

**THREE RIVERS LEVEE  
IMPROVEMENT AUTHORITY**

**FINANCIAL STATEMENTS**

**JUNE 30, 2014**

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**MICHAEL L. HINZ, CPA, INC**  
*CERTIFIED PUBLIC ACCOUNTANT*  
**INDEPENDENT AUDITOR'S REPORT**

476 Century Park Drive, Ste. A  
Yuba City, California 95991

TEL: (530) 673-9500  
FAX: (530) 673-2535

**Board of Directors**  
**Three Rivers Levee Improvement Authority**  
**Marysville, California**

I have audited the accompanying statement of the governmental activities of Three Rivers Levee Improvement Authority as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic 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.

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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 district's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in circumstances, but not for the purpose of expressing an opinion on the effectiveness of the district's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of Three Rivers Levee Improvement Authority as of June 30, 2014, 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.

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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.



**December 19, 2014**

**THREE RIVERS LEVEE IMPROVEMENT AUTHORITY  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2014**

**ASSETS**

	<u>General Fund</u>	<u>Levee Assessment Fund</u>
Current Assets:		
Cash in County Treasury (Note)	3,765,360	70,823
Cash with Fiscal Agent (Note)	2,797,012	
Accounts Receivable	2,946,123	
Interest Receivable	<u>9,207</u>	<u>1,488</u>
Total Current Assets	<u>9,517,702</u>	<u>72,311</u>
Other Assets:		
Total Other Assets	<u>-0-</u>	<u>-0-</u>
Total Assets	<u>9,517,702</u>	<u>72,311</u>

**LIABILITIES AND NET ASSETS**

Current Liabilities:		
Accounts Payable - Accrued Expenses	<u>325,806</u>	<u>-0-</u>
Total Current Liabilities	<u>325,806</u>	<u>-0-</u>
Net Assets		
Restricted	2,797,012	-0-
Unrestricted	<u>6,394,884</u>	<u>72,311</u>
Total Net Assets	<u>9,191,896</u>	<u>72,311</u>
Total Liabilities and Net Assets	<u>9,517,702</u>	<u>72,311</u>

**See accompanying notes to financial statements**

**THREE RIVERS LEVEE IMPROVEMENT AUTHORITY**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**JUNE 30, 2014**

	<u>General Fund</u>	<u>Levee Assessment</u>
<b>Revenue:</b>		
Proposition 1E Funding	4,488,902	
Property Assessments and Fees		887,158
Interest	36,982	2,303
Landowner Funding	1,231,842	
Other Income (Note)	<u>29,781</u>	<u>31,300</u>
<b>Total Revenue</b>	<u>5,787,507</u>	<u>920,761</u>
<b>Expenditures:</b>		
Special Projects		
Levee Improvement Costs (Schedule)	4,561,799	
Maintenance Reimbursements		885,925
Administrative Expenses:		
Yuba County Reimbursements		
Salaries and Benefits	352,851	
Interdepartment Costs	39,740	
Utilities	14,789	
Insurance	276,510	
Directors Fees	2,550	
Rent	32,606	
Office and Miscellaneous	9,625	
Travel	6,725	
Memberships	<u>11,430</u>	
<b>Total Expenditures</b>	<u>5,308,625</u>	<u>885,925</u>
<b>Excess of Revenues over Expenditures</b>	478,882	34,836
<b>Net Assets, Unrestricted – Beginning of Year</b>	7,973,544	37,475
<b>Adjustments to Beginning Net Assets (Note)</b>	<u>(2,057,542)</u>	<u>-0-</u>
<b>Net Assets, Unrestricted – End of Year</b>	<u>6,394,884</u>	<u>72,311</u>

See accompanying notes to financial statements

**THREE RIVERS LEVEE IMPROVEMENT AUTHORITY**  
**STATEMENT OF CASH FLOWS**  
**JUNE 30, 2014**

Cash Flows From Operating Activities:

Cash Received from Operating Activities	5,911,471
Cash Disbursed for Operating Activities	<u>( 5,396,910)</u>

Net Cash Flows Used in Operation Activities:	<u>514,561</u>
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Cash Flows From Investing Activities:

Interest Income	<u>36,912</u>
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Net Cash Flows From Investing Activities	<u>36,917</u>
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Cash Flows From Financing Activities	<u>-0-</u>
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Cash Flows From Non-Operating Activities:

Adjustment to Beginning Net Assets	<u>( 2,057,542)</u>
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Net Cash Flows From Non-Operating Activities	<u>( 2,057,542)</u>
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Net Decrease in Cash	<u>( 1,506,064)</u>
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Cash at Beginning of Year	<u>5,271,424</u>
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Cash at End of Year	<u><u>3,765,360</u></u>
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**See accompanying notes to financial statements**

**THREE RIVERS LEVEE IMPROVEMENT AUTHORITY  
SCHEDULE OF LEVEE IMPROVEMENT COSTS  
FOR THE YEAR ENDED JUNE 30, 2014**

Phase 4 – Yuba:		
Design	26,815	
Permit	49,751	
Environmental Mitigation	18,925	
Construction	50,595	
Construction Management	10,848	
Right of Way	<u>422,956</u>	
		579,890
Phase 4 - Yuba - Element 1A		
Design	1,086	
Construction	30,120	
Construction Management	14,067	
Right of Way	<u>67,050</u>	
		112,323
Phase 4 – Feather:		
Segment 1:		
Design	16,440	
Right of Way Support	99,158	
Segment 2:		
Design	21,749	
Right of Way Support	178,983	
Right of Way – Direct Purchase (Note)	1,300	
Segment 3:		
Design	79,406	
Construction	1,163,365	
Construction Management	242,548	
Right of Way	120,514	
TAC License Costs	<u>30,304</u>	
		1,953,767
WPIC 200 Year Compliance		
Design	266,873	
Permitting	28,876	
Right of Way	<u>29,213</u>	
		324,962
200 Year Compliance - Non EIP		231,887
Goldfield Evaluation (Prop 13 work)		1,125,845
Environmental Mitigation Costs		221,250
Interim Operating Costs		<u>11,875</u>
Total		<u>4,561,799</u>

**THREE RIVERS LEVEE IMPROVEMENT AUTHORITY  
COMMUNITY FACILITIES DISTRICT SPECIAL REVENUE FUNDS  
STATEMENT OF NET ASSETS  
JUNE 30, 2014**

**ASSETS**

	<u>CFD 2006-1</u>	<u>CFD 2006-2</u>
Cash in Treasury	<u>926,693</u>	<u>139,098</u>
Total Assets	<u>926,693</u>	<u>139,098</u>

**LIABILITIES AND NET ASSETS**

Liabilities	-0-	-0-
Net Assets	<u>926,693</u>	<u>139,098</u>
Total Liabilities and Net Assets	<u>926,693</u>	<u>139,098</u>

**See accompanying notes to financial statements**



**THREE RIVERS LEVEE IMPROVEMENT AUTHORITY  
COMMUNITY FACILITIES DISTRICT SPECIAL REVENUE FUNDS  
STATEMENT OF ACTIVITIES  
JUNE 30, 2014**

	<u>CFD 2006-1</u>	<u>CFD 2006-2</u>
Revenue:		
Current Secured Taxes	<u>464,173</u>	<u>90,096</u>
Total Taxes	464,173	90,096
Interest	<u>4,895</u>	<u>856</u>
Total Revenue	<u>469,068</u>	<u>90,952</u>
Expenditures:		
Debit Service	-0-	43,118
Fiduciary Fees	<u>-0-</u>	<u>-0-</u>
Total Expenditures	<u>-0-</u>	<u>43,118</u>
Excess Revenues over Expenditures	469,068	47,834
Beginning Net Assets	<u>457,625</u>	<u>91,264</u>
Ending Net Assets	<u>926,693</u>	<u>139,098</u>

**See accompanying notes to financial statements**

**THREE RIVERS LEVEE IMPROVEMENT AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**History and Organization**

The Three Rivers Levee Improvement Authority (TRLIA) was formed in April 2004 as a Joint Powers Authority (JPA) between Yuba County and Reclamation District No. 784. Section 2.01 from the JPA agreement describes TRLIA's purpose.

This Agreement is made pursuant to the Act providing for the joint exercise of powers common to the County and the District, and for other purposes as permitted under the Act, the Bond Law and as agreed by the parties hereto. The primary purpose of this Agreement is to provide for flood control improvements located in the County, including improvements to the levee system and related drainage improvements. The Authority may undertake any activities necessary or desirable to achieve its primary purpose including, but not limited to (a) the power to study, plan for, design, develop, acquire, and construct and repair improvements, (b) the acquisition and holding of title to land, including the acquisition of land by eminent domain proceedings, as necessary for levee system improvements, related drainage improvements and/or habitat mitigation incident to any such improvements, and (c) the provision of financing for improvements and related activities, including financing by means of the creation of one or more community facilities districts, assessment districts or other financing districts, the entering into of lease and/or installment sale obligations, the issuance of revenue or other notes, bonds or evidences of indebtedness, and the imposition of appropriate impact or other fee obligations. The Authority may conduct activities alone, or in cooperation with any Member, any Associate Member, the State of California or any agency or political subdivision thereof, the United States or any department or agency thereof, or other entities. It is not contemplated that the Authority will in any way contract for or finance periodic levee maintenance activities which the District, other reclamation districts or other governmental or nongovernmental entities are obligated to do, or which otherwise in the past have been done by them.

Four work phases have been identified with the goal of achieving 200-year flood protection. The first construction work was initiated September 2004. The final phase was scheduled to be completed by the end of 2011 with the completion of the Upper Yuba Levee Improvement Project with a cost estimated to be \$405 million for 29 miles of levees and funded mostly by local sources and State funding. Additional Phase 4 work has been identified in the Goldfields area that is anticipated to last for at least several more years. The cost estimate for the Goldfields work is still being developed.

## Significant Accounting Policies

### Fund Accounting

The Organization operates as an Enterprise Fund. The Enterprise Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the costs (expenses, including depreciation) of providing services to the general public on a continuing basis are financed primarily through landowner charges.

### Basis of Accounting

The Organization uses the accrual basis of accounting for financial reporting purposes. Accrual accounting attempts to record the financial effects on an enterprise of transactions and other events and circumstances that have cash consequences for an enterprise in the periods in which those transactions, events and circumstances occur rather than only in the periods in which cash is received or paid by the enterprise. Accrual accounting is concerned with the process by which cash expended on resources and activities is returned as more (or perhaps less) cash to the enterprise, not just with the beginning and end of that process.

### Property and Equipment

The Organization was formed to perform repairs and improvements to property owned and maintained by the County of Yuba and Reclamation District No. 784. In addition, the organization has purchased land as a right of way to enable the improvements to the existing levee system.

Construction work for the improvement of the levee system within the Organizations boundaries in Yuba County is reflected on its books as an operating expense. The Organization, as originally formed, will cease to exist upon the completion of the projects for which it was formed. At that time ownership of any property and the completed improvements to the levee system will be transferred to the existing owner, primarily the State of California, and maintenance responsibility will be assumed by Reclamation District No. 784 and/or other entities established to perform this function. The value to be transferred will be the fair market value of levee improvements. The total costs of the levee improvements to date are as follows:

Fiscal Year Ended	
June 30, 2004	701,774
June 30, 2005	5,603,384
June 30, 2006	50,572,148
June 30, 2007	74,257,632
June 30, 2008	24,376,482
June 30, 2009	82,916,631
June 30, 2010	54,496,111
June 30, 2011	14,111,717
June 30, 2012	13,487,570
June 30, 2013	6,185,931
June 30, 2014	<u>4,561,799</u>
	<u>331,271,179</u>

Cash and Reserves

Funds of the Organization are on deposit with the Yuba County Treasurer. These funds consist of a diversified portfolio pool and do not require a category of risk in accordance with GASB #3. The risk of material loss with regard to these funds is not considered to be material.

Use of Estimates

The preparation of the general purpose 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 and disclosures of contingent assets and liabilities at the date of the general purpose financial statements and the reported amount of revenue and expenditures or expenses during the reporting period. Actual results could differ from those estimates.

Deposit - State Condemnation Fund

Deposits with the State Condemnation Fund represent funds contributed for the purchase of property for the right of way for levee improvements, for which the District and the sellers have not reached an agreed upon sales price. The total contribution to the fund represents a 17.175% allocation from Three Rivers Levee Improvement Authority and an 82.825% allocation from the State of California Department of Water Resources. Upon the determination of the actual property fair value additional contributions will be made or any refunds will be received in the same proportion. During this process, the District receives interest on these funds. At the conclusion of the improvement process, the real property acquired for right-of-way purposes will become the property of the State of California. The funds provided directly by the State of California are not included in the property acquisition costs due to the fact that they were not paid through District accounts.

Other Income

A detail of Other Income for the year ended June 30, 2014 is as follows:

Administration Fees	27,271
Miscellaneous	<u>2,510</u>
	<u>29,781</u>

Cash in County Treasury

Cash in County Treasury as of June 30, 2014 consisted of the following accounts with the Yuba County Treasurer:

General Account	3,428,824
Feather River Funding	51,053
Upper Yuba River Funding	<u>285,483</u>
	<u>3,765,360</u>

Cash with Fiscal Agent

Funds are held in trust for the long term care endowments for mitigation areas created within the Bear River and Feather River set-back areas by the Authority. These funds are dedicated to the long term care and maintenance of the areas in perpetuity as a condition of certain permits obtained by the Authority. The cash is held in trust by US Bank pursuant to an escrow agreement. The cash held by the trustee as of June 30, 2014 consisted of the following amounts:

Feather River Endowment	651,434
Bear River Endowment	<u>2,145,578</u>
	<u>2,797,012</u>

Community Facilities Districts - Special Revenue Funds

"Special Taxes collected from TRLIA Communities Facilities Districts 2006-1 & 2006-2 are utilized pursuant to the adopted Three Rivers Levee Impact Fee Advance Funding Credit & Reimbursement Policies and Procedures memorialized within development agreements covering properties within the aforementioned CFD's. The first use of Special Taxes is to satisfy any remaining Three Rivers Levee Impact Fee obligations of the development from which the special taxes are collected. Once all fee obligations are satisfied, special taxes are then utilized to redeem outstanding bonds issued as obligations of the districts. The Net assets of the CFD Revenue Funds are consequently reserved for those purposes.

Community Facilities Districts - Capital Improvement Bonds

Three Rivers Levee Improvement Authority issued Capital Improvement Bonds on April 18, 2007 to finance the repayment of proceeds received in accordance with the advance funding agreements with local developers. These are special tax bonds and are issued on specific parcels of landowners within Community Facilities Districts 2006-1 & 2006-2. These bonds are repaid solely from annual special taxes on the parcels within the Districts. These bonds are not an obligation of Three Rivers Levee Improvement Authority. They are an obligation of the respective Three Rivers Levee Improvement Community Facilities Districts, and are payable solely from the proceeds of refunding bonds or special taxes, therefore, they are not reflected as a general liability of the Authority. A summary of the bonds is as follows:

Name of Bond Issue	Community Facilities District <u>of 2006-1</u> Special Tax 2007 Series A	Community Facilities District <u>of 2006-2</u> Special Tax 2007 Series B
Date of Issue	4-18-2007	4-18-2007
Original Issue Value	14,930,382	8,663,901
Accreted Value – 6/30/14	23,461,701	14,378,121
District Assessed Value	115,553,974	35,689,815

Local Funding – Yuba Levee Financing Authority

The Yuba Levee Financing Authority has authorized the matching funds for the Levee Improvement Program as follows:

Authorizations:

October 2008	13,080,000
November 2008	7,376,000
May 2010	14,200,000
January 2010	7,000,000
November 2010 Adjustment	( 2,079,469)
Total Authorized	39,576,531
Amount Funded to June 30, 2010	<u>39,576,531</u>
Authorization Remaining	<u><u>-0-</u></u>

Levee Assessment Fund

The Levee Assessment Fund was established to collect funds for the purpose of providing levee maintenance within the operating and maintenance assessment district. Collections of direct property assessments are used to fund both the administrative costs of the district and the authorized services approved as part of the formation of the district. For Fiscal Year 13/14, from the total collections of \$909,014.40, \$27,271 was used to reimburse Three Rivers Levee Improvement Authority for the administrative costs of the district and \$858,654.85 was transferred to Reclamation District 784 to fund the costs of levee maintenance activities. The annual assessment levy is determined based upon a projected budget for levee maintenance as provided by Reclamation District 784 and approved by the Three Rivers Levee Improvement Authority Board, subject to the maximum allowable levy based upon the Engineer's Report and the Proposition 218 process used to approve and form the district.

Adjustment to Prior Year Net Assets

An year adjustment to beginning net assets has been made to reflect a change in how funds related to the Three Rivers Levee Fees are reflected by the Authority. As a result of the agreement concerning Levee impact fees among County of Yuba, Yuba County Water Agency, and Yuba Levee Financing Authority, effective July 22, 2008, fees collected by the County under the Three Rivers Levee Impact Fee program are only to be used and applied in accordance with the agreement which does not include use by the

Three Rivers Levee Improvement Authority for direct construction of Levee Improvements. Instead, the County and Yuba County Water Agency and the Authority entered into the agreement for funding between Three Rivers Levee Improvement Authority, County of Yuba, and Yuba County Water Agency effective April 14, 2008, which provided funding for the Levee Improvements in-lieu of Levee Impact Fees.

#### Subsequent Events

The District has prepared its financial statements for the fiscal year ended June 30, 2014. The date of issuance of these financial statements is December 19, 2014. All events taking place after June 30, 2014 but before December 19, 2014 are deemed to be subsequent events. There have been no significant subsequent events required to be disclosed as a part of this financial statement.

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**MICHAEL L. HINZ, CPA, INC**  
CERTIFIED PUBLIC ACCOUNTANT

476 Century Park Drive, Ste. A  
Yuba City, California 95991

TEL: (530) 673-9500  
FAX: (530) 673-2535

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
STRUCTURE BASED ON AN AUDIT OF GENERAL PURPOSE  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

**The Board of Directors  
Three Rivers Levee Improvement Authority  
Marysville, California**

I have audited the general purpose financial statements of Three Rivers Levee Improvement Authority as of and for the year ended June 30, 2014, and have issued my report thereon dated December 19, 2014.

I conducted my audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatements.

The management of Three Rivers Levee Improvement Authority is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing my audit of the general purpose financial statements of Three Rivers Levee Improvement Authority for the year ended June 30, 2014, I obtained an understanding of the internal control structure. With respect to the internal control structure, I obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and I assessed control risk in order to determine my auditing procedures for the purpose of expressing my opinion on the general purpose financial statements and not to provide an opinion on the internal control structure. Accordingly, I do not express such an opinion.



My consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors and irregularities in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control structure and its operation that I consider to be material weaknesses as defined above.

This report is intended for the information of the management and granting agencies. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read "M. J. C. Deane". The signature is written in a cursive style with a large initial "M" and a long, sweeping underline.

**December 19, 2014**

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**MICHAEL L. HINZ, CPA, INC**

CERTIFIED PUBLIC ACCOUNTANT

476 Century Park Drive, Ste. A  
Yuba City, California 95991

TEL: (530) 673-9500  
FAX: (530) 673-2535

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE**  
**BASED ON AN AUDIT OF GENERAL PURPOSE**  
**FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH**  
**GOVERNMENT AUDITING STANDARDS**

**Board of Directors**  
**Three Rivers Levee Improvement Authority**  
**Marysville, California**

I have audited the general purpose financial statements of Three Rivers Levee Improvement Authority as of and for the year ended June 30, 2014, and have issued my report thereon dated December 19, 2014.

I conducted my audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to Three Rivers Levee Improvement Authority is the responsibility of Three Rivers Levee Improvement Authority's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, I performed tests of Three Rivers Levee Improvement Authority's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of my audit of the general purpose financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, I do not express such an opinion.

The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended for the information of the management and granting agencies. However, this report is a matter of public record and its distribution is not limited.



**December 19 2014**