

HUMBOLDT WASTE MANAGEMENT AUTHORITY

BASIC FINANCIAL STATEMENTS

AND SUPPLEMENTARY SCHEDULES

JUNE 30, 2017



Prepared by:

Tyler Egerer

Director of Finance and
Administrative Services

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Humboldt Waste Management Authority

Basic Financial Statements

For the year ended June 30, 2017

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Humboldt Waste Management Authority
Basic Financial Statements
For the year ended June 30, 2017

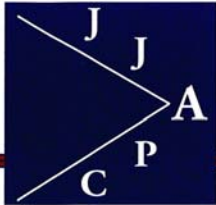
Elected Officials and Administrative Personnel

BOARD OF DIRECTORS

Sofia Pereira – Chair
Heidi Messner – Vice Chair
Frank Wilson – Director
Summer Daugherty – Director
Rex Bohn – Director
Michael Sweeney - Director

MANAGEMENT

Jill Duffy – Executive Director
Tyler Egerer – Director of Finance and Administrative Services



JJACPA, Inc.

A Professional Accounting Services Corp.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Humboldt Waste Management Authority
Eureka, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Humboldt Waste Management Authority (Authority), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents. The prior year comparative total information has been derived from the Authority's June 30, 2016 basic financial statements with our report dated October 26, 2016.

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 3–10, Schedules of Contributions on pages 36-37 and Schedules of the Authority's Proportionate Share of the Net Pension Liability on pages 38-39, 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 opinions on the financial statements that collectively comprise the Authority's basic financial statements. The Schedule of Debt Service Coverage and the introductory section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Debt Service Coverage is the responsibility of management and was derived from and relates 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 Debt Service Coverage is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2017 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Authority's internal control over financial reporting and compliance.

October 24, 2017

J.J.A.C.P.A., Inc.
JJACPA, Inc.
Dublin, CA

Humboldt Waste Management Authority
Basic Financial Statements
For the year ended June 30, 2017

Management's Discussion and Analysis

The Management's Discussion and Analysis section represents Humboldt Waste Management Authority's basic financial statements and provides management's discussion and analysis of the Authority's financial performance during the fiscal year ended June 30, 2017. The management's discussion and analysis focus on current activities, resulting change and current known facts; therefore, it should be read in context with the Authority's basic financial statements (pages 12-14) and footnotes (pages 15-35).

Financial Highlights

As of June 30, 2017, the Authority's net position increased \$2,519,234 to \$(2,252,337) from \$(4,771,571) from the prior fiscal year ended June 30, 2016. Operating revenues increased by \$709,051 primarily due to an increase in actual solid waste tonnage from initial budget estimates: staff anticipated 70,000 tons of solid waste, with approximately 75,000 actual tons received, primarily related to improved reporting from the Authority's Satellite Transfer Facilities. Operating expenses (with depreciation included) decreased by \$359,187 as a result of completion of several activities related to the Cummings Road Landfill and Cummings Road Burn Ash Site.

For the year ended June 30, 2017, two significant financial impacts to the Authority were 1) the replacement of the Authority's long-term transportation and disposal contractor, Solid Wastes of Willits, with a new 10-year agreement for transportation and disposal services Dry Creek Landfill due to financial hardships and request for early termination by Solid Wastes of Willits; and 2) the purchase and acquisition of the Recology Forest Property adjacent to the Cummings Road Landfill.

Using This Report

In December 1998, the Governmental Accounting Standards Board (GASB) released statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, which revised the reporting of property tax revenue. In June 1999, GASB released statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Changes in statement No. 34 require a comprehensive one-line look at the entity as a whole and capitalization of assets and depreciation for agencies not reporting on the accrual basis of accounting. Since the Authority has historically reported all activities in enterprise funds in a manner similar to business activities and followed the accrual basis of accounting, the Authority merely has been required to reclassify certain balances to utilize the new statement No. 34 terminology. There were no major reconciling items necessary or elimination of balances due to the implementation of statement No. 34.

The annual financial statements include the Independent Auditors' Report, this management's discussion and analysis, the basic financial statements, and notes to the basic financial statements.

Humboldt Waste Management Authority
Basic Financial Statements
For the year ended June 30, 2017

Management's Discussion and Analysis, Continued

Financial Analysis of the Authority as a Whole

| | Net Position As of June 30, 2017 and 2016 | | | |
|---|--|-----------------------|------------------------|-------------------|
| | 2017 | 2016 | Increase (Decrease) | Percent Change |
| Assets: | | | | |
| Current assets | \$ 5,132,845 | \$ 3,034,715 | \$ 2,098,130 | 69.1% |
| Restricted assets | - | 1,675,142 | (1,675,142) | (100.0)% |
| Non-current assets | 5,246,710 | 4,575,508 | 671,202 | 14.7% |
| Total assets | <u>10,379,555</u> | <u>9,285,365</u> | <u>1,094,190</u> | <u>11.8%</u> |
| Deferred outflows: Pension plan | 435,580 | 346,122 | 89,458 | 25.8% |
| Total assets and deferred outflows | <u>10,815,135</u> | <u>9,631,487</u> | <u>1,183,648</u> | <u>37.6%</u> |
| Liabilities: | | | | |
| Current liabilities | 1,797,254 | 1,767,557 | 29,697 | 1.7% |
| Non-current liabilities | 11,121,202 | 12,117,555 | (996,353) | (8.2)% |
| Total liabilities | <u>12,918,456</u> | <u>13,885,112</u> | <u>(966,656)</u> | <u>(7.0)%</u> |
| Deferred inflows: Pension Plan | 109,711 | 469,877 | (360,166) | 0.0% |
| Deferred inflows: Unavailable revenue | 39,305 | 48,069 | (8,764) | (18.2)% |
| Total liabilities and deferred inflows | <u>13,067,472</u> | <u>14,403,058</u> | <u>(1,335,586)</u> | <u>(9.3)%</u> |
| Net position: | | | | |
| Net investment in capital assets | 1,084,902 | (688,709) | 1,773,611 | (257.5)% |
| Restricted/Unrestricted Net Position: | | | | |
| Restricted for debt service | - | 1,675,142 | (1,675,142) | (100.0)% |
| Unrestricted deficit | (3,337,239) | (5,758,004) | 2,420,765 | 42.0% |
| Total net position | <u>\$ (2,252,337)</u> | <u>\$ (4,771,571)</u> | <u>\$ 2,519,234</u> | <u>52.8%</u> |

This schedule represents the Authority's Statement of Net Position (page 12), presented on an accrual basis of accounting, whereby revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Operating revenues in the Statement of Activities are revenues generated from the primary operations of the Authority. All other revenues are reported as non-operating revenues. Operating expenses are those essential expenses related to the primary operations of the Authority. All other expenses are reported as non-operating expenses.

As detailed in the table above, net position at June 30, 2017, increased to \$(2,252,337) from \$(4,771,571) in 2016. The increase in net position was primarily due to the completion of several large projects at the Cummings Road Landfill, the adjacent (former) Cummings Road Burn Ash Site project, and the acquisition of the forested properties surrounding the Cummings Road Landfill. The Cummings Road Landfill was certified as a "closed" landfill by the State of California's CalRecycle, North Coast Regional Water Quality Control Board and Humboldt County Division of Environmental Health on February 17, 2017. As part of the Settlement and Release Agreement, Recology and HWMA entered into an Option and Purchase Agreement on May 23, 2014, giving HWMA an exclusive option to purchase the surrounding 413 acres of forested property for the amount of \$1,032,500 (or 43% of the appraised value). The forest property acquisition repays the Authority for costs incurred during execution and completion related to activities associated with the Cleanup and Abatement Order issued in April of 2013, and the Corrective Action Plan for the Cummings Road Burn Ash Site that was completed in October of 2014.

Humboldt Waste Management Authority
Basic Financial Statements
For the year ended June 30, 2017

Management's Discussion and Analysis, Continued

Financial Analysis of the Authority as a Whole, Continued

Operating results are summarized as follows:

Operating Results
For the years ended June 30, 2017 and 2016

| | <u>2017</u> | <u>2016</u> | <u>Increase (Decrease)</u> | <u>Percent Change</u> |
|--|-----------------------|-----------------------|--------------------------------|---------------------------|
| Operating revenues | \$ 11,319,975 | \$ 10,610,924 | \$ 709,051 | 6.7% |
| Operating expenses | 9,079,305 | 9,438,492 | (359,187) | (3.8)% |
| Operating income (loss) | 2,240,670 | 1,172,432 | 1,068,238 | 91.1% |
| Non-operating revenues | 206,035 | 241,229 | (35,194) | (14.6)% |
| Non-operating expenses | (181,052) | (186,267) | 5,215 | (2.8)% |
| Special item: Landfill closure revaluation | 253,581 | 2,028,602 | (1,775,021) | 100.0% |
| Change in net position | <u>2,519,234</u> | <u>3,255,996</u> | <u>(736,762)</u> | <u>(22.6)%</u> |
| Net position: | | | | |
| Beginning of year, as originally reported | (4,771,571) | (8,027,567) | 3,255,996 | (40.6)% |
| Prior period adjustments | - | - | - | 0.0% |
| Beginning of year, as adjusted | <u>(4,771,571)</u> | <u>(8,027,567)</u> | <u>3,255,996</u> | <u>(40.6)%</u> |
| End of year | <u>\$ (2,252,337)</u> | <u>\$ (4,771,571)</u> | <u>\$ 2,519,234</u> | <u>(63.2)%</u> |

The Statement of Net Position shows the change in financial position of net position, with operating results reflected in the Statement of Revenues, Expenses, and Changes in Net Position. This statement provides information pertaining to the change in financial position of net position.

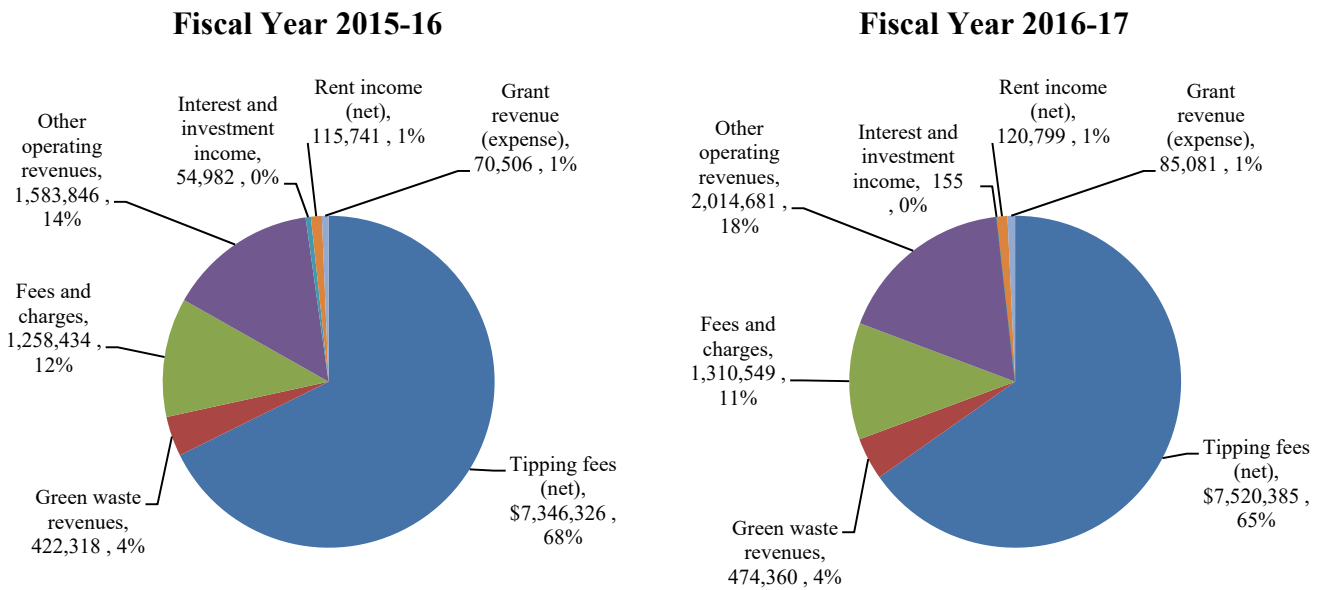
**Humboldt Waste Management Authority
Basic Financial Statements
For the year ended June 30, 2017**

Management’s Discussion and Analysis, Continued

Financial Analysis of the Authority as a Whole, Continued

The following is a graphic illustration of revenues by source:

**Revenues by Source
Both Operating & Non-Operating**



| <u>FY 2015-2016</u> | | | <u>FY 2016-2017</u> | | <u>Increase (Decrease)</u> |
|----------------------|--------------|---------------------------------------|----------------------|---------------|--------------------------------|
| \$ 7,346,326 | 63.8% | Tipping fees (net) | \$ 7,520,385 | 65.3% | \$ 174,059 |
| 422,318 | 3.7% | Green waste revenues | 474,360 | 4.1% | 52,042 |
| 1,258,434 | 10.9% | Fees and charges | 1,310,549 | 11.4% | 52,115 |
| 1,583,846 | 13.7% | Other operating revenues | 2,014,681 | 17.5% | 430,835 |
| 54,982 | 0.5% | Interest and investment income | 155 | 0.0% | (54,827) |
| 115,741 | 1.0% | Rent income (net) | 120,799 | 1.0% | 5,058 |
| 70,506 | 0.6% | Grant revenue | 85,081 | 0.7% | 14,575 |
| <u>\$ 10,852,153</u> | <u>94.0%</u> | Totals | <u>\$ 11,526,010</u> | <u>100.0%</u> | <u>\$ 673,857</u> |

Overall, Waste Management Fees (aka “Tipping Fees”) increased due to improved participation by the Authority’s Satellite Facilities, resulting in a 5,000-ton increase over the budget estimated 70,000 tons received in for the year ended June 30, 2017. The increase in Fees and Charges is due to improved recordkeeping for portions of the Tipping Fee related to internal program usage, administrative costs, and additional charges for Landfill and Recycling costs above those captured by Countywide Program Fees. Revenues associated with reimbursement for California Redemption Value (CRV) related recycling materials (a significant portion of the “other operating revenues” category) continue to increase year-over-year as recycling activity increases and available redemption centers dwindle.

Humboldt Waste Management Authority
Basic Financial Statements
For the year ended June 30, 2017

Management's Discussion and Analysis, Continued

Financial Analysis of the Authority as a Whole, Continued

Minor changes to green-waste, other revenues, and rental income are the result of cost of living adjustments, CPI increases, and minor fluctuations in customer activity in those revenue streams. With the consolidation and refinancing of the Authority's 2002 and 2005 series bond issues and short-term Headwaters Fund Loan, investment income has been decreased by 50%; the new long-term debt issue no longer requires the Authority to maintain bond reserve funds to cover annual payments, and therefore the Authority no longer holds additional trust accounts on which to earn additional interest. Additionally, the Authority closed its trust account with Union Bank related to the construction closure activities at the Cummings Road Landfill, and no longer receives investment income on those monies.

Operating expenses decreased overall by \$359,187 as detailed below:

| Operating Expenses | | | | |
|---|---------------------|---------------------|--------------------------------|---------------------------|
| For the years ended June 30, 2017 and 2016 | | | | |
| | <u>2017</u> | <u>2016</u> | <u>Increase (Decrease)</u> | <u>Percent Change</u> |
| Operating expenses: | | | | |
| Operations and maintenance | \$ 6,568,524 | \$ 6,344,077 | \$ 224,447 | 3.5% |
| Administrative services | 1,407,271 | 1,536,083 | (128,812) | (8.4)% |
| Professional services | 73,916 | 78,186 | (4,270) | (5.5)% |
| Depreciation and amortization expense | 452,640 | 758,860 | (306,220) | (40.4)% |
| Cummings Road Landfill closure costs | 2,582 | 218,239 | (215,657) | (98.8)% |
| Burn dump cleanup costs | - | 11,716 | (11,716) | (100.0)% |
| Other expenses | 574,372 | 491,331 | 83,041 | 16.9% |
| Total | <u>\$ 9,079,305</u> | <u>\$ 9,438,492</u> | <u>\$ (359,187)</u> | <u>(3.8)%</u> |

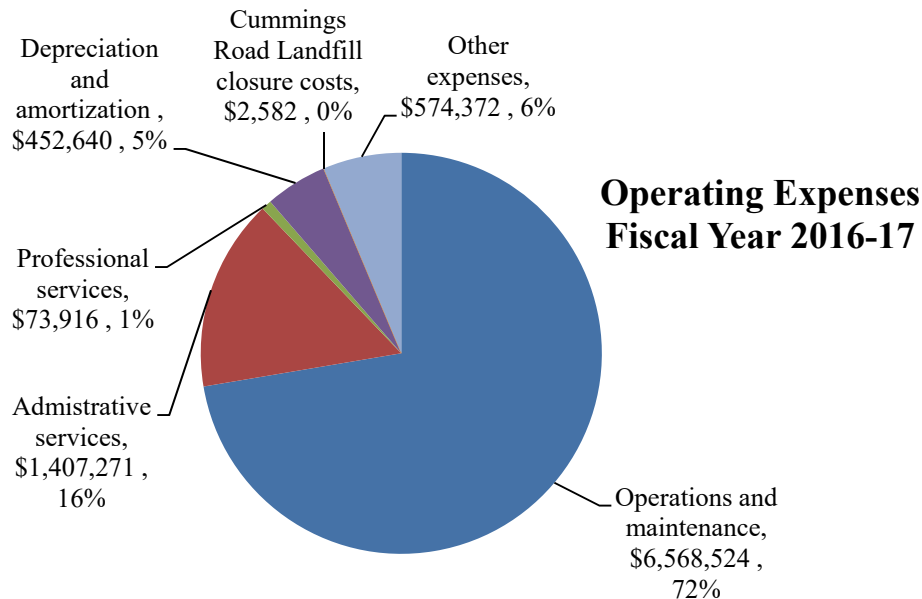
Total expenses decreased compared to prior period adjustments; the elimination of amortization costs related to long-term debt and the completion of closure construction activities at the Cummings Road Landfill and (former) Cummings Road Burn Ash Site are the primary reasons for this decrease. Higher solid waste tonnage, resulting in higher operating expenses, and increased CRV payouts have offset this reduction in total expenses.

**Humboldt Waste Management Authority
Basic Financial Statements
For the year ended June 30, 2017**

Management’s Discussion and Analysis, Continued

Financial Analysis of the Authority as a Whole, Continued

The following is a graphic illustration of operating expenses:



Net position increased by \$2,519,234 as detailed below:

**Analysis of Net Position
As of June 30, 2017 and 2016**

| | <u>2017</u> | <u>2016</u> | <u>Increase (Decrease)</u> | <u>Percent Change</u> |
|----------------------------------|-----------------------|-----------------------|--------------------------------|---------------------------|
| Net position: | | | | |
| Net investment in capital assets | \$ 1,084,902 | \$ (688,709) | \$ 1,773,611 | (257.5)% |
| Restricted for debt service | - | 1,675,142 | (1,675,142) | 0.0% |
| Unrestricted (deficit) | <u>(3,337,239)</u> | <u>(5,758,004)</u> | <u>2,420,765</u> | <u>(42.0)%</u> |
| Total | <u>\$ (2,252,337)</u> | <u>\$ (4,771,571)</u> | <u>\$ 2,519,234</u> | <u>(52.8)%</u> |

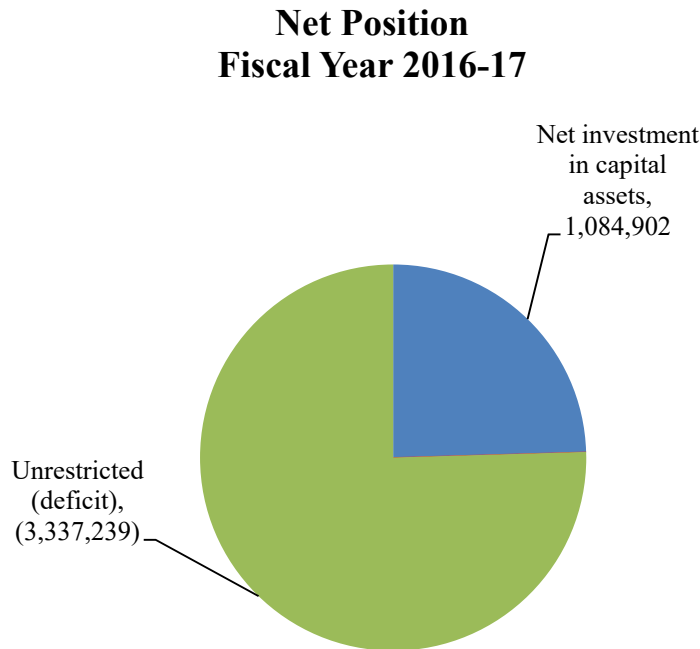
The change in Net Position is the result of significant cost-saving efforts by Authority staff, annual reduction in post-closure maintenance liabilities, closure of the Landfill Closure Trust Fund, and acquisition of new assets – primarily, the Cummings Road Forest Property.

**Humboldt Waste Management Authority
Basic Financial Statements
For the year ended June 30, 2017**

Management’s Discussion and Analysis, Continued

Financial Analysis of the Authority as a Whole, Continued

The following is a graphic illustration of net position:



Cash Flows

Net cash increased by \$170,625, due to significant increases in solid waste disposal revenues, offset by long-term debt payments and asset acquisition, which serve to increase the Authority’s long-term financial strength.

Long-term Debt

The Authority’s long-term debt decreased by a net amount of \$1,102,409. This amount relates to semiannual payments on the Authority’s 2016 Chase Loan, which refinanced the Authority’s long-term debt instruments into one smaller payment plan. The debt is scheduled to mature on November 1, 2021.

Humboldt Waste Management Authority
Basic Financial Statements
For the year ended June 30, 2017

Management's Discussion and Analysis, Continued

Economic Factors and Potential Future Results

The Authority's projected solid waste tonnage is expected to remain at approximately 70,000 tons annually. The Authority has been working with local franchise haulers for its Member Agencies and has improved solid waste tonnage reporting and tracking, resulting in more stable projections and revenue streams year-to-year.

The Authority did experience a period of uncertainty regarding the reliability of the Authority's long-term contractor to transport and dispose solid waste and their request for early termination of the service agreement due the contractor's on-going financial uncertainties. The Authority agreed to early termination, and took necessary actions to procure a new contractor for the transportation and disposal of solid waste. This new agreement will provide increased stability in estimated contract costs for transportation and disposal. Staff expects the Authority to enter a period of stability as it engages in master planning for future growth.

The Authority Board of Directors and staff are committed to implementing diversion policies and programs with the eventual goal of having those policies and programs be self-funded, and therefore have little to no impact on Waste Management Fees.

Contacting the Authority

This financial report is designed to provide our customers and creditors a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives and to which it is allocated through funding from grants and pass-through fees. If you have questions about this report, contact:

Humboldt Waste Management Authority
1059 West Hawthorne
Eureka, CA 94019

Phone (707) 268.8680

Jill Duffy, Executive Director
Tyler Egerer, Director of Finance and Administrative Services

BASIC FINANCIAL STATEMENTS

Humboldt Waste Management Authority

Statements of Net Position

June 30, 2017

(with comparative totals for June 30, 2016)

| | 2017 | 2016 |
|--|----------------------|---------------------|
| ASSETS AND DEFERRED OUTFLOWS | | |
| Current assets: | | |
| Cash and investments | \$ 4,061,179 | \$ 2,215,412 |
| Restricted cash and investments | - | 1,675,142 |
| Accounts receivable: | | |
| Customer (net of \$106,823 allowance) | 873,701 | 795,434 |
| Grants | - | 4,369 |
| Deposits | 19,500 | 19,500 |
| Prepaid expenses | 178,465 | - |
| Materials and supplies inventory | - | - |
| Total current assets | <u>5,132,845</u> | <u>4,709,857</u> |
| Noncurrent assets: | | |
| Capital assets: | | |
| Property, plant and equipment, net | 5,025,539 | 4,354,337 |
| Waste Authority permit | 221,171 | 221,171 |
| Total noncurrent assets | <u>5,246,710</u> | <u>4,575,508</u> |
| Total assets | <u>10,379,555</u> | <u>9,285,365</u> |
| Deferred outflows: Pension plan | 435,580 | 346,122 |
| Total assets and deferred outflows | <u>\$ 10,815,135</u> | <u>\$ 9,631,487</u> |
| LIABILITIES, DEFERRED INFLOWS AND NET POSITION(DEFICIT) | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 790,871 | \$ 523,052 |
| Accrued payroll | 133,399 | 139,746 |
| Customer deposits | 2,350 | 2,350 |
| Due within one year | 870,634 | 1,102,409 |
| Total current liabilities | <u>1,797,254</u> | <u>1,767,557</u> |
| Noncurrent liabilities: | | |
| Due after one year | 3,291,174 | 4,161,808 |
| Net pension obligation | 476,183 | 348,321 |
| Estimated closure and post-closure care costs | 7,353,845 | 7,607,426 |
| Total noncurrent liabilities | <u>11,121,202</u> | <u>12,117,555</u> |
| Total liabilities | <u>12,918,456</u> | <u>13,885,112</u> |
| Deferred inflows: Pension plan | 109,711 | 469,877 |
| Deferred inflows: Unavailable revenue | 39,305 | 48,069 |
| Total liabilities and deferred inflows | <u>13,067,472</u> | <u>14,403,058</u> |
| NET POSITION (DEFICIT) | | |
| Net investment in capital assets | 1,084,902 | (688,709) |
| Restricted for debt service | - | 1,675,142 |
| Unrestricted (deficit) | (3,337,239) | (5,758,004) |
| Total Net Position | <u>(2,252,337)</u> | <u>(4,771,571)</u> |
| Total liabilities, deferred inflows and net position | <u>\$ 10,815,135</u> | <u>\$ 9,631,487</u> |

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

Humboldt Waste Management Authority
Statements of Revenues, Expenses, and Changes in Net Position
For the year ended June 30, 2017

(with comparative totals for the year ended June 30, 2016)

| | <u>2017</u> | <u>2016</u> |
|---|-----------------------|-----------------------|
| OPERATING REVENUES: | | |
| Gross waste management fees | \$ 8,256,109 | \$ 8,016,749 |
| Less: Pass-through fees | 735,724 | 670,423 |
| Net waste management fees | 7,520,385 | 7,346,326 |
| Green waste | 474,360 | 422,318 |
| Other fees and charges | 1,310,549 | 1,258,434 |
| Other operating revenues | 2,014,681 | 1,583,846 |
| Total operating revenues | 11,319,975 | 10,610,924 |
| OPERATING EXPENSES: | | |
| Operations and maintenance | 6,568,524 | 6,344,077 |
| Administrative and general | 1,407,271 | 1,536,083 |
| Professional services | 73,916 | 78,186 |
| Depreciation and amortization | 452,640 | 758,860 |
| Cummings Road Landfill Construction closure costs | 2,582 | 218,239 |
| Burn Dump cleanup costs | - | 11,716 |
| Other expenses | 574,372 | 491,331 |
| Total operating expenses | 9,079,305 | 9,438,492 |
| Operating income (loss) | 2,240,670 | 1,172,432 |
| NONOPERATING REVENUES (EXPENSES): | | |
| Interest income | 120 | 12,874 |
| Investment earnings | 35 | 42,108 |
| Rent income, net | 120,799 | 115,741 |
| Grant revenue | 85,081 | 70,506 |
| Grant expense | (96,609) | (75,398) |
| Interest expense | (84,443) | (110,869) |
| Total nonoperating revenues (expenses) | 24,983 | 54,962 |
| Income (loss) before special items | 2,265,653 | 1,227,394 |
| Special item: Landfill closure revaluation | 253,581 | 2,028,602 |
| Change in Net Position | 2,519,234 | 3,255,996 |
| NET DEFICIT: | | |
| Beginning of year | (4,771,571) | (8,027,567) |
| End of year | <u>\$ (2,252,337)</u> | <u>\$ (4,771,571)</u> |

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

Humboldt Waste Management Authority

Statements of Cash Flows

For the year ended June 30, 2017

(with comparative amounts for the year ended June 30, 2016)

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Receipts from customers | \$ 11,222,208 | \$ 10,539,723 |
| Receipts from grantors | 4,369 | 42,350 |
| Payments to suppliers | (6,324,136) | (6,358,408) |
| Payments to employees | (2,219,522) | (2,205,348) |
| Payments to vendors for grants | - | - |
| Net cash provided (used) by operating activities | <u>2,682,919</u> | <u>2,018,317</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Closure and postclosure payments | 253,581 | (2,606,202) |
| Rent received | 120,799 | 115,741 |
| Proceeds from the issuance of long-term debt | - | - |
| Principal payments on long-term debt | (1,102,409) | (1,073,915) |
| Interest payments on long-term debt | (84,443) | (110,869) |
| Acquisition of capital assets | (1,123,841) | - |
| Net cash provided (used) by capital and related financing activities | <u>(1,936,313)</u> | <u>(3,675,245)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of investments | (576,136) | (294,237) |
| Sale of investments | - | - |
| Interest received on cash and investments | 155 | 54,982 |
| Net cash provided (used) by investing activities | <u>(575,981)</u> | <u>(239,255)</u> |
| Net increase (decrease) in cash and cash equivalents | 170,625 | (1,896,183) |
| CASH: | | |
| Beginning of year | 3,890,554 | 5,786,737 |
| End of year | <u>\$ 4,061,179</u> | <u>\$ 3,890,554</u> |
| Reported in Statement of Financial Position: | | |
| Cash and cash investments | \$ 4,061,179 | \$ 2,215,412 |
| Restricted cash and investments | - | 1,675,142 |
| | <u>\$ 4,061,179</u> | <u>\$ 3,890,554</u> |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | |
| Operating income (loss) | \$ 2,240,670 | \$ 1,172,432 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | |
| Depreciation and amortization expense | 452,640 | 758,860 |
| Change in assets and liabilities: | | |
| Accounts receivable | (78,267) | (51,951) |
| Grants receivable | 4,369 | 42,350 |
| Deposits | (19,500) | (19,500) |
| Prepaid expenses | (178,465) | 126,238 |
| Materials and supplies inventory | - | 311,039 |
| Accounts payable and accrued liabilities | 267,819 | (329,228) |
| Accrued payroll | (6,347) | 7,827 |
| Customer deposits | - | 250 |
| Net cash provided (used) by operating activities | <u>\$ 2,682,919</u> | <u>\$ 2,018,317</u> |

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

Humboldt Waste Management Authority
Basic Financial Statements
For the year ended June 30, 2017

Notes to Basic Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Humboldt Waste Management Authority (Authority) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental enterprises classified as proprietary fund types. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. On June 15, 1987, GASB issued a codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The Authority applies all GASB pronouncements to its activities. When applicable, certain prior year amounts have been reclassified to conform to current year presentation. The following is a summary of the more significant policies:

A. Description of the Reporting Entity

The Humboldt Waste Management Authority (Authority) was formed on November 17th, 1999 for the purposes of economically coordinating the management of solid waste management services, the preparation and implementation of an Integrated Waste Management Plan which meets the requirements for the California Integrated Waste Management Act of 1989, and the disposal of waste generated in the incorporated and unincorporated areas of Humboldt County and the safe closure and long-term postclosure maintenance of the Cummings Road Landfill. The Authority received all assets, liabilities and responsibilities from the Humboldt County Waste Management Authority, which was dissolved November 8, 2000. The Authority is a regional agency and its members include the cities of Arcata, Blue Lake, Eureka, Ferndale, Rio Dell and the County of Humboldt. Each member has one representative on the Authority's Board of Directors which governs the Authority.

Oversight responsibility, the ability to conduct independent financial affairs, issue debt instruments, approve budgets, and otherwise influence operations and account for fiscal matters is exercised by the Authority's Board of Directors. The Authority is a separate reporting entity for financial reporting purposes and the accompanying financial statements reflect the assets, liabilities, net position, revenues, and expenses of the Authority only.

As defined by GASB Statements No. 14 and 39, *The Financial Reporting Entity*, the Authority is not financially accountable for any other entity other than itself, nor are there any other entities for which the nature and significance of their relationship with the Authority are such that exclusion would cause the Authority's financial statements to be misleading or incomplete.

In addition, based upon the above criteria, the Authority is not aware of any entity which would be financially accountable for the Authority which would result in the Authority being considered a component of the entity.

Humboldt Waste Management Authority
Basic Financial Statements
For the year ended June 30, 2017

Notes to Basic Financial Statements, Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Fund Accounting Classification and Basis of Accounting

On the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net position, business-like activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of net income, financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Fund equity is classified as net position.

Authority funds are classified as enterprise funds, which account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The acquisition and capital improvement of the physical plant facilities required to provide these goods and services are financed from existing cash resources, the issuance of bonds, and cash flow from operations.

C. Cash and Investments

For the purposes of the Statement of Net position and Statement of Cash Flows, “cash equivalents and investments” includes all demand, savings accounts, and certificates of deposits or short-term investments with an original maturity of three months or less.

Fair value is based on quoted market price. Additional cash and investment disclosures are presented in Note 2.

D. Capital Assets

All fixed assets purchased for over \$5,000 by the Authority are capitalized at historical cost or estimated cost if actual cost is not available. The cost of normal maintenance and repairs that do not add value to the asset or materially extend asset lives are not capitalized and are expensed as incurred. Improvements are capitalized. Contributed assets are valued at their estimated fair market value on the date contributed. Depreciation is calculated over the estimated useful lives of assets using the straight-line method. The estimated useful lives are as follows:

| | |
|-----------------------------------|--------------|
| Hawthorne Street transfer station | 20 years |
| Other assets | 5 – 30 years |

Humboldt Waste Management Authority
Basic Financial Statements
For the year ended June 30, 2017

Notes to Basic Financial Statements, Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

E. 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 government only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide 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(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

F. Accrued Vacation and Sick Leave

Accumulated unpaid employee vacation are recognized as liabilities of the Authority. The liability for vested vacation pay is recorded as an expense when the vacation is earned. Vacation, which is based on the employee's length of service, may be accumulated and carried over up to a maximum of the amount earned in the preceding 24-month period.

Employee sick leave benefits are not recognized as liabilities as benefits do not vest.

G. Implementation of GASB Statements 68 and 71 related to Pension Plans

The GASB issued Statement No. 68, "Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27" The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans that are covered by the scope of this Statement, as well as for nonemployer governments that have a legal obligation to contribute to those plans.

Humboldt Waste Management Authority
Basic Financial Statements
For the year ended June 30, 2017

Notes to Basic Financial Statements, Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

G. Implementation of GASB Statements 68 and 71 related to Pension Plans, Continued

In addition, the GASB issued Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date" The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, "Accounting and Financial Reporting for Pensions". The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

In implementing these Statements, the Authority recognizes a net pension liability, which represents the Authority's proportionate share of the excess of the total pension liability over the fiduciary net position of the Plan reflected in an actuarial report provided by the California Public Employees' Retirement System (CalPERS). The net pension liability is measured as of the Authority's prior Plan year-end. Changes in the net pension liability are recorded, in the period incurred, as pension expense or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change in the liability. The changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources (that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience) are amortized over the weighted average remaining service life of all participants in the respective pension plan and are recorded as a component of pension expense beginning with the period in which they are incurred.

For purposes of measuring the net pension liability and deferred outflows/inflows or resources relating to pensions and pension expense, information about the fiduciary net position of the Authority's pension plan with CalPERS and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefits terms. Investments are reported at fair value.

H. Comparative Data

Comparative data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the Authority's financial position and operations.

I. Reclassifications

Certain amounts from the prior year have been reclassified to conform to the current year's presentation.

Humboldt Waste Management Authority
Basic Financial Statements
For the year ended June 30, 2017

Notes to Basic Financial Statements, Continued

2. CASH AND INVESTMENTS

A. Composition

The Authority's cash and temporary investments are carried at market value, and include:

| | Maturities (in years) | | | Deposits | Fair Market Value |
|--|-----------------------|--------|------|--------------|----------------------|
| | < 1 | 1 to 2 | > 2 | | |
| <u>Cash equivalents and investments pooled</u> | | | | | |
| Pooled cash, at fair value: | | | | | |
| Cash in bank - Checking | \$ - | \$ - | \$ - | \$ 3,636,829 | \$ 3,636,829 |
| Cash in bank - Savings | - | - | - | 397,709 | 397,709 |
| Petty cash | - | - | - | 300 | 300 |
| Change funds | - | - | - | 25,441 | 25,441 |
| CRV Cash | - | - | - | 900 | 900 |
| Total pooled items | - | - | - | 4,061,179 | 4,061,179 |
| Total cash and cash equivalents | \$ - | \$ - | \$ - | \$ 4,061,179 | \$ 4,061,179 |
| Financial Statement presentation: | | | | | |
| Cash and cash equivalents | | | | | \$ 4,061,179 |
| Total | | | | | \$ 4,061,179 |

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

The Authority's investments are carried at fair value, as required by generally accepted accounting principles. The Authority adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

Humboldt Waste Management Authority
Basic Financial Statements
For the year ended June 30, 2017

Notes to Basic Financial Statements, Continued

2. CASH AND INVESTMENTS, Continued

B. Authorized Investments

The Authority's Investment Policy and the California Government Code allow the Authority to invest in the following, provided the credit ratings of the issuers are acceptable to the Authority and approved percentages and maturities are not exceeded.

The table below also identifies certain provisions of the California Government Code, or the Authority's Investment Policy where the Authority's Investment Policy is more restrictive.

| Authorized Investment Type | Maximum Maturity | Maximum Percentage of Portfolio |
|------------------------------------|------------------|---------------------------------|
| U.S. Treasury Obligations | 10 years | None |
| Negotiable Certificates of Deposit | 1 year | 30% |

C. Fair Value of Investments

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments were stated at fair value using the aggregate method, which includes any adjustments in interest/investment income.

D. Interest Rate and Credit Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

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.

Humboldt Waste Management Authority
Basic Financial Statements
For the year ended June 30, 2017

Notes to Basic Financial Statements, Continued

3. CAPITAL ASSETS

Changes in capital assets and depreciation were as follows:

| | July 1, 2016 | Additions | Deletions | Transfer/ Adjustments | June 30, 2017 |
|---------------------------------------|---------------------|-------------------|------------------|--------------------------|---------------------|
| Nondepreciable assets: | | | | | |
| Land | \$ 1,775,212 | \$ 1,032,500 | \$ - | \$ - | \$ 2,807,712 |
| Total nondepreciable assets | <u>1,775,212</u> | <u>1,032,500</u> | <u>-</u> | <u>-</u> | <u>2,807,712</u> |
| Depreciable assets: | | | | | |
| Land improvements | 1,624,169 | | (43,663) | 508,964 | 2,089,470 |
| Buildings and improvements | 4,659,089 | | (26,529) | (450,342) | 4,182,218 |
| Office equipment | 38,200 | 9,674 | (8,503) | 6,161 | 45,532 |
| Vehicles | 88,529 | - | - | - | 88,529 |
| Equipment | 1,918,693 | 81,667 | (394,206) | (64,783) | 1,541,371 |
| Total depreciable assets | <u>8,328,680</u> | <u>91,341</u> | <u>(472,901)</u> | <u>-</u> | <u>7,947,120</u> |
| Total | <u>10,103,892</u> | <u>1,123,841</u> | <u>(472,901)</u> | <u>-</u> | <u>10,754,832</u> |
| Accumulated depreciation: | | | | | |
| Land improvements | (1,361,883) | (102,451) | 48,649 | - | (1,415,685) |
| Buildings and improvements | (2,859,394) | (214,136) | 21,543 | - | (3,051,987) |
| Office equipment | (35,507) | (6,779) | 8,503 | - | (33,783) |
| Vehicles | (85,713) | (2,816) | - | - | (88,529) |
| Equipment | (1,407,058) | (126,457) | 394,206 | - | (1,139,309) |
| Total accumulated depreciation | <u>(5,749,555)</u> | <u>(452,639)</u> | <u>472,901</u> | <u>-</u> | <u>(5,729,293)</u> |
| Net depreciable assets | <u>2,579,125</u> | <u>(361,298)</u> | <u>-</u> | <u>-</u> | <u>2,217,827</u> |
| Total capital assets | <u>\$ 4,354,337</u> | <u>\$ 671,202</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 5,025,539</u> |

Depreciation expense was \$452,639 and \$461,064 for the years ended June 30, 2017 and 2016, respectively.

Cummings Road Landfill assets received in the original agreement from City Garbage of Eureka were valued at zero. These assets include the landfill, several operating methane gas wells, a workshop structure, an office structure, and various pieces of equipment such as generators and pumps. No attempt was made to place a fair market value on these assets at the time of acquisition. Improvements to the landfill since the agreement have been recorded at cost.

Humboldt Waste Management Authority
Basic Financial Statements
For the year ended June 30, 2017

Notes to Basic Financial Statements, Continued

4. CUMMINGS ROAD LANDFILL ACQUISITION

On June 16, 2000, the Authority acquired Cummings Road Landfill (Landfill) through the acquisition of the Hawthorne Street Transfer Station from Eureka City Garbage, Inc. Transfer of ownership of the Landfill was done as part of a property agreement, with the value of the Landfill set at \$0. The Landfill had 3,449,667 cubic yards of capacity to retain waste. The amount of 420,506 cubic yards of the total Landfill remained unused. The Landfill ceased receiving municipal solid waste on (date) with minimal remaining capacity. As stated in the California Code of Regulations, Division 2 Title 27 Article 2 Section 21180, "a) the landfill shall be maintained and monitored for a period of not less than thirty (30) years after the completion of closure of the entire solid waste landfill." Therefore the Authority is responsible for post-closure and maintenance care for 30 years after the Final Quality Assurance Report related to construction closure is approved.

In 1993, the North Coast Regional Water Quality Control Board (NCRWQCB), via Waste Discharge Requirements (WDR) WDR 93-46, required that Cummings Road Landfill be closed by 1998 as a corrective action measure "because of groundwater contamination caused by the Site". The Joint Technical Document (JTD) for the Final Closure of the Landfill detailed a two-phased closure, that also accommodated placement of adjacent burn-ash site debris into the landfill for permanent disposal, was approved by the NCRWQCB in 2012. Cummings Road Landfill Construction Closure Phase 1 was completed the summer of 2013, with the construction activities related to the Corrective Action Plan for the Cummings Road Burn Ash Debris site completed by October 2014. Phase 2 construction closure was completed in October 2015.

Landfill closure and post-closure costs are recorded following the provisions of Governmental Accounting Standards Board (GASB) Statement No. 18 Accounting for Municipal Solid Waste Landfill Closure and Post-Closure Care Costs. The standards require that estimated closure and post-closure care costs be recognized as current operating costs although these costs will not actually be incurred until some future operating cycle.

Estimates of the closure and post-closure care costs are on a current value basis revised as of September 2015, as provided by consulting engineers.

As of June 30, 2017, the amount of \$7,353,845 was recorded as Estimated Closure and Post-Closure Costs based on 100% capacity of the Landfill. The Estimated Closure and Post-Closure Costs are an estimate and subject to changes resulting from inflation/deflation, technology, or changes in applicable laws or regulations. The Estimated Closure and Post-Closures costs will be reevaluated and recalculated at the end of every other fiscal year.

Funds restricted for closure and post-closure costs at June 30, 2017 are comprised of the following:

| | |
|---|----------------------------------|
| Closure/Post-Closure | |
| Annual Cost | 253,581 |
| Years of Maintenance | <u>29</u> |
| Total Post-Closure Liability | 7,353,849 |
| Total Landfill Closure/Post-Closure Liability | <u>\$ 7,353,845</u> rounded down |

Humboldt Waste Management Authority
Basic Financial Statements
For the year ended June 30, 2017

Notes to Basic Financial Statements, Continued

4. CUMMINGS ROAD LANDFILL ACQUISITION, Continued

As of March 2017, the Authority's landfill closure plan and Construction Quality Assurance documents were approved by the NCRWCQB, the Humboldt County Local Enforcement Agency, and the California Integrated Waste Management Board (CIWMB) which is now known as the Department of Resources Recycling and Recovery (CalRecycle). The Landfill is now in post-closure maintenance, and long-term liabilities related to the Landfill are reduced annually by the engineer's post-closure maintenance estimates.

5. LONG-TERM DEBT

A. Long-Term Debt Activity

| | Original Issue Amount | Balance July 1, 2016 | Additions | Retirements | Balance June 30, 2017 | Due Within One Year |
|------------------------------|-----------------------------|-------------------------|-------------|----------------------|--------------------------|------------------------|
| 2015 Revenue Refunding Bonds | \$ 6,338,132 | \$ 5,264,217 | \$ - | \$(1,102,409) | \$ 4,161,808 | \$ 870,634 |
| Total | <u>\$ 6,338,132</u> | <u>\$ 5,264,217</u> | <u>\$ -</u> | <u>\$(1,102,409)</u> | <u>\$ 4,161,808</u> | <u>\$ 870,634</u> |
| Amount due within one year | | \$ 1,102,409 | | | \$ 870,634 | |
| Amount due after one year | | <u>4,161,808</u> | | | <u>3,291,174</u> | |
| | | <u>\$ 5,264,217</u> | | | <u>\$ 4,161,808</u> | |

Series 2016 Revenue Refunding Bonds

On March 31, 2016, the Authority issued \$6,338,132 principal amount of Series 2016 Revenue Refunding Loan (Debt consolidation and refunding project). The proceeds of the Bonds were used to repay the Authority's Series 2002 Revenue Bonds, Series 2005 Revenue Bonds and Commercial Promissory Note dated August 12, 2014 issued by the Authority for the Redwood Region Economic Development Commission.

Interest is payable semiannually on each November 1 and May 1, commencing November 1, 2016 until the maturity of the bonds on November 1, 2021.

Humboldt Waste Management Authority
Basic Financial Statements
For the year ended June 30, 2017

Notes to Basic Financial Statements, Continued

5. LONG-TERM DEBT, Continued

B. Repayment Schedule

Future annual repayment requirements are as follows:

| Year Ending June 30, | <u>2015 Revenue Refunding Loan</u> | |
|-------------------------|------------------------------------|-------------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2018 | \$ 870,634 | \$ 66,262 |
| 2019 | 804,703 | 51,912 |
| 2020 | 815,690 | 38,347 |
| 2021 | 828,611 | 24,589 |
| 2022 | <u>842,170</u> | <u>7,074</u> |
| Total | <u>\$ 4,161,808</u> | <u>\$ 188,184</u> |
| Due within one year | \$ 870,634 | \$ 66,262 |
| Due after one year | <u>3,291,174</u> | <u>121,922</u> |
| Total | <u>\$ 4,161,808</u> | <u>\$ 188,184</u> |

Humboldt Waste Management Authority
Basic Financial Statements
For the year ended June 30, 2017

Notes to Basic Financial Statements, Continued

6. NET POSITION

Net position at June 30, 2017 consisted of the following:

| Description | Balance as of June 30, 2017 |
|----------------------------------|--------------------------------|
| Net investment in capital assets | \$ 1,084,902 |
| Unrestricted (deficit) | <u>(3,337,239)</u> |
| Total unrestricted net position | <u>\$ (2,252,337)</u> |

Net Investment in Capital Assets - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Unrestricted - This amount is all net assets that do not meet the definition of "*net investment in capital assets*".

7. RISK MANAGEMENT AND SELF-INSURANCE

The Authority is exposed to various risks of loss related to torts, theft of, damage and destruction of assets, errors and omissions, and natural disasters. The Authority participates in risk pools with the Special District Risk Management Authority (SDRMA) which provides property and liability insurance to its member districts. The Authority pays premiums commensurate with the levels of coverage requested. The Authorities are governed by boards consisting of members elected from the participating districts, which control the operations of the authorities independent of any influence by the Authority beyond the Authority's representation on the governing board. The Authority's share of year-end assets, liabilities, or fund equity is not calculated by the Joint Powers Authorities.

Humboldt Waste Management Authority
Basic Financial Statements
For the year ended June 30, 2017

Notes to Basic Financial Statements, Continued

8. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)

A. General Information about the Pension Plans

Plan Descriptions - All qualified full-time employees are eligible to participate in the Authority's Miscellaneous First Tier Plan and Miscellaneous PEPRA Plan (collectively, "The Plans"), agent multiple-employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plans are established by State statute and Local Government 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 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.

The Plan's provisions and benefits in effect at June 30, 2017, are summarized as follows:

| | Miscellaneous Plan | |
|---|--------------------|---------------------|
| | First Tier | PEPRA |
| | Prior to | On or after January |
| Hire date | January 1, 2013 | 1, 2013 |
| 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 - 63 | 52 - 67 |
| Monthly benefits, as a % of eligible compensation | 1.4% to 2.4% | 1.0% to 2.5% |
| Required employee contribution rates | 7% | 6.25% |

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 Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is based on 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 Authority is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

Humboldt Waste Management Authority
Basic Financial Statements
For the year ended June 30, 2017

Notes to Basic Financial Statements, Continued

8. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS), Continued

A. General Information about the Pension Plans, Continued

For the year ended June 30, 2016, the contributions recognized as part of pension expense for the Plan were as follows:

| | |
|--|--------------------------|
| | <u>Miscellaneous</u> |
| Contributions - employer | \$ 103,221 |
| Contributions - employee (paid employer) | <u>92,332</u> |
| Total | <u><u>\$ 195,553</u></u> |

The Authority's average required contribution rate was 14.360 percent of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Authority were \$8,926 for the year ended June 30, 2017.

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

As of June 30, 2017, the Authority reported a net pension liability for its proportionate shares of the net pension liability of the Plan as follows:

| | |
|-----------------------------|---|
| | <u>Proportionate Share</u> <u>of Net Pension Liability</u> |
| Miscellaneous | <u>\$ 476,183</u> |
| Total Net Pension Liability | <u><u>\$ 476,183</u></u> |

The Authority's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2016, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The Authority's proportionate share of the net pension liability for the Plan as of June 30, 2016 was as follows:

| | |
|------------------------------|----------------------|
| | <u>Miscellaneous</u> |
| Proportion - June 30, 2015 | 0.01270% |
| Proportion - June 30, 2016 | <u>0.01371%</u> |
| Change - Increase (Decrease) | 0.00101% |

Humboldt Waste Management Authority
Basic Financial Statements
For the year ended June 30, 2017

Notes to Basic Financial Statements, Continued

8. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS), Continued

For the year ended June 30, 2017, the Authority recognized pension expense of \$208,476. At June 30, 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Differences between Expected and Actual Experience | \$ 3,259 | \$ - |
| Changes of Assumptions | - | 39,994 |
| Differences between Projected and Actual Investment Earnings | 208,158 | - |
| Differences between Employer's Contributions and Proportionate Share of Contributions | 15,688 | 35,128 |
| Change in Employer's Proportion | - | 34,588 |
| Pension Contributions Made Subsequent to Measurement Date | 208,476 | - |
| | <u>\$ 435,580</u> | <u>\$ 109,711</u> |

\$208,580 reported as deferred outflows of resources related to contributions subsequent to the measurement date and changes in proportions will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

| Year Ending <u>June 30</u> | |
|-------------------------------|-------------|
| 2018 | \$ (16,515) |
| 2019 | (8,638) |
| 2020 | 88,630 |
| 2021 | 53,915 |
| 2022 | - |
| Thereafter | - |

Humboldt Waste Management Authority
Basic Financial Statements
For the year ended June 30, 2017

Notes to Basic Financial Statements, Continued

8. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS), Continued

Actuarial Assumptions -The total pension liabilities in the June 30, 2014 actuarial valuations were determined using the following actuarial assumptions:

| Actuarial Assumptions | |
|----------------------------------|--|
| Valuation date | June 30, 2015 |
| Measurement date | June 30, 2016 |
| Actuarial cost method | Entry-age normal cost method |
| Actuarial assumptions: | |
| Discount rate | 7.65% |
| Inflation | 2.75% |
| Salary increases | Varies by entry age and service |
| Investment Rate of Return | 7.50% net pension plan investment and administrative expenses; includes inflation |
| Post-retirement benefit increase | Contract COLA up to 2.75% until purchasing power protection allowance floor on purchasing power applies, 2.75% thereafter. |

The underlying 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, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the fiscal years 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study can be obtained at CalPERS' website under Forms and Publications.

Discount Rate - The discount rate used to measure the total pension liability was 7.65 percent for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the 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 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 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 Waste Management Authority
Basic Financial Statements
For the year ended June 30, 2017

Notes to Basic Financial Statements, Continued

8. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS), Continued

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

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

| Asset Class | New Strategic Allocation | Real Return Years 1 - 10 ¹ | Real Return Year 11+ ² |
|-------------------------------|--------------------------|---------------------------------------|-----------------------------------|
| Global Equity | 47% | 5.25% | 5.71% |
| Global Fixed Income | 19% | 0.99% | 2.43% |
| Inflation Sensitive | 6% | 0.45% | 3.36% |
| Private Equity | 12% | 6.83% | 6.95% |
| Real Estate | 11% | 4.50% | 5.13% |
| Infrastructure and Forestland | 3% | 4.50% | 5.09% |
| Liquidity | 2% | -0.55% | -1.05% |
| | 100% | | |

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

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

Humboldt Waste Management Authority
Basic Financial Statements
For the year ended June 30, 2017

Notes to Basic Financial Statements, Continued

8. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS), Continued

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Authority's proportionate share of the net pension liability for the Plan, calculated using the discount rate for Plan, as well as what the Authority'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:

| | 1% Decrease (6.65%) | Discount Rate (7.65%) | 1% Increase (8.65%) |
|---------------|------------------------|--------------------------|------------------------|
| Miscellaneous | \$ 835,473 | \$ 476,183 | \$ 179,024 |

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

At June 30, 2017, the Authority had no outstanding payable amounts for contributions to the pension plan required for the year ended June 30, 2017.

9. COMPOST FACILITY

The compost facility building located at West End Road, was completed and began operations in the fiscal year ending June 30, 2007. The Authority has entered into a five year lease agreement with Mad River Hardwoods, Inc. beginning May 4, 2006 with an option to renew the lease three (3) successive five (5) year terms. As of June 30, 2014, the original lease terms continue on a month-to-month basis until the parties are able to renegotiate the contract terms. Monthly rent is \$1,769, adjusted annually based on the Consumer Price Index U.S. City Average-All urban Consumers Index.

The Authority had also secured an Option Agreement which provides an exclusive right to purchase the real property currently being leased from Mad River Hardwood, Inc. for an agreed upon price. However, this option has lapsed and purchase of the facility is no longer viable.

10. COMMITMENTS AND CONTINGENCIES

The Authority is subject to general risk and exposure due to normal operations in the course of business. These risks involve various claims against the Authority, both asserted and unasserted, all of which management considers to be immaterial to these financial statements.

Humboldt Waste Management Authority
Basic Financial Statements
For the year ended June 30, 2017

Notes to Basic Financial Statements, Continued

11. NEW ACCOUNTING PRONOUNCEMENTS

The GASB has issued Statement No. 74, “Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans”. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces Statements No. 43, “Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans”, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, as amended, Statement 43, and Statement No. 50, Pension Disclosures. The provisions in Statement 74 are effective for fiscal years beginning after June 15, 2017. The Authority will implement this Statement in fiscal year ending June 30, 2018.

The GASB has issued Statement No. 75, “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions”. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions”, as amended, and No. 57, “OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans”, for OPEB. Statement No. 74, “Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans”, establishes new accounting and financial reporting requirements for OPEB plans. The provisions in Statement 75 are effective for fiscal years beginning after June 15, 2018. The Authority will implement this statement, as applicable, to its financial statements for the year ending June 30, 2018.

Humboldt Waste Management Authority
Basic Financial Statements
For the year ended June 30, 2017

Notes to Basic Financial Statements, Continued

11. NEW ACCOUNTING PRONOUNCEMENTS, Continued

The GASB has issued Statement No. 77, "Tax Abatement Disclosures". This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time. The requirements of this Statement are effective for reporting periods beginning after December 15, 2016. The Authority will implement this statement, as applicable, to its financial statements for the year ending June 30, 2018.

The GASB has issued Statement No. 78, "Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans." The requirements of this Statement will take effect for financial statements starting with the fiscal year that ends December 31, 2016. This Statement was not applicable to the Authority's financial statements.

The GASB has issued Statement No. 80, "Blending Requirements for Certain Component Units-an amendment of GASB Statement No. 14." The requirements of this Statement will take effect for financial statements starting with the fiscal year that ends June 30, 2017. This Statement was not applicable to the Authority's financial statements.

The GASB has issued Statement No. 81, "Irrevocable Split-Interest Agreements." The requirements of this Statement will take effect for financial statements starting with the fiscal year that ends December 31, 2017. The Authority will implement this statement, as applicable, to its financial statements for the year ending June 30, 2018.

The GASB has issued Statement No. 82, "Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73." The requirements of this Statement will take effect for financial statements starting with the fiscal year that ends June 30, 2017, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions will take effect for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. The Authority will implement this statement, as applicable, to its financial statements for the year ending June 30, 2018.

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REQUIRED SUPPLEMENTARY INFORMATION

Humboldt Waste Management Authority
Required Supplementary Information - Schedule of Contributions
 Miscellaneous Plan
 Last 10 Fiscal Years*

| | <u>2016</u> |
|---|------------------|
| Contractually required contribution (actuarially determined) | \$ 103,221 |
| Contributions in relation to the actuarially determined contributions | <u>(103,221)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> |
| Covered-employee payroll | \$ 1,412,145 |
| Contribution as a percentage of covered-employee payroll | 7.31% |

Notes to Schedule

1) Covered employee payroll represents compensation earnable and pensionable compensation. Only compensation earnable and pensionable compensation that would possibly go into the determination of retirement benefits are included.

* Due to a change in CalPERS reporting information, only 2016 was available. Additional years will be presented as they become available.

Humboldt Waste Management Authority
Required Supplementary Information - Schedule of the Authority's Proportionate
Share of the Net Pension Liability
 Miscellaneous Plan
 Last 10 Fiscal Years*

| | 2016 |
|---|--------------|
| Plan's Proportion of the Net Pension Liability/(Asset) | 0.01371% |
| Plan's Proportionate Share of the Net Pension Liability/(Asset) | \$ 476,183 |
| Plan's Covered-Employee Payroll | \$ 1,412,145 |
| Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll | 33.72% |
| Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability | 82.17% |
| Plan's Proportionate Share of Aggregate Employer Contribution | \$ 81,722 |

Notes to Schedule

1) Covered employee payroll represents compensation earnable and pensionable compensation. Only compensation earnable and pensionable compensation that would possibly go into the determination of retirement benefits are included.

* Due to a change in CalPERS reporting information, only 2016 was available. Additional years will be presented as they become available

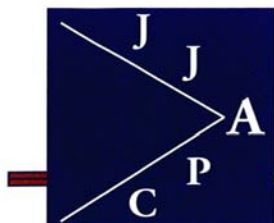
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SUPPLEMENTAL INFORMATION

Humboldt Waste Management Authority
Schedule of Debt Service Coverage
June 30, 2017 and 2016

In conjunction with the 2016 Series Revenue Refunding Bonds, the District has covenanted to fix, prescribe and collect rates and charges for the sanitation service which will be sufficient to yield during the year net revenues equal to 120% of the debt service paid during the year. For purposes of this calculation, net revenues equals net income plus depreciation and amortization expenses. The debt service requirement for 2017 and 2016 is as follows:

| | 2017 | 2016 |
|---------------------------------------|---------------------|---------------------|
| Operating income (loss) | \$ 2,240,670 | \$ 1,172,432 |
| Add: | | |
| Depreciation and amortization expense | 452,640 | 758,860 |
| Rental revenue | 120,799 | 115,741 |
| Investment earnings | 155 | 54,982 |
| Net revenue | <u>\$ 2,814,264</u> | <u>\$ 2,102,015</u> |
| Debt service: | | |
| Principal | \$ 1,102,409 | \$ 1,073,915 |
| Interest | <u>84,443</u> | <u>110,869</u> |
| Total debt service | <u>\$ 1,186,852</u> | <u>\$ 1,184,784</u> |
| Calculated coverage | <u>2.37</u> | <u>1.77</u> |
| Meets Covenant Restriction ? | Yes | Yes |



JJACPA, Inc.

A Professional Accounting Services Corp.

**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 Waste Management Authority
Eureka, California

We have audited, in accordance with the auditing standard 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 Humboldt Waste Management Authority (Authority) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Humboldt Waste Management Authority's basic financial statements, and have issued our report thereon dated October 24, 2017.

Internal Control over Financial Reporting

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

Compliance and Other Matters

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

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 result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

October 24, 2017

JJACPA, Inc.
JJACPA, Inc.
Dublin, CA