

LOMA LINDA SANITATION DISTRICT  
FINANCIAL STATEMENTS AND INDEPENDENT  
AUDITOR'S REPORT

December 31, 2016



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*By the Office of the State Auditor at 3:29 pm, Sep 29, 2017*

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## INDEPENDENT AUDITOR'S REPORT

July 8, 2017

To the Board of Directors  
Loma Linda Sanitation District**Report on the Financial Statements**

We have audited the accompanying statement of net position of as of December 31, 2016, and the related statement of revenues, expenses, and changes in net position, the statement of cash flows, and the notes to the financial statements for the year then ended.

***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 financial position of Loma Linda Sanitation District as of December 31, 2016, and the changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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***Other Matters******Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 Loma Linda Sanitation District's basic financial statements. The supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated July 8, 2017, on our consideration of Loma Linda Sanitation District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Loma Linda Sanitation District's internal control over financial reporting and compliance.

 *Beckstead & Co., LLC*

LOMA LINDA SANITATION DISTRICT  
Management's Discussion and Analysis  
December 31, 2016

The management of the Loma Linda Sanitation District (the "District"), has provided this narrative overview and analysis of the financial affairs of the District for the fiscal year ended December 31, 2016 as part of the District's audited Financial Statements. This is the first year the District has not been eligible to file an audit exemption since the 1980s. The audit is required due to the cost of the wastewater treatment plant improvements which were installed to allow the District to meet new ammonia limits.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of three parts: management's discussion and analysis, basic financial statements, and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

## BASIC FINANCIAL STATEMENTS

**Statement of Net Position.** The statement of net position includes all of the District's assets and liabilities, with the difference between the two reported as *net position*. It provides information pertaining to the nature of the District's current assets and utility plant in service (assets) and its current and non-current obligations (liabilities). The statement also provides the basis for determining the overall financial health of the District including liquidity and financial flexibility.

**Statement of Revenues, Expenses and Changes in Net Position.** The statement of revenues, expenses and changes in net position includes all of the revenues and expenses. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal years (e.g., earned, but unused, vacation leave). These statements measure the success of the District's overall operation and can be used to determine if the District's user fees, rates and charges are adequate to cover expenses and develop sufficient reserves.

**Statement of Cash Flows.** The statement of cash flows presents information concerning the District's cash receipts and cash payments during the year. The statement reports the cash receipts, cash payments and net cash from operating, investing and capital and related financing activities.

## FINANCIAL HIGHLIGHTS

1. The District's net position on December 31, 2016 totaled \$1,591,095. Net position was \$796,927 on December 31, 2015 according to the District's application for exemption from audit. The substantial increase was due to the construction of the wastewater treatment plant improvements.
2. In 2016 Operating Revenues totaling \$224,711 exceeded Operating Expenses of \$186,369 resulting in operating income of \$38,342. The 2016 operating income

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Management's Discussion and Analysis  
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includes depreciation, amortization and other non-cash adjustments of \$48,196. After adding non-cash adjustments, the net cash provided by operating activities was \$86,538.

3. Cash receipts from tap fees were \$46,700 in 2016, an increase of \$34,975 over 2015 tap fee revenue.

### **FINANCIAL ANALYSIS OF THE LOMA LINDA SANITATION DISTRICT**

The true picture of the financial health of the District must be tempered with the operational theory and financial control that is practiced on a daily basis by the District.

### **FINANCIAL POLICY PRIORITIES**

The financial goal of the District is to operate in a cost efficient manner that is similar to the practices of private enterprise. The Board of Directors of the District annually reviews its financial policies to assess their impact upon financial activities. Policies that affected financial activities are:

1. Growth pays its own way;
2. Cost of administration and operations are funded from user fees;
3. User fees will fund a portion of capital improvement costs when it is determined that the improvement is needed to serve current customers or when plant investment fees are not sufficient; and,
4. Plant investment fees are used for capital improvements or debt service for capital improvements that are required to serve new customers.

The District has experienced little growth in the last 8-10 years. There have been no major developments approved in the District. Tap fee sales have been limited to a small number typically for adding a second dwelling or placing a residential unit on an undeveloped lots. There are only a limited number of developed lots remaining.

Lately there has been a slight increase in demand for taps and at least one large residential development is proposed. It is unlikely that there will be significant development creating demand for new sewer service unless central water is made available to property in the District service area.

Because of the need to fund improvements to meet the new requirement for ammonia removal the District obtained loans from the Colorado Water Resources and Power Development Authority totaling \$1,338,674 and grants totaling \$850,000. In order to insure adequate revenue to repay the loans the monthly user fee was increased to \$55. Unless new growth brings significant tap fee revenue it may be necessary to increase user fees to cover increased operating expenses.

LOMA LINDA SANITATION DISTRICT  
Management's Discussion and Analysis  
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**Day-to-Day Operational Control of the District**

The District operates as a self-supporting enterprise. Operating expenses include costs for sewage collection, sewage treatment and administration. These expenses are paid by operating revenues from user fees. Non-operating expenses consist of capital projects and debt service. Non-operating revenues are provided by Plant Investment Fees (tap fees), proceeds from bond issues or other loans and interest earnings on capital reserves. In cases where capital improvements are needed to serve existing customers, operating reserves or user fees are used to fund the current customers' share of the improvements. As noted above, operating revenues (user fees) will be needed to pay debt service for the loans used to fund the improvements to the wastewater treatment plant unless non-operating revenues (tap fees) show a substantial and consistent increase.

The District's day-to-day operational control involves many levels of planning, forecasting, and budgeting. Revenues and expenses are allocated to specific functions of the District. The staff presents monthly financial reports to the District Board of Directors. The reports contain revenue and expenditure comparisons to the adopted budget. It is an essential tool that is critical to the District's long-range financial planning efforts.

**Financial Analysis**

**Net Position**

A summary of the statement of net position is included as Table A which appears below. The District's net position (the difference between assets and liabilities) is one way to measure the financial health of the District. Increases or decreases in the District's net position can be indicators of improving or deteriorating financial health. This, coupled with factors such as population growth, regulatory changes or policy changes, provide an integrated assessment of the District's health.

**TABLE A**  
**Summary Statement of Net Position – December 31, 2016**

Current assets	\$ 542,624	
Undisbursed loan proceeds	\$ 27,539	
Net utility plant in service	<u>\$2,551,041</u>	
Total assets	\$3,121,204	
Current liabilities	\$ 241,525	
Long-term liabilities	<u>\$1,288,584</u>	
Total liabilities	\$1,530,109	
Net position:		
Invested in capital assets (net)	\$1,212,367	
Restricted for debt service	\$ 37,494	
Unrestricted	<u>\$ 341,234</u>	
Total net position	\$1,591,095	\$

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From December 31, 2015 to December 31, 2016, total assets increased by \$1,424,370. This increase was due primarily to the wastewater treatment plant improvement project. Total liabilities also increased significantly by \$630,202. The larger increase in assets was due to the grant funding for the project.

**Revenues, Expenses and Changes in Net Assets**

Table B shows the revenues, expenses and changes in net position for 2015-2016 for the District. Table B demonstrates that immediate financial needs are being budgeted and can be reasonably expected to be met. On a year to year basis, the District plans to operate in accordance with its financial policies. Tap fee revenue is expected to provide sufficient revenue in future years to pay all debt service except that portion attributable to existing customers for collection system improvements.

Non-cash expenditures such as depreciation are not always covered by operating revenue. When no tap fee revenue was available, user fee revenues were used to pay debt service so the amount available to cover non-cash expenditures was reduced. Future tap fee revenue is projected to increase and provide funds for payment of debt service, so the additional revenue from user fees that was previously used for debt service is now available to cover all or a portion of non-cash expenditures. The District reviewed its operating budget in 2015 and determined that a decrease in monthly user fees was appropriate since user fee revenue was almost 150% of the total of all operating expenses except depreciation. That has reduced operating revenue coverage to about 125%.

**TABLE B**  
**Condensed Statements of Revenues, Expenses and Changes in Net Position**

	<b>2016</b>	<b>2015</b>
Total operating revenues	\$ 224,711	\$ 185,131
Total operating expenses	<u>186,369</u>	<u>186,861</u>
Operating income	38,342	(1,730)
Non-operating revenue	\$ 773,157	\$ 11,725
Non-operating expense	<u>(17,331)</u>	<u>1,465</u>
Total non-operating revenue	755,826	10,260
Net income	\$ 794,168	\$ 8,530
Beginning net position	\$ 796,927	\$ 788,397
Ending net position	\$ 1,591,095	\$ 796,927

**ECONOMIC FACTORS; NEXT YEAR'S BUDGET AND RATES**

The Board of Directors and the management of the Loma Linda Sanitation District considered many factors when it established the budget for 2017. Projected revenue from user fees and

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changes in operating costs were evaluated and considered before a final budget was adopted. The 2017 budget projects an increase in use fee revenue due to an increase in the number of customers. The budget also projects tap fee revenue substantially higher than the amount received in 2016 based on projects currently planned for 2017.

The Capital Improvements Plan (CIP) of the District is updated based on revised cost estimates, timing of capital improvements and interest costs for capital financing. If necessary, the rate for tap fees is adjusted to insure that the District's Financial Policy Priorities continue to be achieved. The change in the District standard for gpd/tap as discussed above resulted in an adjustment. No additional adjustments are projected for the next few years. Since the District has substantial capacity following the completion of the Phase 2 expansion in 2012 and the main interceptor upgrades in 2007, no further capital projects are likely for several years. As normal growth appears to be resuming, the District will update its CIP in the upcoming years based on new growth projections and capital cost estimates.

#### **CONTACTING THE DISTRICT**

This financial report is designed to provide our residents, customers, investors, and creditors with the general overview of the District's finances and demonstrates the District's accountability for the money it receives. If you have any questions concerning this report or need additional information please contact the Loma Linda Sanitation District at PO Box 2024, Durango, Colorado 81302-2024.

Loma Linda Sanitation District  
STATEMENT OF NET POSITION

December 31,

	<b>2016</b>
<b>ASSETS</b>	
Current Assets	
Cash and cash equivalents	\$ 240,681
Investments	2,981
Accounts receivable	21,221
Grants receivable	277,741
Total current assets	<u>542,624</u>
Undisbursed Loan Proceeds	27,539
Utility Plant in Service	
Land and easements	65,900
Construction in progress	2,085,437
Buildings and improvements	18,995
Plant and improvements	1,152,334
Equipment	78,229
	<u>3,400,895</u>
Less accumulated depreciation	<u>(849,854)</u>
Net utility plant in service	<u>2,551,041</u>
Total assets	<u><u>\$ 3,121,204</u></u>
<b>LIABILITIES AND NET POSITION</b>	
Liabilities	
Current Liabilities	
Accounts payable	\$ 115,945
Retainage payable	54,095
Revenue received in advance of service	21,395
Current portion of long-term debt	50,090
Total current liabilities	<u>241,525</u>
Non-current liabilities	
Long-term debt, net of current portion	1,288,584
Total liabilities	<u>1,530,109</u>
Net Position	
Net investment in capital assets	1,212,367
Restricted for debt service	37,494
Unrestricted	341,234
Total net position	<u>1,591,095</u>
Total liabilities and net position	<u><u>\$ 3,121,204</u></u>

The accompanying notes are an integral part of these statements.

Loma Linda Sanitation District

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the year ended December 31,

	<b>2016</b>
Operating Revenues	
Charges for services	\$ 224,711
Operating Expenses	
Collection and treatment	121,580
General and administrative	<u>64,789</u>
	Total operating expenses <u>186,369</u>
	Operating income (loss) 38,342
Non-operating Revenues (Expenses)	
Grant revenue	726,365
Tap fees	46,700
Investment earnings	34
Other income (expense)	58
Interest expense	<u>(17,331)</u>
	Total non-operating revenues (expenses) <u>755,826</u>
	Net income (loss) 794,168
Net position at beginning of year	<u>796,927</u>
Net position at end of year	<u><u>\$ 1,591,095</u></u>

The accompanying notes are an integral part of these statements.

Loma Linda Sanitation District

STATEMENT OF CASH FLOWS

For the years ended December 31,

	<b>2016</b>
Cash Flows from Operating Activities	
Cash received from customers	\$ 225,424
Cash paid to suppliers	(138,886)
	<u>86,538</u>
Net Cash Provided (Used) by Operating Activities	86,538
Cash Flows from Non-capital Financing Activities	
Tap fees	46,700
	<u>46,700</u>
Net Cash Provided (Used) by Non-capital Financing Activities	46,700
Cash Flows from Capital and Related Financing Activities	
Debt principal payments	(37,122)
Proceeds from debt	1,158,525
Capital grant proceeds received	448,624
Interest on debt	(17,331)
Purchases of capital assets	(1,543,292)
	<u>9,404</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	9,404
Cash Flows from Investing Activities	
Purchase of investments	(19)
Interest income	34
	<u>15</u>
Net Cash Provided (Used) by Investing Activities	15
	<u>142,657</u>
Net Cash Increase (Decrease)	142,657
Cash at beginning of year	98,024
Cash at end of year	<u><u>\$ 240,681</u></u>
Reconciliation of Operating Income to Net	
Cash Provided by Operating Activities	
Net operating income (loss)	\$ 38,342
Items to reconcile operating income to cash provided (used) by operating activities	
Depreciation	36,393
Other income (expense)	58
(Increase) Decrease in accounts receivable	(5,383)
(Increase) Decrease in prepaid expenses	5,549
Increase (Decrease) in accounts payable, net of noncash capital and investing activities	5,541
Increase (Decrease) in revenue received in advance of service	6,038
Total Adjustments	<u>48,196</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 86,538</u>
Noncash Capital and Related Financing Activities	
Grants receivable	\$ 277,741
Retainage payable incurred for capital assets	\$ 54,095
Accounts payable incurred for capital assets	\$ 101,650

The accompanying notes are an integral part of these statements.

Loma Linda Sanitation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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**NOTE A – DEFINITION OF REPORTING ENTITY**

The Loma Linda Sanitation District (the District) was formed November 4, 1985, for the purpose of providing sanitation services for the residents and businesses located within the District. The District has its own governing board which is elected by eligible voters of the District.

The District is not financially accountable for any other organization, nor is the District a component unit of any other primary governmental entity.

The District follows the Governmental Accounting Standards Board (GASB) accounting pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens, and fiscal dependency.

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This summary of the District's significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. The policies are considered essential and should be read in conjunction with the accompanying financial statements.

The accounting policies of the District conform to generally accepted accounting principles as applicable to governmental units accounted for as proprietary enterprise funds. The enterprise fund is used since the District's powers are related to those operated in a manner similar to a private business enterprise where net income and capital maintenance are appropriate determinations of accountability.

The more significant accounting policies of the District are described as follows:

**Proprietary Fund**

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges. The District's operations are accounted for as one enterprise fund.

Loma Linda Sanitation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

Basis of Accounting

The District's records are maintained on the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when the liability is incurred. Unbilled sewer system utility service receivables are recorded at year end. Penalties, interest, and miscellaneous revenues are recorded when received in cash because they are generally not measurable until actually received. Depreciation is computed and recorded as an operating expense. Expenditures for property, plant and equipment are shown as increases in assets. Tap fees received are recorded as non-operating revenues.

Budgets and Budgetary Accounting

The District's Board follows these procedures in establishing the budget for the year:

1. In accordance with State statutes, prior to October 15, the person designated by the Board of Directors submits to the Board of Directors a proposed operating budget for the calendar year commencing the following January 1. The operating budget includes proposed expenditures and the means to finance them for the upcoming year, along with estimates for the current year and actual data for the preceding year. The state statutes require more detailed line item budgets be submitted in summary form. In addition, more detailed line item budgets are included for administrative control. The level of control for budgetary purposes is at the fund level.
2. Public hearings are conducted to obtain public comment.
3. Prior to December 31, the budget is legally enacted through passage of a resolution.
4. The person designated by the Board is required to present a monthly report to the Board of Directors explaining any variance from the approved budget.
5. State statutes require the adoption of a summary budget for proprietary funds.
6. Appropriations lapse at the end of each calendar year.
7. The District Board may authorize supplemental appropriations during the year.

Deposits and Investments

Colorado law authorizes the District to invest in obligations of the United States, State of Colorado, Colorado counties and school districts, repurchase agreements, financial institutions, and local government investment pools. House bill 1056 expanded the list of investments that are legal for local governments.

Loma Linda Sanitation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the District considers all highly liquid investments purchased with a maturity of twelve months or less to be cash equivalents.

Prepaid Items

Payments made for services that will benefit periods beyond the end of the current year are recorded as prepaid items.

Allowances for Uncollectibles

No allowance for uncollectibles has been provided because the District has a statutory lien against the property served for all unpaid charges. The Board of Directors of the District believes it will collect on all past due accounts because by statute the lien is perpetual until paid.

Fixed Assets

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on the statement of net position. Depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives range from 5 to 50 years.

Net Position

Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditor, grantors, or laws or regulations of governments. The District's policy with regard to the order of spending is to spend the restricted funds first.

Loma Linda Sanitation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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Estimates

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

Operating Revenues and Expenses

The District distinguishes between operating revenues and expenses and non-operating items in the Statements of Revenues, Expenses and Changes in Net Position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's purpose of providing sanitation services to its customers. Operating revenues consist of charges to customers for service provided. Operating expenses include the cost of service, administrative expenses, and depreciation of assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**NOTE C – CASH AND INVESTMENTS**

Cash is stated at cost, which approximates fair value, and consists of cash in checking and certificates of deposit. Investments are with Colotrust as subsequently described. The differences between the carrying amount and the bank balances are due to outstanding checks and deposits not yet processed by the bank.

Cash balances at December 31, 2016, are as follows:

	<u>2016</u>		
	<u>Carrying</u>	<u>Insured</u>	<u>Collateralized</u>
	<u>Amount</u>	<u>Bank</u>	<u>Bank</u>
		<u>Balance</u>	<u>Balance</u>
Cash and cash equivalents	\$ 240,681	\$ 297,102	\$ -

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories, the eligibility of which is determined by state regulators. Amounts deposited in excess of the federal insurance level must be collateralized. The eligible collateral is determined by the PDPA. The PDPA allows the institution to create a single collateral pool for all public funds. The market value of the collateral must be at least 102% of the aggregate uninsured deposits.

Pledged collateral must be held in an escrow account with another financial institution approved by the state banking commission. The pledged collateral cannot be released unless approval is obtained from the banking commission.

Loma Linda Sanitation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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**NOTE C – CASH AND INVESTMENTS – CONTINUED**

Investments

Governmental Accounting Standards Board Statement No. 40, Deposit and Investment Risk Disclosure (GASB 40) establishes disclosure requirements related to investment risks including credit risk, custodial risk, interest rate risk and foreign currency risk.

Colorado state statutes authorize the District to invest in U.S. Treasury bills, obligations of any other U.S. agencies, obligations of the World Bank, general obligation bonds of any state or any of their subdivisions, revenues bonds of any state or any of their subdivisions, bankers acceptance notes, commercial paper, repurchase agreements, money market funds and guaranteed investment contracts. All investments must be held by the District, in their name, or in custody of a third party on behalf of the local government.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation.

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the District will not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investments or collateral securities that are in the possession of an outside party. The District's deposits are either covered by depository insurance or all collateralized under the Colorado Public Deposit Protection Act and are therefore not deemed to be exposed to custodial credit risk. The District's investments are not deemed to be exposed to custodial credit risk because they are held by the District or by the District's custody agent in the District's name.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District places no limit on the amount the District may invest in any one issuer.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

Loma Linda Sanitation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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**NOTE C – CASH AND INVESTMENTS – CONTINUED**

The District has invested \$2,981 at December 31, 2016 in the Colorado Local Governmental Liquid Asset Trust, (Colotrust) an investment vehicle established for local government entities in Colorado to pool surplus funds. Colotrust operates similarly to a money market fund and each share is equal in value to \$1.00. A designated custodial bank provides safekeeping and depository services to Colotrust in connection with the direct investment and withdrawal functions. Substantially all securities owned by Colotrust are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian’s internal records identify the investments owned by Colotrust. Colotrust funds carry a Standard and Poor’s AAAM rating. There is no custodial, interest rate or foreign currency risk exposure.

The Districts investments consisted of:

	<u>2016</u>
ColoTrust	<u>2,981</u>
Total	<u><u>\$ 2,981</u></u>

**NOTE D – TAX SPENDING AND DEBT LIMITATIONS**

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local governments. The amendment is complex and subject to judicial interpretation. The District qualifies as an “Enterprise” because it is a government owned business authorized to issue revenue bonds and it receives less than 10% of its annual revenue in grants from state and local grants. It is therefore exempt from some provisions of the 1992 amendment. The District believes it is in compliance with the requirements of the amendment. However, the District has made certain interpretations of the amendment’s language in order to determine its compliance.

Loma Linda Sanitation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

**NOTE E – LONG TERM DEBT**

	<u>2016</u>
CWRPDA 2014 Note Payable	\$ 838,674
CWRPDA 2016 Note Payable	<u>500,000</u>
	1,338,674
Less current portion	<u>50,090</u>
Noncurrent portion	<u><u>\$1,288,584</u></u>

Changes in long-term debt for 2016 follow:

	<u>Beginning Balance</u>	<u>Additions (Deletions)</u>	<u>Principal Payments</u>	<u>Ending Balance</u>	<u>Within One Year</u>
CWRPDA 2014 note payable	\$ 875,796	\$ -	\$ 37,122	\$ 838,674	\$ 37,875
CWRPDA 2016 note payable	<u>-</u>	<u>500,000</u>	<u>-</u>	<u>500,000</u>	<u>12,215</u>
Total	<u><u>\$ 875,796</u></u>	<u><u>\$500,000</u></u>	<u><u>\$ 37,122</u></u>	<u><u>\$1,338,674</u></u>	<u><u>\$ 50,090</u></u>

**CWRPDA 2014 Note Payable**

On November 13, 2014, the District obtained an \$878,792 loan from the Colorado Water Resources and Power Development Authority to expand the capacity of the District’s wastewater treatment facility.

The loan bears interest at 2% per annum and requires semi-annual principal and interest payments through May, 2035. The loan is secured by a lien on the District’s wastewater treatment facility.

The loan agreement contains a rate covenant requiring that the District establish rates, fees, and charges to generate revenues sufficient to pay all operation and maintenance expenses, provide for 110% of the debt service due for the year for the CWRPDA note payable and any other obligations with wastewater treatment facility liens on parity with the CWRPDA note, provide for required additions to any debt service reserve account for the CWRPDA note and any other obligations with wastewater treatment facility liens on parity with the CWRPDA note, provide for the debt service on any obligations secured by a subordinate lien on the wastewater treatment facility, and provide amounts necessary to pay and discharge all other charges and liens payable from gross revenues for the year.

Loma Linda Sanitation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

**NOTE E – LONG TERM DEBT – CONTINUED**

The loan requires the establishment of an operations and maintenance reserve fund in an amount equal to three months of operation and maintenance expenses, excluding depreciation.

**CWRPDA 2016 Note Payable**

On September 16, 2016, the District obtained a \$500,000 loan from the Colorado Water Resources and Power Development Authority to expand the capacity of the District’s wastewater treatment facility.

The loan bears interest at 2% per annum and requires semi-annual principal and interest payments through November, 2036. The loan is secured by a lien on the District’s wastewater treatment facility.

The loan agreement contains a rate covenant requiring that the District establish rates, fees, and charges to generate revenues sufficient to pay all operation and maintenance expenses, provide for 110% of the debt service due for the year for the CWRPDA note payable and any other obligations with wastewater treatment facility liens on parity with the CWRPDA note, provide for required additions to any debt service reserve account for the CWRPDA note and any other obligations with wastewater treatment facility liens on parity with the CWRPDA note, provide for the debt service on any obligations secured by a subordinate lien on the wastewater treatment facility, and provide amounts necessary to pay and discharge all other charges and liens payable from gross revenues for the year.

The loan requires the establishment of an operations and maintenance reserve fund in an amount equal to three months of operation and maintenance expenses, excluding depreciation.

The following is a summary of the debt service requirements to maturity on the District’s CWRPDA notes payable:

Year	Principal	Interest	Total
2017	\$ 50,090	\$ 22,401	\$ 72,491
2018	59,972	25,474	85,446
2019	61,177	24,269	85,446
2020	62,406	23,040	85,446
2021	63,663	21,783	85,446
2022-2026	338,025	89,205	427,230
2027-2031	373,390	53,840	427,230
2032-2036	329,944	15,596	345,540
	\$1,338,667	\$275,608	\$1,614,275

Loma Linda Sanitation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

**NOTE F – CAPITAL ASSETS**

A summary of changes in capital assets during 2016 is as follows:

	Beginning of Year	Additions	Adjustments / Deletions	End of Year
<b>Non-depreciable assets:</b>				
Land and easements	\$ 65,900	\$ -	\$ -	\$ 65,900
Construction in progress	-	1,699,037	386,400	2,085,437
	<u>65,900</u>	<u>1,699,037</u>	<u>386,400</u>	<u>2,151,337</u>
<b>Depreciable assets:</b>				
Plant and improvements	1,538,734	-	(386,400)	1,152,334
Equipment	78,229	-	-	78,229
Building and improvements	18,995	-	-	18,995
	<u>1,701,858</u>	<u>1,699,037</u>	<u>-</u>	<u>3,400,895</u>
Less accumulated depreciation	<u>813,461</u>	<u>36,393</u>	<u>-</u>	<u>849,854</u>
Net Utility Plant in Service	<u>\$ 888,397</u>	<u>\$1,662,644</u>	<u>\$ -</u>	<u>\$ 2,551,041</u>

**NOTE G – RISK OF LOSS**

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries insurance. The District is insured for property, general liability, miscellaneous property and public official liability through membership in the Colorado Special District Property and Liability Insurance Pool (CSDPLP). The CSDPLP has a legal obligation for claims against its members to the extent that funds are available in its annually established loss fund and amounts are available from insurance providers under excess specific and aggregate insurance contracts. Losses incurred in excess of loss funds and amounts recoverable from excess insurance are direct liabilities of the participating members. The CSDPLP has indicated that the amount of any excess losses would be billed to members in proportion to their contributions in the years such excess occurs, although it is not legally require to do so. Ultimate liability to the District resulting from claims not covered by CSDPLP is not presently determinable. There were no material reductions in insurance coverage provided to the District and any amounts of settlements have not exceeded insurance coverage for the past three years.

CSDPLP has contracted with other third parties to operate, administer and manage the Pool. The Pool is responsible for its own budgets. CSDPLP’s summary audited financial information as of December 31, 2015 (the most recent available), is as follows:

Loma Linda Sanitation District  
NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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**NOTE G – RISK OF LOSS – CONTINUED**

Assets	<u>\$44,054,744</u>
Liabilities	<u>\$24,739,781</u>
Surplus	<u>19,314,963</u>
	<u>\$44,054,744</u>
Revenues	\$16,561,452
Expenses	<u>14,839,993</u>
Net Income (Loss)	<u>\$ 1,721,459</u>

SUPPLEMENTAL INFORMATION

Loma Linda Sanitation District

SCHEDULE OF OPERATING EXPENSES

For the year ended December 31,

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	<b>2016</b>
Collection and treatment	
Depreciation	\$ 36,393
Employee payroll	30,037
Utilities	12,326
System maintenance	11,840
Operator	11,100
Payroll tax expense	10,256
Supplies	4,214
Testing	4,113
Vehicle expense	1,301
	<hr/>
Total collection and treatment	\$ 121,580
	<hr/>
General and Administrative	
Accounting and legal	\$ 43,402
Insurance	6,565
Postage and office	6,338
Board of directors	5,060
Dues and licenses	1,715
Other	1,459
Engineering costs	250
	<hr/>
Total general and administrative expenses	\$ 64,789
	<hr/>

Loma Linda Sanitation District

SCHEDULE OF EXPENSES - BUDGET AND ACTUAL

For the years ended December 31,

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Expenditures Reported on the GAAP Basis</u>	<u>Adjustments to Budgetary Basis</u>	<u>Expenditures on the Budgetary Basis</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
<b>2016</b>						
Total expenditures	\$ 1,546,726	\$ 1,858,582	\$ 203,700	\$ 1,544,021	\$ 1,747,721	\$ 110,861

Adjustments to budgetary basis are comprised of principal reductions on long-term debt, capital expenditures, and depreciation expense.

Loma Linda Sanitation District

SCHEDULE OF COLORADO WATER RESOURCES AND  
POWER DEVELOPMENT AUTHORITY LOAN COMPLIANCE

For the year ended December 31, 2016

**Rate Covenant**

Gross Revenue:			
Charges for services			\$ 224,711
Tap fees			46,700
Investment earnings			34
Other income			58
			<u>271,503</u>
Operation and maintenance expenses:			
Total operating expenses	186,369		
Less depreciation expense	<u>(36,393)</u>		
		149,976	
Current year debt service requirements for CWRPDA loan and parity lien obligations:			
2014 Colorado Water Resources and Power Development Authority Loan	54,460		
2016 Colorado Water Resources and Power Development Authority Loan	<u>-</u>		
	54,460		
Required coverage	<u>110%</u>		
		59,906	
Current year required payments into debt service reserve account for CWRPDA loan and parity lien obligations			-
Current year debt service requirements on subordinate lien obligations			-
Current year debt service requirements on other obligations		<u>-</u>	
			<u>209,882</u>
Excess (deficiency) of gross revenues over covered expenses			<u>\$ 61,621</u>

**Operations and Maintenance Reserve Covenant**

Required reserve equal to three months operations and maintenance expenses		\$ 37,494
Restricted net position on the Statement of Net Position		37,494

**Lien Representation**

No new obligations other than with CWRPDA with liens on the wastewater treatment facility were incurred during the year.

SINGLE AUDIT SECTION

Loma Linda Sanitation District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended December 31, 2016

<u>Federal Grantor / Pass Through Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>2016 Amount of Award Expended</u>
<b>U.S. DEPARTMENT OF THE INTERIOR</b>			
Passed through Colorado Department of Local Affairs			
Distribution of Receipts to State and Local Governments	15.227	EIAF 7507	\$ 600,000
Total U.S. Department of the Interior			<u>600,000</u>
<b>U.S. ENVIRONMENTAL PROTECTION AGENCY</b>			
Passed through Colorado Water Resources and Power Development Authority			
Capitalization Grants for Clean Water State Revolving Funds	66.458	W14F341	491,476
Capitalization Grants for Clean Water State Revolving Funds	66.458	W16F373	<u>351,085</u>
Total U.S. Environmental Protection Agency			<u>842,561</u>
Total expenditures of federal awards			<u>\$ 1,442,561</u>

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Loma Linda Sanitation District under programs of the federal government for the year ended December 31, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Loma Linda Sanitation District, it is not intended to and does not present the financial position, changes in net position, or cash flows of Loma Linda Sanitation District.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through entity identifying numbers are presented when available.

INDEPENDENT AUDITOR'S 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*

July 8, 2017

Board of Directors  
Loma Linda Sanitation District  
Durango, Colorado

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Loma Linda Sanitation District, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Loma Linda Sanitation District's basic financial statements, and have issued our report thereon dated July 8, 2017.

**Internal Control over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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 the Loma Linda Sanitation District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

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



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

July 8, 2017

Board of Directors  
Loma Linda Sanitation District  
Durango, Colorado

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

We have audited the Loma Linda Sanitation District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Loma Linda Sanitation District's major federal programs for the year ended December 31, 2016. Loma Linda Sanitation District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Loma Linda Sanitation District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Loma Linda Sanitation District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Loma Linda Sanitation District's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the Loma Linda Sanitation District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2016-001. Our opinion on each major federal program is not modified with respect to these matters.

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

**Report on Internal Control over Compliance**

Management of the Loma Linda Sanitation District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Loma Linda Sanitation District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform

July 8, 2017  
Loma Linda Sanitation District  
Page 2

Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Loma Linda Sanitation District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2016-001, that we consider to be a material weaknesses.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Loma Linda Sanitation District

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2016

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SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified  Yes  No
- Significant deficiency(ies) identified  Yes  None reported
- Noncompliance material to financial statements noted?  Yes  No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified  Yes  No
- Significant deficiency(ies) identified  Yes  None reported

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

Yes  No

Identification of major programs:

CFDA Number(s)

66.458

Name of Federal Program or Cluster

Capitalization Grants for Clean Water State Revolving Funds

Dollar threshold used to distinguish Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

Yes  No

Loma Linda Sanitation District

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended December 31, 2016

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SECTION II – FINANCIAL STATEMENT FINDINGS

There are no financial statement findings.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2016-001 Documentation of Internal Control over Compliance

U.S. ENVIRONMENTAL PROTECTION AGENCY  
CFDA #: 66.458

Condition: 2016 was the first year that the District was subject to federal grant audit requirements. The District did not prepare written policies and procedures related to internal control over compliance with federal awards.

Criteria: Title 2 U.S. Code of Federal Regulations Part 200, section 200.303 requires that the District establish and maintain internal control designed to reasonably ensure compliance with Federal statutes, regulations, and the terms and conditions of federal awards.

Questioned Costs: None

Context: The District's policies and procedures related to internal control over compliance with federal awards were not documented.

Effect: Due to the District's undocumented internal control policies, the potential exists that District personnel are not fully aware of all compliance requirements; that procedures and policies have not been fully implemented to ensure compliance with all requirements; and that noncompliance could occur and not be detected by District personnel.

Cause: District personnel did not consider it necessary to document its internal control policies and procedures over compliance.

Statistically Valid Sample: N/A

Identification as Repeat Finding, if Applicable: N/A

Recommendation: We recommend that the District formalize its internal control policies and procedures over compliance before future federal awards are accepted to ensure that procedures are in place to identify all compliance requirements and to ensure compliance therewith.

Views of Responsible Officials: The Loma Linda Sanitation District concurs with the finding. The District believes that guidance provided by the pass-through entities for federal awards received significantly mitigated risks related to noncompliance; however, prior to accepting future federal awards, the District will consider documenting internal control policies and procedures related to compliance with federal award programs. See attached corrective action plan.

Loma Linda Sanitation District  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
Year Ended December 31, 2016

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There were no prior year findings.

**LOMA LINDA SANITATION DISTRICT  
2016 SINGLE AUDIT**

**CORRECTIVE ACTION PLAN**

Finding No. 2016-001: Documentation of Internal Control over Compliances

**Planned Corrective Action:** The Loma Linda Sanitation District (“District”) will prepare a written Grant Compliance Policy to insure compliance with all Federal statutes, regulations and terms and conditions for any federal awards received by the District. The policy will require preparation of a spreadsheet and related accounting records to track expenses and receipt of all federal funding from all sources for any project involving federal funding. The spreadsheet will include cumulative totals for each federal funding source individually and all sources cumulatively to verify that total receipts from federal funding sources do not exceed total expenditures at any time during the project. The policy will also require the adoption / documentation of appropriate internal control over compliance with the types of compliance requirements that could have a direct and material effect on each of the District’s major federal programs.

**Person Responsible for Corrective Action Plan:** District Accountant with verification by general counsel for the District.

**Anticipated Date of Completion:** Policy will be adopted on or before December 31, 2017. The spreadsheet, related accounting documents, and adoption / documentation of internal controls to be prepared on or before the commencement of any project receiving federal funding.