

**HUMBOLDT COMMUNITY  
SERVICES DISTRICT**

**EUREKA, CALIFORNIA**

**BASIC FINANCIAL STATEMENTS**

**JUNE 30, 2015**

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INDEPENDENT AUDITORS' REPORT

Board of Directors  
Humboldt Community Services District  
Eureka, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the major fund of Humboldt Community Services District, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Humboldt Community Services District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our 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, we consider internal control relevant to Humboldt Community Services District'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 Humboldt Community Services District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the major fund of Humboldt Community Services District, as of June 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America, and the State Controller's Minimum Audit Requirements for California Special Districts.

Other Matters

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-6, 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 taken as a whole. The accompanying combining schedules of water and sewer department revenues, expenses, and changes in net position, allocated general and administrative expenses, and salaries and wages are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

*Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2016 on our consideration of Humboldt Community Services District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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* and should be considered in assessing the results of our audit.

*R. J. Ricciardi, Inc.*

R. J Ricciardi, Inc.  
Certified Public Accountants

San Rafael, California  
January 25, 2016

Humboldt Community Services District  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2015

This section of Humboldt Community Services District's (the District's) annual financial report presents our analysis of the District's financial performance during the fiscal year ended June 30, 2015. Please read it in conjunction with the financial statements which follow this section.

FINANCIAL HIGHLIGHTS

- The District's assets exceeded its liabilities at the close of June 30, 2015 by \$18,967,953. Of this amount, \$1,171,350 (unrestricted net position) may be used to meet the District's ongoing obligations to citizens and creditors.
- The District's net position decreased by \$1,447,246 in FY June 30, 2015. The unrestricted net position decreased by \$1,621,116.
- The District's total assets increased by \$9,222,227 in FY June 30, 2015 due to an increase in capital projects.
- The District's long term debt increased by \$10,408,467 due to incurring new financing and the implementation of GASB 68 related to recording the net pension liability. The District's liability for post-employment benefits increased \$333,317.
- During the year the District's operating revenues decreased \$34,363 or .5% while operating expenses decreased \$352,092 or 5%.
- The District implemented GASB Statement 68 this year. With the new reporting change, the District is allocated its proportionate share of the CalPERS net pension asset, deferred outflows of resources, deferred inflows of resources, and pension expense. A restatement to record the effects of the new reporting guidance decreased beginning net position by \$2,512,161. Decisions regarding the allocations are made by the administrators of the pension plan, not by the District's management.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements consist of two components: Financial Statements and the Notes to the Financial Statements. This report also contains other supplementary information in addition to the basic financial statements.

The District operates as a utility enterprise, which means that it relies mainly on water and sewer rates and charges to fund its operation. The Financial Statements of the District report information about the District using the full accrual basis of accounting. These statements offer short and long-term financial information about the District's activities.

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

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Fund Net Position. This statement measures the success of the District's operations over the past year and can be used to determine the District's credit worthiness and whether the District has successfully recovered all its costs through user fees and other charges.

Humboldt Community Services District  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2015

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

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

FINANCIAL ANALYSIS OF THE DISTRICT

One of the most important questions asked about an entity's finances is "As a whole, are we better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Fund Net Position report information about the District's activities in a way that helps answer this question. These two statements report the net position of the District and changes to net position.

The following condensed financial information provides an overview of the District's financial activities for the fiscal years ended June 30, 2015 and June 30, 2014.

NET POSITION

Net position, (the difference between assets and liabilities) is one way to measure financial health or position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other factors such as desired reserve levels, changes in economic conditions, population growth, housing trends and government legislation.

The largest portion of the District's net position reflects its investment in capital assets (e.g. land, buildings, water supply and distribution system, sewer collection system and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the District's investment in 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.

Restricted net position, representing 6% of net position, represents resources that are subject to external restrictions on how they may be used. The remaining balance: unrestricted net position may be used to meet the District's ongoing obligations to citizens and creditors.

At the end of fiscal years June 30, 2015 and June 30, 2014, the District was able to report positive balances in all three categories of net position.

Humboldt Community Services District  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
 June 30, 2015

The following table summarizes the District's net position as of June 30:

Table 1  
Business-type Net Position

	2015	2014
Assets:		
Current and other assets	\$ 6,899,567	\$ 5,924,099
Capital assets, net of accumulated depreciation	30,054,548	21,807,789
Total assets	36,954,115	27,731,888
Deferred outflows	191,628	
Liabilities:		
Other liabilities	1,250,367	674,657
Long-term debt outstanding	17,050,499	6,642,032
Total liabilities	18,300,866	7,316,689
Deferred inflows	(123,076)	
Net Position:		
Invested in capital assets, net of related debt	16,658,153	16,378,115
Restricted	1,138,450	1,244,618
Unrestricted	1,171,350	2,792,466
Total net position	\$ 18,967,953	\$ 20,415,199

REVENUES, EXPENSES AND CHANGES IN NET POSITION

While the Statement of Net Position shows the change in financial position from one year to the next, the Statement of Revenues, Expenses and Changes in Fund Net Position provides information concerning the nature and source of these changes.

Revenue – Total operating revenue decreased by \$34,363 in 2015 as compared to 2014. Other Non-Operating Revenue decreased because of a reduction of interest rates on investments.

Expenses – Operating expenses decreased by \$352, 092. Non-operating expenses increased by \$14,780.

The following table summarizes the District's change in net position for the year ended June 30:

Table 2  
Changes in Net Position

	2015	2014	Change
Operating revenues	\$ 7,038,492	\$ 7,072,855	\$ (34,363)
Operating expenses	6,439,123	6,791,215	352,092
Net operating income (loss)	\$ 599,369	\$ 281,640	\$ 317,729
Investment and other income	\$ 398,443	\$ 379,853	\$ 18,590
Interest and other expenses	170,727	185,507	14,780
Non-operating net income	\$ 227,716	\$ 194,346	\$ 33,370

Humboldt Community Services District  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
 June 30, 2015

CAPITAL ASSETS AND DEBT ADMINISTRATION

Table 3  
Capital Assets at Year End

	2015	2014
Land	\$ 685,869	\$ 679,166
Buildings and improvements	1,009,029	1,009,029
Water Plant and System	22,588,587	22,037,094
Sewer Collection System	9,895,093	9,883,258
Vehicles and equipment	2,952,696	3,235,940
Construction in progress	13,007,865	4,085,629
Subtotal	50,139,139	40,930,116
Accumulated depreciation	(20,084,591)	(19,122,327)
Net capital assets	\$ 30,054,548	\$ 21,807,789

Capital Assets - At June 30, 2015, the District had \$30,054,548 (net of accumulated depreciation) invested in its water distribution and storage system, wells, sewage collection system, construction in progress, land, buildings, vehicles and equipment. Additional information regarding the District's capital assets can be found in Note 2, Section B of the Financial Statements.

Long-Term Debt - At year end, the District had \$17,050,499 in long term obligations. More detailed information regarding the District's long term liabilities can be found in Note 2, Section C of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The District's Board of Directors and management considered many factors when adopting the fiscal year 2015/2016 budget. The Board assessed the available reserves, the operating and capital needs of the District, potential customer growth, and potential regulatory impacts.

The adopted fiscal year 2015/16 budget includes a 1.6% cost of living increase for employees and a 14% increase in health insurance. It also anticipates increases in water costs, fuel and power costs, maintenance expenses, materials and supplies and debt service costs.

The District does not include depreciation expense in its cash basis budget. The District's cash basis budget includes a capital improvement budget of \$1.4 million for FY 15/16 which will be funded by cash reserves. The budget also includes \$126,795 to reimburse the City of Eureka for the District's share of the wastewater treatment plant CIP and the Martin Slough Wastewater Interceptor Project which will be funded with cash reserves.

Pledged Revenues - The District has pledged future water and wastewater revenues, net of specified operating expenses and exclusive of certain expenses such as depreciation, to repay an original amount of \$16,552,563 in bonds, loans, and agreements issued in prior years to obtain financing for system improvements and equipment. Total principal and interest remaining to be paid on these obligations is \$20,223,438. Annual principal and interest payments on these obligations are expected to require less than the net revenues as defined.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact the Finance Manager or General Manager at Humboldt Community Services District, 5055 Walnut Drive, Eureka, California 95503.

Humboldt Community Services District  
STATEMENT OF NET POSITION  
For the Year Ended June 30, 2015

ASSETS

Current assets:	
Cash and investments	\$ 4,422,158
Restricted cash and investments:	
Debt service	240,243
Capital projects	60,075
Total cash and investments	4,722,476
Accounts receivable	399,620
Assessments receivable	838,132
Prepaid items	603,399
Inventory	335,940
Total current assets	6,899,567
Capital assets:	
Non-depreciable assets	13,693,734
Depreciable assets (net of depreciation)	16,360,814
Total assets	36,954,115

DEFERRED OUTFLOWS

Deferred outflows related to pensions	191,628
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LIABILITIES AND NET POSITION

Current liabilities:	
Accounts payable	860,654
Compensated absences	148,728
Customer deposits	108,073
Accrued expenses	132,912
Total current liabilities	1,250,367
Long-term liabilities:	
Due within one year	729,007
Due in more than one year	14,213,063
Net pension liability due in more than one year	2,108,429
Total long-term liabilities	17,050,499
Total liabilities	18,300,866

DEFERRED INFLOWS

Deferred inflows related to pensions	(123,076)
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Net position:	
Invested in capital assets, net of related debt	16,658,153
Restricted	1,138,450
Unrestricted	1,171,350
Total net position	\$ 18,967,953

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

Humboldt Community Services District  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET POSITION  
For the Year Ended June 30, 2015

Operating revenues:	
Water sales	\$ 3,385,882
Sewer service fees	3,643,383
Other operating	<u>9,227</u>
Total operating revenues	<u>7,038,492</u>
Operating expenses:	
Salaries and benefits	1,322,203
Other post-employment benefits	333,317
Pension expense adjustment	(718,436)
General and administration	1,207,966
Joint treatment costs	1,445,740
Purchases power	177,147
Water purchases	1,165,821
Repairs and maintenance	145,276
Supplies	254,200
Transportation	49,341
Other expenses	98,222
Depreciation	<u>958,326</u>
Total operating expenses	<u>6,439,123</u>
Operating income (loss)	<u>599,369</u>
Non-operating revenues (expenses):	
Interest revenue	40,700
Interest expense	(93,691)
Taxes and assessments	357,743
Street lighting	<u>(77,036)</u>
Total non-operating revenues (expenses)	<u>227,716</u>
Income (loss) before capital contributions	827,085
Capital contributions and connection fees	<u>97,660</u>
Changes in net position	<u>924,745</u>
Net position, beginning of period	20,415,202
Prior period adjustments	<u>(2,371,994)</u>
Net position, beginning of period restated	<u>18,043,208</u>
Net position, end of period	<u>\$ 18,967,953</u>

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

Humboldt Community Services District  
STATEMENT OF CASH FLOWS  
For the Year Ended June 30, 2015

Cash flows from operating activities:	
Receipts from customers	\$ 7,013,174
Payments to suppliers	(4,595,035)
Payments to employees	<u>(1,123,237)</u>
Net cash provided (used) by operating activities	<u>1,294,902</u>
Cash flows from non-capital financing activities:	
Taxes and assessments	461,560
Other revenue	<u>(77,036)</u>
Net cash provided (used) by non-capital financing activities	<u>384,524</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(9,205,085)
Interest expense	(93,691)
Capital connection fees received	97,660
Payment on current portion of bonds	<u>8,300,038</u>
Net cash provided (used) by capital and related financing activities	<u>(901,078)</u>
Cash flows from investing activities:	
Interest earned	<u>40,700</u>
Net cash provided by investing activities	<u>40,700</u>
Net increase (decrease) in cash and cash equivalents	819,048
Cash and cash equivalents - beginning of period	<u>3,903,428</u>
Cash and cash equivalents - end of period	<u>\$ 4,722,476</u>
Reconciliation of operating income (loss) to net cash provided (used in) operating activities:	
Operating income (loss)	\$ 599,369
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	958,326
Prior period adjustment	140,167
Changes in certain assets and liabilities:	
Accounts receivable	(25,318)
Prepaid items	(226,373)
Inventory	(8,546)
Accounts payable	517,891
Accrued expenses	26,087
Deferred outflows	(191,628)
Deferred inflows	(123,076)
Net pension liability	(403,729)
Compensated absences	32,709
Customer deposits	<u>(977)</u>
Net cash provided (used) by operating activities	<u>\$ 1,294,902</u>

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

Humboldt Community Services District  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Humboldt Community Services District was formed in 1952, pursuant to the State of California Community Services District Law. The District's service area includes the unincorporated areas in the vicinity of the City of Eureka, California. The accompanying financial statements present the District and its component units, entities for which the District is considered to be financially accountable. The District has no component units. The District is governed by an elected five-member Board of Directors.

The District provides water for domestic use, irrigation, sanitation use, industrial use, fire protection and recreation. The District also provides for the collection, treatment and disposal of sewage and provides street lighting to customers within its boundaries. The District is authorized to but does not currently provide waste and storm water services. The District does not own or operate its own wastewater treatment plant, but instead contracts with the City of Eureka for such services.

B. Financial Statements

The basic financial statements (i.e., the statement of net position, the statement of revenues, expenses and changes in fund net position and statement of cash flows) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The District accounts for its water and sewer departments in one single enterprise fund.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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 provider have been met. Property taxes, water service charges, water sales, wastewater fees, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period.

The District is engaged primarily in business-type activities and the District's basic financial statements consist of only the financial statements required for enterprise funds. These include management's discussion and analysis, a statement of net position, a statement of revenue, expenses, and changes in fund net position, a statement of cash flows, and these notes to the basic financial statements.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund-type financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

Humboldt Community Services District  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (concluded)

Proprietary enterprise funds distinguish *operating* revenues and expenses with *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 operation revenues of the District are charges to the customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities, and Net Position

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

The District's investment policy has been to invest idle cash in demand deposits, time deposits and the Humboldt County Treasurer's Investment Pool. Investments are reported at fair value. The County Pool is operated in accordance with applicable state laws and regulations, and the reported value of the District's investment in the County Pool is the same as the fair value of the pool shares. State statutes authorize the District to invest in obligations of the U.S. Treasury, Federal Agency obligations, commercial paper, the LAIF and other instruments. The Loan and Installment Agreement underlying the issuance of Loans and Installment Purchase Agreements authorize permitted investments consistent with the State of California Government Code but broader in scope than the District's usual investment practices.

Receivables and Property Taxes

All trade receivables are not shown net of an allowance for uncollectibles.

Property taxes are levied as of March 1 on property values assessed as of the same date. State statutes provide that the property tax rate be limited generally to one percent of market value, be levied by only the County, and be shared by applicable jurisdictions. The County of Humboldt collects the taxes and distributes them to taxing jurisdictions on the basis of assessed valuations subject to voter-approved debt. Property taxes are due on November 1 and March 1, and become delinquent on December 10 and April 10. The District receives property taxes pursuant to an arrangement with the County known as the "Teeter Plan". Under the plan, the County assumes responsibility for the collection of delinquent taxes and pays the full allocation to the District. The District recognizes property tax revenues in the fiscal year in which they are due to the District and accrues as receivable such taxes.

Inventories and Prepaid Items

All inventories are valued at cost based upon physical determinations made at the end of each year.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

Humboldt Community Services District  
NOTES TO BASIC FINANCIAL STATEMENTS  
 For the Year Ended June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, Liabilities, and Net Position (continued)

Restricted Cash Equivalents and Investments

Cash equivalents and investments restricted for use in only capital projects or debt service are reported as noncurrent assets. The District follows the practice of reporting in this category the funds received from the issuance of the Installment Purchase Agreements for the purpose of financing the design, construction, replacement and improvement of District facilities. Special assessments receivable are restricted for the repayment of the Loan Payable to the State of California and are therefore also reported as restricted assets.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (mainly the existing water distribution and wastewater collection system), are reported in the financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets and assets constructed by developers are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives' are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed net of construction period interest revenues earned during such periods.

Property, plant, and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Water treatment plant	30-40
Wastewater collection system	30-40
Buildings and improvements	30-40
Vehicles, trucks and equipment	5-15

Compensated Absences, Sick Leave, Other Post-Employment Benefits, Other Than Pensions and Claims

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. The liability for unpaid vacation and sick leave is recorded in the financial statements when the liability is incurred and vacation is reported as the current portion of such compensated absences. The District does provide for payment of unused sick leave at the rate of 50 percent at retirement after age 50 with five years of service. The total amount of compensated absences payable at June 30, 2015 was \$148,728. The District accounts for other post-employment benefits (OPEB), using actuarial information and by accruing as a liability the difference each year between the District's annual required contribution (ARC) and actual contributions made to the Plan for retiree medical benefits.

Humboldt Community Services District  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, Liabilities, and Net Position (continued)

The District obtains insurance coverage for property and equipment, fidelity bonds, automobile liability and general liability, and workers compensation insurance through its membership in the Association of California Water Agencies Joint Powers Insurance Authority. The risk of loss is transferred from the District to the Authority in exchange for the District's payment of annual premiums. Incurred and unbilled claims, if any, are accrued as a liability when it is probable that an asset has been impaired, the amount of the obligation can be reasonably estimated, and the claim is not covered by insurance.

Deferred Outflows and Inflows of Resources

Pursuant to GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position*, and GASB Statement 65, *Items Previously Reported as Assets and Liabilities*, the District recognizes deferred outflows and inflows of resources.

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. A deferred inflow of resources is defined as an acquisition of net position by the District that is applicable to a future reporting period.

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Humboldt Community Services District's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Long-term Obligations

In enterprise fund-type financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Discounts associated with the issuance of long-term debt obligations are reported as a reduction of the carrying value of the related debt obligation, and are amortized to interest expense over the life of the debt instrument. Costs associated with the issuance of the debt are capitalized as other non-current assets and are amortized to expense over the life of the debt obligation.

Net Position

In the financial statements, fund net position is reported in three categories as follows:

- Invested in capital assets, net of related debt - This category of net position reports the net book value of capital assets used in District operations including construction in progress all net of related accumulated depreciation, and reduced by the carrying value of related long-term debt issued to finance the acquisition of such assets.

Humboldt Community Services District  
NOTES TO BASIC FINANCIAL STATEMENTS  
 For the Year Ended June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

D. Assets, Liabilities, and Net Position (concluded)

- Restricted for debt service and capital projects. - This category of net position reports all unspent proceeds from the issuance of long-term debt restricted for capital asset improvement, replacement, or construction net of the related long-term debt. It also includes funds restricted for debt service payment and reserve requirements.
- Unrestricted - Unrestricted net position represent all other assets net of related liabilities available for use by the District.

NOTE 2 - DETAILED NOTES

A. Cash Equivalents and Investments

Cash equivalents and investments consisted of the following at June 30:

	2015	2014
Cash:		
Demand accounts	\$ 1,494,183	\$ 984,095
County pool	2,927,975	2,616,664
Total cash	\$ 4,422,158	\$ 3,600,759
	2015	2014
Restricted cash:		
County pool	\$ 300,318	\$ 302,669
Total restricted cash	\$ 300,318	\$ 302,669

Custodial Credit Risk - Deposits:

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 a counter-party (e.g., broker-dealer) 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.

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the District's cash on deposit or first trust deed mortgage notes with a value of 150% of the deposit as collateral for these deposits. Under California Law this collateral is held in the District's name and places the District ahead of general creditors of the institution. The District has waived collateral requirements for the portion of deposits covered by federal depository insurance.

All monies in the Humboldt County Treasurer's Pool are not evidenced by specific securities; and therefore are not subject to custodial credit risk. The average number of days to maturity for investments in the County Pool is 644 days.

Humboldt Community Services District  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2015

NOTE 2 - DETAILED NOTES (continued)

A. Cash Equivalents and Investments (concluded)

Credit Risk - State law limits investments in various securities to certain levels of risk ratings issued by nationally recognized statistical rating organizations. It is the District's policy to comply with those requirements. The Humboldt County Treasurer's Pool was unrated.

B. Capital Assets

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

<u>Governmental Activities</u>	<u>Balance</u> <u>6/30/14</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>6/30/15</u>
Capital assets, not being depreciated:				
Land	\$ 679,166	\$ 6,703	\$ -	\$ 685,869
Construction in progress	<u>4,085,629</u>	<u>8,922,236</u>	<u>-</u>	<u>13,007,865</u>
Total capital assets, not being depreciated	<u>4,764,795</u>	<u>8,928,939</u>	<u>-</u>	<u>13,693,734</u>
Capital assets, being depreciated:				
General buildings and structures	1,009,029	-	-	1,009,029
Water plant and distribution system	22,037,094	551,493	-	22,588,587
Sewer collection system	9,883,258	11,835	-	9,895,093
Vehicles	1,699,155	-	-	1,699,155
Equipment	<u>1,536,785</u>	<u>27,698</u>	<u>310,942</u>	<u>1,253,541</u>
Total capital assets, being depreciated	<u>36,165,321</u>	<u>591,026</u>	<u>310,942</u>	<u>36,445,405</u>
Less accumulated depreciation for:				
General buildings and structures	(514,116)	(23,773)	-	(537,889)
Water plant and distribution system	(10,616,549)	(563,173)	-	(11,179,722)
Sewer collection system	(6,147,979)	(225,083)	-	(6,373,062)
Vehicles	(853,217)	(139,271)	-	(992,488)
Equipment	<u>(990,466)</u>	<u>(35,729)</u>	<u>(24,765)</u>	<u>(1,001,430)</u>
Total accumulated depreciation	<u>(19,122,327)</u>	<u>(987,029)</u>	<u>(24,765)</u>	<u>(20,084,591)</u>
Total capital assets being depreciated – net	<u>17,042,994</u>	<u>(396,003)</u>	<u>286,177</u>	<u>16,360,814</u>
Capital assets – net	<u>\$ 21,807,789</u>	<u>\$ 8,532,936</u>	<u>\$ 286,177</u>	<u>\$ 30,054,548</u>

Humboldt Community Services District  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2015

NOTE 2 - DETAILED NOTES (continued)

C. Long-Term Debt

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

<u>Business-Type Activity</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Amount Due in One Year</u>
State water loan	\$ 1,442,648	\$ -	\$ 132,119	\$ 1,310,529	\$ 136,399
State loan	61,313	-	4,443	56,870	4,554
2014 PG&E loan	13,508	-	3,910	9,598	4,266
2012 loan & installment agreement	3,912,205	-	404,858	3,507,347	418,788
2014 WW Revenue Bonds	-	8,500,000	90,000	8,410,000	165,000
2014 WW Revenue Bonds premium, net	-	102,051	-	102,051	-
Other post- employment benefits	<u>1,212,358</u>	<u>696,477</u>	<u>363,160</u>	<u>1,545,675</u>	<u>-</u>
Total	<u>\$ 6,642,032</u>	<u>\$ 9,298,528</u>	<u>\$ 998,490</u>	<u>\$ 14,942,070</u>	<u>\$ 729,007</u>

2012 Loans & Installment Sale Agreement

In August 15, 2012 four installment agreements were issued to refund the District's 1981 Water Revenue Bonds, 2006 Installment Agreement and 2001 loan. Proceeds were also used to fund the District's share of the Martin Slough Sewer Intercept Project. The installment agreements with Municipal Finance Corporation bear interest at 4.25, 3.10, 3.25, and 3.50 percent per annum. The agreement, original issues of \$2,372,000, \$704,000, \$996,000 and \$415,000 respectively, are payable each September 1 and March 1 through 2032. The agreement is secured by a first pledge of all District system revenue after operating and maintenance costs. The District is obligated to fix rates and collect charges and manage operation of the system for each year so as to yield system net revenues equal to at least 120 percent of annual debt service.

Humboldt Community Services District  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2015

NOTE 2 - DETAILED NOTES (continued)

C. Long-Term Debt (continued)

Loan #1			
Year End June 30	Principal	Interest	Total
2016	\$ 86,000	\$ 91,600	\$ 177,600
2017	89,694	87,906	177,600
2018	96,547	84,054	180,601
2019	97,564	80,036	177,600
2020	101,755	75,845	177,600
2021	106,126	71,474	177,600
2022	110,684	66,916	177,600
2023	115,438	62,162	177,600
2024	120,396	57,204	177,600
2025	125,567	52,033	177,600
2026	130,961	46,639	177,600
2027	136,586	41,014	177,600
2028	142,452	35,148	177,600
2029	148,571	29,029	177,600
2030	154,952	22,648	177,600
2031	161,607	15,993	177,600
2032	168,549	9,051	177,600
2033	83,117	1,830	84,947
Total	\$ 2,176,566	\$ 930,582	\$ 3,107,148

Loan #2			
Year End June 30	Principal	Interest	Total
2016	\$ 181,581	\$ 7,119	\$ 188,700
2017	93,126	1,443	94,569
Total	\$ 274,707	\$ 8,562	\$ 283,269

Loan #3			
Year End June 30	Principal	Interest	Total
2016	\$ 112,753	\$ 22,847	\$ 135,600
2017	116,448	19,152	135,600
2018	120,263	15,337	135,600
2019	124,203	11,397	135,600
2020	128,273	7,327	135,600
2021	128,995	3,125	132,120
Total	\$ 730,935	\$ 79,185	\$ 810,120

Humboldt Community Services District  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2015

NOTE 2 - DETAILED NOTES (continued)

C. Long-Term Debt (continued)

	Loan #4		
Year End June 30	Principal	Interest	Total
2016	\$ 38,454	\$ 11,046	\$ 49,500
2017	39,811	9,689	49,500
2018	41,217	8,283	49,500
2019	42,672	6,828	49,500
2020	44,179	5,321	49,500
2021	45,738	3,762	49,500
2022	47,353	2,147	49,500
2023	<u>25,716</u>	<u>450</u>	<u>26,166</u>
Total	<u>\$ 325,140</u>	<u>\$ 47,526</u>	<u>\$ 372,666</u>

State Water Loan - Safe Drinking Water

The District entered into a loan agreement with the State of California Department of Water Resources in an original amount of \$3,399,563 for the purpose of obtaining financing to construct and acquire domestic water facilities within a geographical area known as Freshwater and Mitchell Road. The loan bears interest at 3.2136 percent, is payable in semi-annual installments each April 1 and October 1 through October 1, 2023. The District's obligation to make the loan payments is secured by a security interest on the real and personal property within the area. The District is required to maintain a reserve fund equal to two semi-annual payments or \$177,430.

In connection with the acquisition and construction of this project, the District used the loan proceeds to finance the project and issued one special assessment bond in an original amount of \$2,622,624. The special assessment bond is secured by special assessments on the properties within the project area. The District owns the bond and reports this investment in its financial statements as special assessments receivable.

Future debt service on the State Water Loan is:

<u>Years</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 136,399	\$ 41,031	\$ 177,430
2017	140,890	36,539	177,429
2018	145,377	32,052	177,429
2019	150,086	27,343	177,429
2020	154,905	22,525	177,430
2021	160,004	17,426	177,430
2022	165,149	12,280	177,429
2023	170,499	6,930	177,429
2024	<u>87,220</u>	<u>1,407</u>	<u>88,627</u>
Totals	<u>\$ 1,310,529</u>	<u>\$ 197,533</u>	<u>\$ 1,508,062</u>

Humboldt Community Services District  
NOTES TO BASIC FINANCIAL STATEMENTS  
 For the Year Ended June 30, 2015

NOTE 2 - DETAILED NOTES (continued)

C. Long-Term Debt (continued)

State Loan - Davis Grunsky

The District assumed a loan agreement with the State Department of Water Resources for the purpose of acquiring a water system in the King Salmon area. The loan is secured by a pledge of water revenues. The loan was for \$166,000, bears interest at 2.50 percent and matures January 1, 2026. Future debt service on the original loan amount is:

<u>Years</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 4,554	\$ 1,423	\$ 5,977
2017	4,669	1,308	5,977
2018	4,787	1,190	5,977
2019	4,906	1,071	5,977
2020	5,028	949	5,977
2021	5,155	822	5,977
2022	5,283	694	5,977
2023	5,415	562	5,977
2024	5,551	426	5,977
2025	5,689	288	5,977
2026	<u>5,833</u>	<u>144</u>	<u>5,977</u>
Totals	<u>\$ 56,870</u>	<u>\$ 8,877</u>	<u>\$ 65,747</u>

2014 Wastewater Revenue Bonds

The District issued Wastewater Revenue bonds through the California Municipal Finance Authority in order to complete financing of the District's share of the Martin-Slough Wastewater Intereceptor Project.

Interest on the bonds is payable semiannually on June 1 and December 1 in each year, commencing June 1, 2015, and matures on June 1, 2044. Future debt service on the original loan amount is as follows:

Humboldt Community Services District  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2015

NOTE 2 - DETAILED NOTES (concluded)

C. Long-Term Debt (concluded)

<u>Year End June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 165,000	\$ 319,526	\$ 484,526
2017	170,000	314,576	484,576
2018	180,000	307,776	487,776
2019	185,000	300,576	485,576
2020	190,000	293,174	483,174
2021	200,000	285,576	485,576
2022	210,000	277,576	487,576
2023	215,000	269,176	484,176
2024	225,000	260,576	485,576
2025	235,000	251,576	486,576
2026	245,000	242,176	487,176
2027	250,000	234,826	484,826
2028	260,000	227,012	487,012
2029	265,000	218,562	483,562
2030	275,000	209,618	484,618
2031	285,000	199,994	484,994
2032	295,000	190,018	485,018
2033	305,000	179,694	484,694
2034	315,000	169,018	484,018
2035	330,000	156,000	486,000
2036	340,000	144,400	484,400
2037	355,000	130,800	485,800
2038	370,000	116,600	486,600
2039	385,000	101,800	486,800
2040	400,000	86,400	486,400
2041	415,000	70,400	485,400
2042	430,000	53,800	483,800
2043	450,000	36,600	486,600
2044	<u>465,000</u>	<u>18,600</u>	<u>483,600</u>
Total	<u>\$ 8,410,000</u>	<u>\$ 5,666,426</u>	<u>\$ 14,076,426</u>

Humboldt Community Services District  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2015

NOTE 3 - OTHER INFORMATION

A. Risk Management

The District obtains general liability, property, automobile, and workers compensation insurance through its membership in the Association of California Water Agencies Joint Powers Insurance Authority (the Authority). The Authority is responsible for the first \$1 million per claim under its liability coverage program, and members are covered up to \$50 million for liability claims under the Authority's purchased excess insurance policies with a \$60 million aggregate limit on \$20 million excess layer, and \$30 million aggregate on each of the next \$10 million excess layers. Members are covered for \$100 million in regard to property and equipment through the Authority's purchased excess coverage. Workers compensation coverage is provided to the District equal to statutory limits. The Authority also provides automobile liability coverage and errors and omissions coverage up to \$50 million, and employee fidelity coverage up to \$100,000. There were no significant changes in coverage in fiscal year 2015 as regards the aggregate limits on excess coverage.

The District paid no material uninsured losses during the last three fiscal years.

Liabilities of the District are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. There were no material uninsured claim liabilities at June 30, 2015.

B. Contingencies and Commitments

Litigation

In the opinion of the District's general counsel, there is no pending or threatened litigation which would have a material adverse impact on the accompanying financial statements.

C. Retirement System

Plan Description: All qualified permanent and probationary employees are eligible to participate in the District's separate Miscellaneous Employee Pension Plans, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

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

Humboldt Community Services District  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2015

NOTE 3 - OTHER INFORMATION (continued)

C. Retirement System (continued)

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

	Miscellaneous	
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	2% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 55	52 - 67
Monthly benefits, as a % of eligible compensations	2.0% to 2.7%	1.0% to 2.5%
Required employee contribution rates	7%	6.5%
Required employer contribution rates	16.452%	6.5%

Contributions - Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

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

	Miscellaneous
Contributions - employer	\$191,628

As of June 30, 2015, the District reported net pension liabilities for its proportionate shares of the net pension liability of the Miscellaneous Plans as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	\$ <u>2,108,429</u>

Humboldt Community Services District  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2015

NOTE 3 - OTHER INFORMATION (continued)

C. Retirement System (continued)

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

	Miscellaneous
Proportion - June 30, 2013	.083%
Proportion - June 30, 2014	.085%
Change – Increase (Decrease)	.002%

For the year ended June 30, 2014, the District recognized pension expense of \$141,396. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 136,802	\$ -
Differences between actual and expected experience	-	-
Changes in assumptions	-	-
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	54,826	-
Net differences between projected and actual earnings on plan investments	-	(570,628)
Total	\$ 191,628	\$ (570,628)

\$191,628 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2015. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year Ended June 30</u>		
2015	\$	(123,076)
2016		(123,076)
2017		(126,993)
2018		(142,657)
2019		-
Thereafter		-

Humboldt Community Services District  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2015

NOTE 3 - OTHER INFORMATION (continued)

C. Retirement System (continued)

Actuarial Assumptions - The total pension liabilities in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous(4)
Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.5%
Inflation	2.75%
Payroll Growth	3.0%
Projected Salary Increase	3.3% - 14.2% (1)
Investment Rate of Return	7.5% (2)
Mortality	Derived using CalPERS Membership Data for all Funds (3)
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter.

- (1) Depending on age, service and type of employment
- (2) Net of pension plan investment expenses, including inflation
- (3) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the CalPERS 2014 experience study report available on CalPERS website.
- (4) All of the District's plans for miscellaneous employed the same assumptions.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

Discount Rate - The discount rate used to measure the total pension liability was 7.50% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

Humboldt Community Services District  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2015

NOTE 3 - OTHER INFORMATION (continued)

C. Retirement System (continued)

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

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

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

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

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

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1-10<sup>(1)</sup></u>	<u>Real Return Years 11+<sup>(2)</sup></u>
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	12.0	6.83	6.95
Real Estate	11.0	4.50	5.13
Infrastructure and Forestland	3.0	4.50	5.09
Liquidity	2.0	(0.55)	(1.05)

(1) An expected inflation of 2.5% used for this period

(2) An expected inflation of 3.0% used for this period.

Humboldt Community Services District  
NOTES TO BASIC FINANCIAL STATEMENTS  
 For the Year Ended June 30, 2015

NOTE 3 - OTHER INFORMATION (continued)

C. Retirement System (continued)

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the District's proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Miscellaneous
1% Decrease	6.5%
Net Pension Liability	\$3,490,230
Current Discount Rate	7.50%
Net Pension Liability	\$2,108,429
1% Increase	8.50%
Net Pension Liability	\$961,666

Pension Plan Fiduciary Net Position - Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

As of June 30, 2015  
 Last 10 Years\*

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
 2014

Proportion of the net pension liability	0.03388%
Proportionate share of the net pension liability	\$2,108,429
Covered - employee payroll	\$888,096
Proportionate Share of the net pension liability as percentage of covered-employee payroll	237.41%
Plan fiduciary net position as a percentage of the total pension liability	79.76%

Notes to Schedule:

Benefit changes. In 2014, benefit terms were modified to base public safety employee pensions on a final three-year average salary instead of a final five-year average salary.

Changes in assumptions. In 2014, amounts reported as changes in assumptions resulted primarily from adjustments to expected retirement ages of general employees.

\* - Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

Humboldt Community Services District  
NOTES TO BASIC FINANCIAL STATEMENTS  
 For the Year Ended June 30, 2015

NOTE 3 - OTHER INFORMATION (continued)

C. Retirement System (concluded)

As of June 30, 2015  
 Last 10 Years\*  
SCHEDULE OF CONTRIBUTIONS  
 2014

Contractually required contribution (actuarially determined)	\$	146,907
Contributions in relation to the actuarially determined contributions		(146,907)
	\$	<u><u>-</u></u>
Contribution deficiency (excess)		-
Covered-employee payroll		\$888,096
Contributions as a percentage of covered-employee payroll		16.54%

Notes to Schedule:

Valuation date: 6/30/2013

Methods and assumptions used to determine contribution rates:

Single and Agent Employers Example	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	15 years
Asset valuation method	5-year smoothed market
Inflation	3.50%
Salary increases	4.5%, average, including inflation of 3.0%
Investment rate of return	7.75%, net of pension plan investment expense, incl. inflation
Retirement age	57 yrs.
Mortality	RP-2000 Healthy Annuitant Mortality Table

\* - Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

D. Wastewater Contract with the City of Eureka

The District is a party to a contract with the City of Eureka (the City) pertaining to the construction and operation of the City's treatment plant. The District does not have an ownership interest in the City's treatment plant, but does have treatment capacity rights. Under the arrangement, the District is obligated to pay to the City 32.1 percent of all debt service and capital improvement costs. Operations and maintenance costs are shared based upon each party's volume of flow of wastewater modified under a stipulated formula. Payments made by the District during the construction of the City's facility have been capitalized as prepaid treatment costs and are amortized to expense over the life of the contractual arrangement.

Humboldt Community Services District  
NOTES TO BASIC FINANCIAL STATEMENTS  
 For the Year Ended June 30, 2015

NOTE 3 - OTHER INFORMATION (continued)

D. Wastewater Contract with the City of Eureka (concluded)

The District and the City are involved in a major wastewater project referred to as the Martin Slough Interceptor Project. The project is expected to include design and engineering costs, phase 1 interceptor piping, lateral stub piping and specialized piping costs, and phase 2 interceptor, pump station and force main costs. The project costs are expected to exceed \$22 million. The exact extent and nature of the project, total project costs and the amount of costs to be paid by the City and those to be paid by the District, and the methods to be used to finance those costs have not yet been determined or finalized by the City and the District.

During fiscal year 2014, the City and the District entered into a new agreement for the purpose of continuing the operation, maintenance and construction of existing and new publicly-owned treatment works whereby the District contracts with the City for the transportation, treatment and disposal of all wastewater originating in the District. The City owns all treatment plant facilities, but the District is expected to pay, among other costs, a proportionate share of capital expansion costs.

Under the new arrangement, the District is required to maintain custody of its own \$642,000 capital reserve for use in funding emergency projects or repairs to the Greater Eureka Area Wastewater Project.

E. Segment Information

The District has issued separate revenue bonds to finance its water department. The District's water and sewer departments are accounted for in a single fund, but investors in those bonds rely solely on the revenue generated by the individual activity for repayment. Summary information for each department is presented below. The water department operates the District's water supply system. The sewer department operates the District's sewerage pumping, collection, and treatment system.

CONDENSED STATEMENT OF REVENUES, EXPENSES  
 AND CHANGES IN NET POSITION:

	Water Department	Sewer Department
Operating revenues (pledged)	\$ 3,385,882	\$ 3,652,610
Depreciation expense	(688,948)	(289,378)
Other operating expenses	(2,810,793)	(2,670,004)
Operating income (loss)	(93,859)	693,228
Non-operating revenues (expenses)		
Investment income	20,021	20,679
Interest expense	(72,142)	(21,549)
Other revenue (expense)	110,768	169,939
Capital contributions	22,660	75,000
Change in net position	\$ (12,552)	\$ 937,297

Humboldt Community Services District  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2015

NOTE 3 - OTHER INFORMATION (continued)

F. Other Post-Employment Benefits (OPEB)

Plan Description

The District administers its retired employees' healthcare plan, a single employer defined benefit health care plan. The plan provides medical benefits to eligible retired employees and their beneficiaries. District resolutions and agreements assign the authority to establish and amend benefit provisions to the District. A separate OPEB trust fund has not been established by the District.

Funding Policy

The plan members' and the District's contribution requirements are established and may be amended by the District. The required contribution is based on projected pay-as-you-go financing requirements, with additional amounts to prefund benefits as determined annually by the Board of Directors. For the fiscal year ended June 30, 2015, the District contributed \$333,317.

Annual OPEB Costs and the Net OPEB Obligation

The District's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of Governmental Accounting Standards Board Statement Number 45. The ARC represents a level of funding, which if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded liabilities over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amounts actually contributed to the Plan, and changes in the District's net OPEB obligation to the Plan.

	2015	2014
Annual required contribution	\$ 718,094	\$ 718,094
Interest on OPEB obligation	48,494	34,216
Adjustment to annual required contribution	(70,111)	(49,468)
Annual OPEB Cost (expense)	696,477	702,842
Contributions made	(363,160)	(345,884)
Increase (decrease) in net OPEB obligation	333,317	356,958
Net OPEB obligation - beginning of year	1,212,358	855,400
Net OPEB obligation - end of year	\$ 1,545,675	\$ 1,212,358

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2015 was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
6/30/13	\$ 376,889	66.0%	\$ 855,400
6/30/14	\$ 702,842	49.0%	\$ 1,212,358
6/30/15	\$ 696,477	50.5%	\$ 1,545,675

Humboldt Community Services District  
NOTES TO BASIC FINANCIAL STATEMENTS  
 For the Year Ended June 30, 2015

NOTE 3 - OTHER INFORMATION (concluded)

F. Other Post-Employment Benefits (concluded)

*Funded Status and Funding Progress.* The funded status of the plan as of the most recent valuation was as follows:

Valuation Date	(A) Actuarial Value of Assets	(B) Actuarial Accrued Liability	(C) Unfunded Liability (Excess Assets) [(B)-(A)]	(D) Funded Status [(A)/(B)]	(E) Annual Covered Payroll	(F) UAAL as a % of Payroll {(B)-(A)}/(E)}
10/9/11	\$ 0	\$5,585,981	\$5,585,981	0%	\$1,106,937	505%
7/01/13	\$ 88,699	\$ 7,919,927	\$7,919,927	0%	\$1,090,407	726%

Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about the probability of occurrence of events into the future. Examples include assumptions about future employment, mortality and health care trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members), includes the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial liabilities and the actuarial value of plan assets, consistent with the long-term perspective of the calculations. In the October 9, 2011 valuation, the entry age normal actuarial cost method was used. The actuarial assumptions include a 4 percent investment rate of return based upon assumed long-term returns on employer assets. An annual health care trend rate of 2 to 7 percent was also used in the valuation. There were no plan assets at the valuation date. The UAAL is being amortized as a level percentage of payroll over 30 years, the remaining amortization period at June 30, 2015.

NOTE 4 - SUBSEQUENT EVENTS

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through the date the financial statements were issued.

NOTE 5 - PRIOR PERIOD ADJUSTMENT

The prior period adjustment of \$(2,512,161) represents the change to the July 1, 2014 net position resulting from the GASB 68 implementation and the recording of the net pension liability. Further, there was an adjustment to correct a prior period over reporting of expenses of \$140,167. The total of the two adjustments was \$(2,371,994).

Humboldt Community Services District  
COMBINING SCHEDULE OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET POSITION  
For the Year Ended June 30, 2015

	Water System	Sewer System	Totals
Operating revenues:			
Water sales	\$ 3,385,882	\$ -	\$ 3,385,882
Sewer service fees	-	3,643,383	3,643,383
Other operating	-	9,227	9,227
	<u>3,385,882</u>	<u>3,652,610</u>	<u>7,038,492</u>
Total operating revenues			
Operating expenses:			
Salaries and benefits	770,703	551,500	1,322,203
Other post-employment benefits	223,322	109,995	333,317
Pension expense adjustment	(409,222)	(309,214)	(718,436)
General and administration	579,824	628,142	1,207,966
Joint treatment costs	-	1,445,740	1,445,740
Purchases power	128,649	48,498	177,147
Water purchases	1,165,821	-	1,165,821
Repairs and maintenance	102,169	43,107	145,276
Supplies	172,102	82,098	254,200
Transportation	23,464	25,877	49,341
Other expenses	53,961	44,261	98,222
Depreciation	668,948	289,378	958,326
	<u>3,479,741</u>	<u>2,959,382</u>	<u>6,439,123</u>
Total operating expenses			
Operating income (loss)	<u>(93,859)</u>	<u>693,228</u>	<u>599,369</u>
Non-operating revenues (expenses):			
Interest revenue	20,021	20,679	40,700
Interest expense	(72,142)	(21,549)	(93,691)
Taxes and assessments	187,804	169,939	357,743
Street lighting	(77,036)	-	(77,036)
	<u>58,647</u>	<u>169,069</u>	<u>227,716</u>
Total non-operating revenues (expenses)			
Income (loss) before capital contributions	(35,212)	862,297	827,085
Capital Contributions and connection fees	<u>22,660</u>	<u>75,000</u>	<u>97,660</u>
Changes in net position	<u>\$ (12,552)</u>	<u>\$ 937,297</u>	<u>\$ 924,745</u>

Humboldt Community Services District  
WATER DEPARTMENT  
COMBINING SCHEDULE OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET ASSETS  
For the Year Ended June 30, 2015

	Original Water System	Humboldt Hill Water System	Mitchell Road Water System	Totals
Operating revenues:				
Water sales	\$ 2,374,248	\$ 757,019	\$ 254,615	\$ 3,385,882
Total operating revenues	<u>2,374,248</u>	<u>757,019</u>	<u>254,615</u>	<u>3,385,882</u>
Operating expenses:				
Salaries and benefits	517,160	187,230	66,313	770,703
Other post-employment benefits	146,659	56,664	19,999	223,322
Pension expense adjustment	(277,104)	(97,413)	(34,705)	(409,222)
General and administration	398,629	132,876	48,319	579,824
Purchases power	60,712	61,118	6,819	128,649
Water purchases	1,049,239	-	116,582	1,165,821
Repairs and maintenance	68,826	26,407	6,936	102,169
Supplies	115,951	41,366	14,785	172,102
Transportation	16,132	5,377	1,955	23,464
Other expenses	32,180	17,702	4,079	53,961
Depreciation	<u>364,111</u>	<u>174,334</u>	<u>130,503</u>	<u>668,948</u>
Total operating expenses	<u>2,492,495</u>	<u>605,661</u>	<u>381,585</u>	<u>3,479,741</u>
Operating income (loss)	<u>(118,247)</u>	<u>151,358</u>	<u>(126,970)</u>	<u>(93,859)</u>
Non-operating revenues (expenses):				
Interest revenue	11,632	3,877	4,512	20,021
Interest expense	(23,423)	(5,621)	(43,098)	(72,142)
Taxes and assessments	107,846	35,949	44,009	187,804
Street lighting	<u>(53,910)</u>	<u>(17,318)</u>	<u>(5,808)</u>	<u>(77,036)</u>
Total non-operating revenues (expenses)	<u>42,145</u>	<u>16,887</u>	<u>(385)</u>	<u>58,647</u>
Income (loss) before capital contributions	(76,102)	168,245	(127,355)	(35,212)
Capital Contributions and connection fees	<u>18,540</u>	<u>4,120</u>	<u>-</u>	<u>22,660</u>
Changes in net position	<u>\$ (57,562)</u>	<u>\$ 172,365</u>	<u>\$ (127,355)</u>	<u>\$ (12,552)</u>

Humboldt Community Services District  
SEWER DEPARTMENT  
COMBINING SCHEDULE OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET POSITION  
For the Year Ended June 30, 2015

	General Sewer System	Humboldt Hill Sewer System	Totals
Operating revenues:			
Sewer service fees	\$ 2,853,547	\$ 789,836	\$ 3,643,383
Other	7,339	1,888	9,227
Total operating revenues	<u>2,860,886</u>	<u>791,724</u>	<u>3,652,610</u>
Operating expenses:			
Salaries and benefits	404,371	147,129	551,500
Other post-employment benefits	73,330	36,665	109,995
Pension expense adjustment	(229,947)	(79,267)	(309,214)
General and administration	495,266	132,876	628,142
Joint treatment costs	1,139,848	305,892	1,445,740
Purchases power	37,044	11,454	48,498
Repairs and maintenance	31,462	11,645	43,107
Supplies	55,328	26,770	82,098
Transportation	20,500	5,377	25,877
Other expenses	37,028	7,233	44,261
Depreciation	182,730	106,648	289,378
Total operating expenses	<u>2,246,960</u>	<u>712,422</u>	<u>2,959,382</u>
Operating income (loss)	<u>613,926</u>	<u>79,302</u>	<u>693,228</u>
Non-operating revenues (expenses):			
Interest revenue	16,731	3,948	20,679
Interest expense	(16,864)	(4,685)	(21,549)
Taxes and assessments	133,990	35,949	169,939
Total non-operating revenues (expenses)	<u>133,857</u>	<u>35,212</u>	<u>169,069</u>
Income (loss) before capital contributions	747,783	114,514	862,297
Capital Contributions and connection fees	66,000	9,000	75,000
Changes in net position	<u>\$ 813,783</u>	<u>\$ 123,514</u>	<u>\$ 937,297</u>

Humboldt Community Services District  
SCHEDULE OF ALLOCATED GENERAL AND ADMINISTRATIVE EXPENSES  
 For the Year Ended June 30, 2015

Allocated General and Administrative Expenses:	
Salaries and benefits	\$ 834,731
Insurance	69,639
Purchases power	60,839
Repairs and maintenance	47,410
Supplies	2,724
Other expenses	178,399
Depreciation	3,938
Total	<u>\$ 1,197,680</u>

General and Administrative expenses were allocated to the following departments:

General water	\$ 398,629
Humboldt Hill sewer	132,876
Freshwater/Mitchell Road	48,319
General sewer	495,266
Humboldt Hill sewer	132,876
Total	<u>\$ 1,207,966</u>

Salaries and benefits breakdown:

Salaries and wages	\$ 240,637
Vacation, sick, and holiday pay	67,381
Group insurance	454,744
Other benefits	71,969
Total	<u>\$ 834,731</u>

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

Board of Directors  
Humboldt Community Services District  
Eureka, California

We have audited the basic financial statements of Humboldt Community Services District as of and for the year ended June 30, 2015, and have issued our report thereon dated January 25, 2016. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Humboldt Community Services District's basic 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*. However, we noted certain matters that we reported to management of Humboldt Community Services District in a separate letter.

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

*R.J. Ricciardi, Inc.*

R.J. Ricciardi, Inc.  
Certified Public Accountants

San Rafael, California  
January 25, 2016