financing activities	608,524
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Cash flows from investing activities	
Interest received on pooled cash	18,768
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Net increase in cash and investments	597,484
Cash and investments at beginning of year	958,913
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Cash and investments at end of year	\$ 1,556,397
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Reconciliation to the statement of net position:	
Cash and investments	\$ 869,843
Restricted cash and investments	686,554
<hr/>	
Total cash and cash equivalents	\$ 1,556,397

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, 2015

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

Operating loss	\$	(283,770)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense		207,233
Decrease in receivables		13,881
Increase in accounts payable and accrued expenses		15,988
<hr/>		
Net cash used in operating activities	\$	(46,668)

Noncash investing, capital and financing activities:

Decrease in accounts payable and accrued expenses associated with capital projects	\$	-
Capitalized interest	\$	125,550

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

Note A. Defining the Financial Reporting Entity

Graton Community Services District (the District) provides sanitation services for the Graton community (an unincorporated area) 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, 2015. Management periodically evaluates the need to recognize an allowance for uncollectable accounts receivable. Management has deemed an allowance for uncollectable accounts receivable unnecessary at June 30, 2015.

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 1st 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 allow 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 for. 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 disaster relief funds from the Federal Emergency Management Agency and the California Emergency Management Agency for floodwall construction in the amount of \$304,567 during the fiscal year ended June 30, 2015.

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.

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 \$3,852 more 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.

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, 2015 was 600 days.

Note C. Cash and Investments (continued)*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, 2015, 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 2014-15 are disclosed in the County of Sonoma's 2014-15 Comprehensive Annual Financial Report.

Note D. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of payments due to vendors for goods and services in the amount of \$110,687 as well as expenses for accrued salaries and benefits totaling \$17,173.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

Note E. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2015 was as follows:

	Beginning Balance July 1, 2014	Additions	Retirements	Transfers & Adjustments	Ending Balance June 30, 2015
Capital assets					
not being depreciated:					
Land	\$ 417,205	\$ -	\$ -	\$ -	\$ 417,205
Intangible Assets	19,055	-	-	-	19,055
Construction in progress	9,073,259	254,423	-	-	9,327,682
Total capital assets, not being depreciated	9,509,519	254,423	-	-	9,763,942
Capital assets, being depreciated:					
Infrastructure	7,601,193	-	-	-	7,601,193
Machinery and equipment	118,457	-	-	-	118,457
Total capital assets being depreciated	7,719,650	-	-	-	7,719,650
Less accumulated depreciation for:					
Infrastructure	(2,887,167)	(195,089)	-	-	(3,082,255)
Machinery and equipment	(74,270)	(12,144)	-	-	(86,414)
Total accumulated depreciation	(2,961,437)	(207,233)	-	-	(3,168,669)
Total capital assets, being depreciated, net	4,758,213	(207,233)	-	-	4,550,981
Total capital assets, net	\$ 14,267,732	\$ 47,190	\$ -	\$ -	\$ 14,314,923

Depreciation expense amounted to \$207,233 for the fiscal year ended June 30, 2015.

The total amount of interest capitalized in connection with construction projects during the fiscal year ended June 30, 2015 amounted to \$125,550.

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, 2015 amounted to \$34,000 with an annual interest rate of 5%. The serial maturity of the general obligation bonds concludes in September 2016.

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
2016	\$ 17,000	\$ 1,275
2017	17,000	425
Total	\$ 34,000	\$ 1,700

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
2016	\$ 88,385	\$ 118,515
2017	92,724	114,176
2018	97,276	109,625
2019	102,051	104,850
2020	107,060	99,840
2021-2025	619,486	415,017
2026-2031	968,579	272,825
2032-3033	389,881	23,920
Total	\$ 2,465,442	\$ 1,258,768

Advances from Other Governments

As of the fiscal year ended June 30, 2015, the District recorded \$6,000,000 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 agreed to forgive the principal of the loan upon completion of the project and related contingencies. The project was completed and the principal was forgiven in October 2015.

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 current unamortized amount at June 30, 2015 is \$38,639.

Changes in Long-Term Obligations

Long-term obligation activity for the fiscal year ended June 30, 2015 was as follows:

	Beginning Balance July 1, 2014		Additions	Retirements	Ending Balance June 30, 2015	Due Within One Year
General Obligation Bonds	\$ 50,000	\$ -	\$ 16,000	\$ 34,000	\$ 17,000	
Advances from Other Governments	5,401,030	598,970	-	6,000,000	-	
Construction Loan	2,549,693	-	84,251	2,465,442	88,385	
Total	\$ 8,000,723	\$ 598,970	\$ 100,251	\$ 8,499,442	\$ 105,385	

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

The Governmental Accounting Standards Board (GASB) has released the following new standards:

GASB Statement No. 72 – Fair Value Measurement and Application

Effective for periods beginning after June 15, 2015, this Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

Note H. Current and Future Governmental Accounting Standards (continued)

GASB Statement No. 76 – The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments

Effective for fiscal years beginning after June 15, 2015, this Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Earlier application is permitted.

The impact on the basic financial statements of the District of these pronouncements which have not yet been adopted is unknown 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, 2015.

The District is currently in a contract dispute with a contractor for services provided relating to the treatment plant upgrade. The District is pursuing dispute resolution efforts without formal litigation and the parties have been engaging in direct settlement negotiations. If direct negotiations are not successful, the parties will use a formal mediation process. The District is unable to estimate the potential fiscal impact of this contingency at this time.

As of June 30, 2015 the District had a potential claim outstanding related to compensation of a former District employee. The District has made an attempt to settle the issue, but as of the date of this report, it is too early to estimate the ultimate outcome of this potential contingency.

Note J. Subsequent Events

The District completed the collection system improvement project in fiscal year 2014-15. The State Water Resource Control Board conducted a Final Project Inspection and determined that the system is properly operated, maintained and meets the performance standards. As a result, the principal of \$6,000,000 was forgiven in October 2015.

Schedule of Expenditures of Federal Awards

Fiscal Year Ended June 30, 2015

Federal Grantor / Pass-Through Grantor / Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Environmental Protection Agency			
Office of Water			
Passed through the State of California			
State Water Resources Control Board			
Capitalization Grants for Clean Water State Revolving Funds:			
Wastewater Treatment Plant Improvement Project	66.458	C-06-4986-110	\$ 598,970
Total U.S. Environmental Protection Agency			598,970
U.S. Department of Homeland Security			
Federal Emergency Management Agency			
Passed through the State of California			
Office of Emergency Services			
Disaster Grants - Public Assistance	97.036	091-91068-00	223,551
Total U.S. Department of Homeland Security			223,551
Total expenditures of federal awards			\$ 822,521

See accompanying Notes to Schedule of Expenditures of Federal Awards

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2015

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, 2015. 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 this 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 schedule 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.

Per the Department of Homeland Security newly issued guidance, FEMA monies are now recognized on the SEFA when an approved project worksheet is obtained and the expenditures are made. Although the District’s policy has officially changed to meet the new guidance, the amount reported on the current years’ SEFA is based on cash received due to the fact that the worksheet could not be obtained.

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. This project was completed and the principal was forgiven in October 2015.

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2015

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, 2015

2010	\$ 38,816
2011	358,442
2012	134,656
2013	4,152,972
2014	1,248,449
2015	86,054
Total	\$ 6,019,389

**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, 2015, 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 28, 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 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.

Pisanti & Birken LLP

Santa Rosa, California
March 28, 2016



**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 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.

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 programs. 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 programs for the year ended June 30, 2015.

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



Santa Rosa, California
March 28, 2016

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified? No

Significant deficiencies identified? None reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

Material weaknesses identified? No

Significant deficiencies identified? None reported

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

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? Yes

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

II. Financial Statement Findings

No matters are reportable

III. Federal Award Findings and Questioned Costs

No matters are reportable

No matters were reported in the prior year.