



McKinleyville Community Services District
McKinleyville, California

Annual Financial Report
For the Fiscal Year Ended
June 30, 2019



Board of Directors as of June 30, 2019

Name	Title	Elected/ Appointed	Current Term
John Corbett	President	Elected	10/2002 - 12/2020
Mary Burke	Vice President	Elected	03/2017 - 12/2020
Shel Barsanti	Director	Appointed	03/2019 - 12/2020
David Couch	Director	Elected	09/2008 - 12/2022
Dennis Mayo	Director	Elected	12/2013 - 12/2022

**McKinleyville Community Services District
 1656 Sutter Road
 McKinleyville, California 95519
 (707) 839-3251**

McKinleyville Community Services District
Annual Financial Report
For the Fiscal Year Ended June 30, 2019

**McKinleyville Community Services District
Annual Financial Report
For the Fiscal Year Ended June 30, 2019**

Table of Contents

	<u>Page No.</u>
Table of Contents	i
Financial Section	
Independent Auditor’s Report	1-2
Management’s Discussion and Analysis	3-7
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	8-9
Statement of Activities	10
Fund Financial Statements:	
Balance Sheet of Governmental Fund	11
Reconciliation of the Balance Sheet of Governmental Fund to the Statement of Net Position	12
Statement of Revenues, Expenditures, and Change in Fund Balance of Governmental Fund	13
Reconciliation of the Statement of Revenues, Expenditures, and Change in Fund Balance of Governmental Fund to the Statement of Activities	14
Statement of Net Position – Enterprise Fund	15-16
Statement of Revenues, Expenses, and Change in Fund Net Position – Enterprise Fund	17
Statement of Cash Flows – Enterprise Fund	18-19
Notes to the Basic Financial Statements	20-51
Required Supplementary Information	
Schedule of Revenues, Expenditures, and Change in Fund Balance Budget and Actual – General (Parks and Recreation) Fund	52
Schedule of Revenues, Expenditures, and Change in Fund Balance Budget and Actual – Measure B Fund	53
Schedule of Revenues, Expenditures, and Change in Fund Balance Budget and Actual – Street Lighting Fund	54
Notes to the Required Supplementary Information	55
Schedules of Changes in District’s Total OPEB Liability and Related Ratios	56
Schedules of the District’s Proportionate Share of the Net Pension Liability	57
Schedules of Pension Plan Contributions	58
Report on Compliance and Internal Controls	
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 <i>Government Auditing Standards</i>	59-60

Financial Section

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Independent Auditor's Report

Board of Directors
McKinleyville Community Services District
McKinleyville, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the McKinleyville Community Services District (District) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the McKinleyville Community Services District, as of June 30, 2019, 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.

Independent Auditor's Report, continued

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 and the required supplementary information on pages 52 through 58 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2020, on our consideration of the 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 the District's internal control over financial reporting and compliance. That report can be found on pages 59 and 60.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
February 5, 2020

**McKinleyville Community Services District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019**

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the McKinleyville Community Services District (District) provides an introduction to the financial statements of the District for the fiscal year ended June 30, 2019. We encourage readers to consider the information presented here with additional information that we have furnished in the accompanying basic financial statements and related notes, which follow this section.

Financial Highlights

- In 2019, the District's net position increased by 10.40% or \$2,705,439 to \$28,727,293 as a result of ongoing operations.
- In 2019, the District's total revenues increased 15.12% or \$1,403,880 to \$10,689,551.
- In 2019, the District's total expenses increased by 7.10% or \$529,044 to \$7,984,112.

Using This Financial Report

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

The Statement of Net Position includes all of the District's investments in resources (assets), deferred outflows of resources, obligations to creditors (liabilities), and deferred inflows of resources. It also provides the basis for computing a rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District. All of the current year's revenues and expenses are accounted for in the Statement of Activities. This statement measures the success of the District's operations over the past year and can be used to determine the District's profitability and credit worthiness.

Government-wide Financial Statements

Statement of Net Position and Statement of Activities

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" A Statement of Net Position and a Statement of Activities report information about the District in a way that helps answer this question. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's *net position* and changes in it. Think of the District's net position – the difference between assets and deferred outflows of resources, less liabilities and deferred inflows of resources – as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position is one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in the District's property tax base and the types of grants the District applies for to assess the *overall financial health* of the District.

**McKinleyville Community Services District
Management's Discussion and Analysis, continued
For the Fiscal Year Ended June 30, 2019**

Fund Financial Statements

Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 20 through 51.

Government-wide Financial Analysis

Statement of Net Position

The following table is a summary of the statement of net position at June 30, 2019.

	Condensed Statements of Net Position					
	Governmental Activities		Business-Type Activities		Total District	
	2019	2018	2019	2018	2019	2018
Assets:						
Current assets	\$ 865,820	816,956	17,116,538	13,710,524	17,982,358	14,527,480
Capital assets	5,307,781	5,283,419	35,770,816	35,950,485	41,078,597	41,233,904
Total assets	<u>6,173,601</u>	<u>6,100,375</u>	<u>52,887,354</u>	<u>49,661,009</u>	<u>59,060,955</u>	<u>55,761,384</u>
Deferred outflows of resources	<u>129,991</u>	<u>172,999</u>	<u>303,312</u>	<u>410,129</u>	<u>433,303</u>	<u>583,128</u>
Liabilities:						
Current liabilities	338,123	340,001	1,368,270	1,939,819	1,706,393	2,279,820
Non-current liabilities	4,432,505	4,354,053	24,508,364	23,555,498	28,940,869	27,909,551
Total liabilities	<u>4,770,628</u>	<u>4,694,054</u>	<u>25,876,634</u>	<u>25,495,317</u>	<u>30,647,262</u>	<u>30,189,371</u>
Deferred inflows of resources	<u>40,520</u>	<u>48,502</u>	<u>79,183</u>	<u>84,785</u>	<u>119,703</u>	<u>133,287</u>
Net position:						
Net investment in capital assets	4,198,103	4,068,078	17,723,760	18,536,435	21,921,863	22,604,513
Restricted	187,401	168,277	1,741,925	1,657,373	1,929,326	1,825,650
Unrestricted	<u>(2,893,060)</u>	<u>(2,705,537)</u>	<u>7,769,164</u>	<u>4,297,228</u>	<u>4,876,104</u>	<u>1,591,691</u>
Total net position	<u>\$ 1,492,444</u>	<u>1,530,818</u>	<u>27,234,849</u>	<u>24,491,036</u>	<u>28,727,293</u>	<u>26,021,854</u>

**McKinleyville Community Services District
Management's Discussion and Analysis, continued
For the Fiscal Year Ended June 30, 2019**

Government-wide Financial Analysis, continued

Statement of Net Position, continued

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources of the District exceeded liabilities and deferred inflows of resources by \$28,727,293 as of June 30, 2019. The District's total net position is made-up of three components: (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position.

Statement of Activities

The following table is a summary of the statement of activities for the year ended June 30, 2019.

	Condensed Statements of Activities					
	Governmental Activities		Business-Type Activities		Total District	
	2019	2018	2019	2018	2019	2018
Revenues:						
Program revenues:						
Charge for services	\$ 584,855	675,995	7,237,865	6,747,930	7,822,720	7,423,925
Operating grants and contributions	43,828	41,105	3,335	66,089	47,163	107,194
Capital grants and contributions	245,968	29,343	1,293,110	710,723	1,539,078	740,066
Total program revenues	<u>874,651</u>	<u>746,443</u>	<u>8,534,310</u>	<u>7,524,742</u>	<u>9,408,961</u>	<u>8,271,185</u>
General revenues:						
Property taxes	615,380	598,430	-	-	615,380	598,430
Voter approved taxes	210,254	209,573	-	-	210,254	209,573
Investment earnings	79,355	17,320	314,519	91,266	393,874	108,586
Gain on disposal of capital assets	-	-	13,816	65,250	13,816	65,250
Other income	47,266	32,647	-	-	47,266	32,647
Total general revenues	<u>952,255</u>	<u>857,970</u>	<u>328,335</u>	<u>156,516</u>	<u>1,280,590</u>	<u>1,014,486</u>
Total revenues	<u>1,826,906</u>	<u>1,604,413</u>	<u>8,862,645</u>	<u>7,681,258</u>	<u>10,689,551</u>	<u>9,285,671</u>
Expenses:						
General (Parks & Recreation)	1,637,702	1,558,835	-	-	1,637,702	1,558,835
Measure B	135,556	200,114	-	-	135,556	200,114
Streetlighting	92,022	88,947	-	-	92,022	88,947
Water	-	-	2,888,293	2,710,602	2,888,293	2,710,602
Wastewater	-	-	3,230,539	2,896,570	3,230,539	2,896,570
Total expenses	<u>1,865,280</u>	<u>1,847,896</u>	<u>6,118,832</u>	<u>5,607,172</u>	<u>7,984,112</u>	<u>7,455,068</u>
Changes in net position	(38,374)	(243,483)	2,743,813	2,074,086	2,705,439	1,830,603
Net position, beginning of year, as restated	<u>1,530,818</u>	<u>1,774,301</u>	<u>24,491,036</u>	<u>22,416,950</u>	<u>26,021,854</u>	<u>24,191,251</u>
Net position, end of year	<u>\$ 1,492,444</u>	<u>1,530,818</u>	<u>27,234,849</u>	<u>24,491,036</u>	<u>28,727,293</u>	<u>26,021,854</u>

Compared to prior year, net position of the District increased by 10.40% or \$2,705,439 to \$28,727,293 as a result of ongoing operations.

Total revenues increased 15.12% or \$1,403,880 to \$10,689,551, due primarily to increases of \$799,012 in capital grants and contributions, \$398,795 in charges for services, and \$285,288 in investment earnings; which were offset by decreases of \$60,031 in operating grants and contributions and \$51,434 in gain on disposal of capital assets.

Total expenses increased by 7.10% or \$529,044 to \$7,984,112, due primarily to increases of \$333,969 in wastewater fund expenses, \$177,691 in water fund expenses, and \$78,867 in General (Parks and Recreation) expenses; which were offset by a decrease of \$64,558 in Measure B expenses.

**McKinleyville Community Services District
Management's Discussion and Analysis, continued
For the Fiscal Year Ended June 30, 2019**

Government-wide Financial Analysis, continued

Changes in fund balance – Governmental fund

The following table is a summary of the changes in fund balance for all governmental funds for the year ended June 30, 2019.

Condensed Changes in Fund Balance – Governmental Funds

	General (Parks and Recreation)	Measure B	Streetlighting	Total Governmental Activities
Fund balance, beginning of year	\$ 1,223,150	(582,284)	(348)	640,518
Change in fund balance	<u>22,561</u>	<u>1,730</u>	<u>19,579</u>	<u>43,870</u>
Fund balance, end of year	<u>\$ 1,245,711</u>	<u>(580,554)</u>	<u>19,231</u>	<u>684,388</u>

In 2019, total fund balance increased by 6.85% or \$43,870 to \$684,388. The General (Parks and Recreation) fund increased by 1.84% or \$22,561 to \$1,245,711; the Measure B fund increased by 0.30% or \$1,730 to a deficit fund balance of \$580,554; and the Street Lighting fund increased by 5,626.15% or \$19,579 to \$19,231.

Capital Asset Administration

	Capital Assets					
	Governmental Activities		Business-Type Activities		Total District	
	2019	2018	2019	2018	2019	2018
Capital assets:						
Non-depreciable assets	\$ 1,960,164	1,710,464	3,910,689	3,963,864	5,870,853	5,674,328
Depreciable assets	<u>7,165,727</u>	<u>7,123,515</u>	<u>54,129,725</u>	<u>52,754,245</u>	<u>61,295,452</u>	<u>59,877,760</u>
Total capital assets	9,125,891	8,833,979	58,040,414	56,718,109	67,166,305	65,552,088
Accumulated depreciation	<u>(3,818,110)</u>	<u>(3,550,560)</u>	<u>(22,269,598)</u>	<u>(20,767,624)</u>	<u>(26,087,708)</u>	<u>(24,318,184)</u>
Total capital assets, net	<u>\$ 5,307,781</u>	<u>5,283,419</u>	<u>35,770,816</u>	<u>35,950,485</u>	<u>41,078,597</u>	<u>41,233,904</u>

At the end of fiscal year 2019, the District's investment in capital assets amounted to \$41,078,597 (net of accumulated depreciation). This investment in capital assets includes land, buildings, building improvements, furnishings and equipment, collection and distribution systems, tanks, wells, water transmission and distribution systems, and construction-in-process. See Note 4 for further discussion.

**McKinleyville Community Services District
Management's Discussion and Analysis, continued
For the Fiscal Year Ended June 30, 2019**

Long-Term Debt Administration

	Long-Term Debt					
	Governmental Activities		Business-Type Activities		Total District	
	2019	2018	2019	2018	2019	2018
Long-term debt:						
Long-term debt	\$ 1,109,678	1,215,341	18,047,056	17,414,050	19,156,734	18,629,391
Total long-term debt:	\$ 1,109,678	1,215,341	18,047,056	17,414,050	19,156,734	18,629,391

Long-term debt increased 2.83% or \$527,343 to \$19,156,734 in 2019, primarily due to additional note payable funds received from the State Water Resources Control Board for the purpose of financing a wastewater management facility improvement. See Note 6 for further discussion.

Conditions Affecting Current Financial Position

Management is unaware of any conditions, which could have a significant impact on the District's current financial position, net position, or operating results in terms of past, present, and future.

Requests for Information

This financial report is designed to provide the District's present users, including funding sources, customers, stakeholders, and other interested parties with a general overview of the District's finances and to demonstrate the District's accountability with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's Finance Manager, Colleen Trask at McKinleyville Community Services District, P.O. Box 2037, McKinleyville, California 95519 or (707) 839-3251.

Basic Financial Statements

McKinleyville Community Services District
Statement of Net Position
June 30, 2019

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
Current assets:			
Cash and cash equivalents (notes 2 & 3)	\$ 623,033	13,409,393	14,032,426
Cash and cash equivalents – restricted (notes 2 & 3)	187,401	2,404,956	2,592,357
Accounts receivable	18,332	778,199	796,531
Accrued interest receivable	1,080	15,166	16,246
Prepaid expense	35,974	77,258	113,232
Grant receivable	-	330,901	330,901
Materials and supplies inventory	-	100,665	100,665
Total current assets	<u>865,820</u>	<u>17,116,538</u>	<u>17,982,358</u>
Non-current assets:			
Capital assets – not being depreciated (note 4)	1,960,164	3,910,689	5,870,853
Capital assets – being depreciated (note 4)	<u>3,347,617</u>	<u>31,860,127</u>	<u>35,207,744</u>
Total non-current assets	<u>5,307,781</u>	<u>35,770,816</u>	<u>41,078,597</u>
Total assets	<u>6,173,601</u>	<u>52,887,354</u>	<u>59,060,955</u>
Deferred outflows of resources:			
Deferred pension outflows (note 8)	<u>129,991</u>	<u>303,312</u>	<u>433,303</u>
Total deferred outflows of resources	<u>\$ 129,991</u>	<u>303,312</u>	<u>433,303</u>

Continued on next page

See accompanying notes to the basic financial statements

McKinleyville Community Services District
Statement of Net Position, continued
June 30, 2019

	Governmental Activities	Business-Type Activities	Totals
Current liabilities:			
Accounts payable and accrued expenses	\$ 81,803	248,494	330,297
Accrued interest on long-term debt	6,817	181,598	188,415
Accrued salaries and related payables	91,829	-	91,829
Customer deposits	7,800	118,662	126,462
Unearned revenue	-	27,688	27,688
Long-term liabilities – due within one year:			
Compensated absences (note 5)	51,140	130,414	181,554
Bond payable (note 6)	-	80,000	80,000
Capital lease payable (note 6)	88,872	-	88,872
Notes payable (note 6)	9,862	581,414	591,276
Total current liabilities	338,123	1,368,270	1,706,393
Non-current liabilities:			
Long-term liabilities – due in more than one year:			
Compensated absences (note 5)	47,600	143,927	191,527
Bond payable (note 6)	-	225,000	225,000
Capital lease payable (note 6)	1,010,944	-	1,010,944
Notes payable (note 6)	-	17,160,642	17,160,642
Other post employment benefits (note 7)	2,780,564	5,674,554	8,455,118
Net pension liabilities (note 8)	593,397	1,304,241	1,897,638
Total non-current liabilities	4,432,505	24,508,364	28,940,869
Total liabilities	4,770,628	25,876,634	30,647,262
Deferred inflows of resources:			
Deferred OPEB inflows (note 7)	29,588	60,074	89,662
Deferred pension inflows (note 8)	10,932	19,109	30,041
Total deferred inflows of resources	40,520	79,183	119,703
Net position: (note 10)			
Net investment in capital assets	4,198,103	17,723,760	21,921,863
Restricted	187,401	1,741,925	1,929,326
Unrestricted	(2,893,060)	7,769,164	4,876,104
Total net position	\$ 1,492,444	27,234,849	28,727,293

See accompanying notes to the basic financial statements

McKinleyville Community Services District
Statement of Activities
For the Fiscal Year Ended June 30, 2019

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Governmental activities:							
General (Parks and Recreation)	\$ 1,637,702	491,446	43,678	245,968	(856,610)	-	(856,610)
Measure B	135,556	-	150	-	(135,406)	-	(135,406)
Street Lighting	92,022	93,409	-	-	1,387	-	1,387
Total governmental activities	1,865,280	584,855	43,828	245,968	(990,629)	-	(990,629)
Business-Type activities:							
Water	2,888,293	3,455,056	-	360,580	-	927,343	927,343
Wastewater	3,230,539	3,782,809	3,335	932,530	-	1,488,135	1,488,135
Total business-type activities:	6,118,832	7,237,865	3,335	1,293,110	-	2,415,478	2,415,478
Total	\$ 7,984,112	7,822,720	47,163	1,539,078	(990,629)	2,415,478	1,424,849
General revenues:							
Property taxes					\$ 615,380	-	615,380
Special assessments					210,254	-	210,254
Interest earnings					79,355	314,519	393,874
Gain on disposal of capital assets					-	13,816	13,816
Other income					47,266	-	47,266
Total general revenues					952,255	328,335	1,280,590
Changes in net position					(38,374)	2,743,813	2,705,439
Net position, beginning of year					1,530,818	24,491,036	26,021,854
Net position, end of year					\$ 1,492,444	27,234,849	28,727,293

See accompanying notes to the basic financial statements

McKinleyville Community Services District
Balance Sheet of Governmental Fund
June 30, 2019

	<u>General (Parks and Recreation)</u>	<u>Measure B</u>	<u>Street Lighting</u>	<u>Total Governmental Activities</u>
Assets:				
Cash and investments	\$ 623,033	-	-	623,033
Cash and investments – restricted	187,401	-	-	187,401
Accounts receivable	15,051	-	3,281	18,332
Interest receivable	982	98	-	1,080
Prepaid expenses	32,111	-	3,863	35,974
Due from other funds (note 9)	564,548	(580,009)	15,461	-
Total assets	<u>\$ 1,423,126</u>	<u>(579,911)</u>	<u>22,605</u>	<u>865,820</u>
Liabilities:				
Accounts payable	\$ 77,786	643	3,374	81,803
Accrued wages and related payables	91,829	-	-	91,829
Deposits	7,800	-	-	7,800
Total liabilities	<u>177,415</u>	<u>643</u>	<u>3,374</u>	<u>181,432</u>
Fund balance: (note 11)				
Restricted	187,401	-	-	187,401
Assigned	98,740	-	19,231	117,971
Unassigned	959,570	(580,554)	-	379,016
Total fund balance	<u>1,245,711</u>	<u>(580,554)</u>	<u>19,231</u>	<u>684,388</u>
Total liabilities and fund balance	<u>\$ 1,423,126</u>	<u>(579,911)</u>	<u>22,605</u>	<u>865,820</u>

Continued on next page

See accompanying notes to the financial statements

McKinleyville Community Services District
Reconciliation of the Balance Sheet of
Governmental Fund to the Statement of Net Position
June 30, 2019

Reconciliation:

Total Fund Balances of Government Fund	\$ 684,388
<p>Amounts reported for governmental activities in the statement of net position are different because:</p> <p>Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds balance sheet. However, the statement of net position includes those capital assets. In the current period, these amounts were as follows:</p>	
Capital assets – not being depreciated	1,960,164
Capital assets – being depreciated	3,347,617
<p>Deferred outflows(inflows) of resources are not financial resources(uses) and, therefore, are not reported in the governmental funds balance sheet. However, they are reported in the statement of net position. These are as follows:</p>	
Deferred OPEB inflows	(29,588)
Deferred pension outflows	129,991
Deferred pension inflows	(10,932)
<p>Long-term liabilities applicable to the District are not due and payable in the current period and, accordingly, are not reported as governmental fund liabilities. All liabilities, both current and long-term, are reported in the statement of net position as follows:</p>	
Accrued interest on long-term debt	(6,817)
Compensated absences	(98,740)
Long-term debt	(1,109,678)
Other postemployment benefit obligation	(2,780,564)
Net pension liability	(593,397)
Net Position of Governmental Activities	\$ 1,492,444

See accompanying notes to the basic financial statements

McKinleyville Community Services District
Statement of Revenues, Expenditures, and Change in
Fund Balance of Governmental Fund
For the Year Ended June 30, 2019

	<u>General (Parks and Recreation)</u>	<u>Measure B</u>	<u>Street Lighting</u>	<u>Total Governmental Funds</u>
Revenues				
Property taxes	\$ 615,380	-	-	615,380
Special assessments	-	210,254	-	210,254
Charges for services and facilities	491,446	-	93,409	584,855
Operating grants and contributions	43,678	150	-	43,828
Capital grants and contributions	36,968	-	-	36,968
Other income	27,818	-	19,448	47,266
Unrestricted investment earnings(loss)	79,282	73	-	79,355
Total revenues	<u>1,294,572</u>	<u>210,477</u>	<u>112,857</u>	<u>1,617,906</u>
Expenditures				
General government (Parks and Recreation)	1,199,738	-	-	1,199,738
Measure B	-	81,608	-	81,608
Streetlighting	-	-	62,774	62,774
Debt service:				
Principal	-	85,798	19,865	105,663
Interest	-	41,341	-	41,341
Capital outlay	72,273	-	10,639	82,912
Total expenditures	<u>1,272,011</u>	<u>208,747</u>	<u>93,278</u>	<u>1,574,036</u>
Excess(deficiency) of revenues over expenditures	<u>22,561</u>	<u>1,730</u>	<u>19,579</u>	<u>43,870</u>
Net change in fund balance	22,561	1,730	19,579	43,870
Fund balance - beginning of year	<u>1,223,150</u>	<u>(582,284)</u>	<u>(348)</u>	<u>640,518</u>
Fund Balance - end of year	<u>\$ 1,245,711</u>	<u>(580,554)</u>	<u>19,231</u>	<u>684,388</u>

Continued on next page

See accompanying notes to the financial statements

McKinleyville Community Services District
Reconciliation of the Statement of Revenues, Expenditures, and Change in Fund Balance of
Governmental Fund to the Statement of Activities
For the Fiscal Year Ended June 30, 2019

Reconciliation:

Net Change in Fund Balance – Total Governmental Fund	\$	43,870
<p>Amounts reported for governmental activities in the statement of activities are different because: Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense as follows:</p>		
Capital contribution – land		209,000
Capital outlay expense		82,912
Depreciation expense		(267,550)
<p>The repayment of principal of long-term debt consumes current financial resources and, therefore, is reported as debt service principal payments in the governmental fund. However, these payments have no impact on net position and, therefore, are not reported in the statement of activities as follows:</p>		
Debt service principal		105,663
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenses in governmental funds as follows:</p>		
Net change in accrued interest expense on long-term debt		250
Net change in compensated absences for the current period		(10,072)
Net change in other postemployment benefits for the current period		(207,640)
Net change in pension obligations for the current period		5,193
		(38,374)
Change in Net Position – Total Governmental Activities	\$	(38,374)

See accompanying notes to the basic financial statements

McKinleyville Community Services District
Statement of Net Position – Enterprise Fund
June 30, 2019

	<u>Water</u>	<u>Wastewater</u>	<u>2019</u>
Current assets:			
Cash and investments	\$ 4,697,867	8,711,526	13,409,393
Cash and investments – restricted	1,560,776	844,180	2,404,956
Accounts receivable	341,845	436,354	778,199
Accrued interest receivable	6,570	8,596	15,166
Grant receivable	-	330,901	330,901
Prepaid expenses	38,629	38,629	77,258
Inventory	75,588	25,077	100,665
Total current assets	<u>6,721,275</u>	<u>10,395,263</u>	<u>17,116,538</u>
Non-current assets:			
Capital assets – not being depreciated	483,658	3,427,031	3,910,689
Capital assets – being depreciated	7,981,200	23,878,927	31,860,127
Total non-current assets	<u>8,464,858</u>	<u>27,305,958</u>	<u>35,770,816</u>
Total assets	<u>15,186,133</u>	<u>37,701,221</u>	<u>52,887,354</u>
Deferred outflows of resources:			
Deferred pension outflows	142,990	160,322	303,312
Total deferred outflows of resources	<u>\$ 142,990</u>	<u>160,322</u>	<u>303,312</u>

Continued on next page

See accompanying notes to the basic financial statements

McKinleyville Community Services District
Statement of Net Position – Enterprise Fund, continued
June 30, 2019

	Water	Wastewater	2019
Current liabilities:			
Accounts payable	\$ 132,451	116,043	248,494
Accrued interest payable	9,428	172,170	181,598
Customer deposits	117,162	1,500	118,662
Unearned revenue	13,844	13,844	27,688
Long-term liabilities – due within one year:			
Compensated absences	65,203	65,211	130,414
Bond payable	-	80,000	80,000
Notes payable	162,811	418,603	581,414
Total current liabilities	500,899	867,371	1,368,270
Non-current liabilities:			
Long-term liabilities – due within one year:			
Compensated absences	71,959	71,968	143,927
Bond payable	-	225,000	225,000
Notes payable	2,289,346	14,871,296	17,160,642
Other post employment benefits	2,831,350	2,843,204	5,674,554
Net pension liabilities	622,599	681,642	1,304,241
Total non-current liabilities	5,815,254	18,693,110	24,508,364
Total liabilities	6,316,153	19,560,481	25,876,634
Deferred inflows of resources:			
Deferred OPEB inflows	29,589	30,485	60,074
Deferred pension inflows	9,263	9,846	19,109
Total deferred inflows of resources	38,852	40,331	79,183
Net position:			
Net investment in capital assets	6,012,701	11,711,059	17,723,760
Restricted	1,560,777	181,148	1,741,925
Unrestricted	1,400,640	6,368,524	7,769,164
Total net position	\$ 8,974,118	18,260,731	27,234,849

See accompanying notes to the basic financial statements

McKinleyville Community Services District
Statement of Revenues, Expenses, and Changes in Fund Net Position – Enterprise Fund
For the Fiscal Year Ended June 30, 2019

	<u>Water</u>	<u>Wastewater</u>	<u>2019</u>
Operating revenues:			
Water revenue	\$ 3,311,915	-	3,311,915
Sewer revenue	-	3,699,858	3,699,858
Other service charges	143,141	82,951	226,092
Operating grant	-	3,335	3,335
Total operating revenues	<u>3,455,056</u>	<u>3,786,144</u>	<u>7,241,200</u>
Operating expenses:			
Water purchase	1,056,472	-	1,056,472
Salaries and related expenses	461,711	571,062	1,032,773
Employee benefits	549,586	642,322	1,191,908
Professional services	44,453	45,745	90,198
Utilities	49,052	178,654	227,706
Insurance expense	34,588	34,579	69,167
Other operating expense	242,028	331,977	574,005
Total operating expenses	<u>2,437,890</u>	<u>1,804,339</u>	<u>4,242,229</u>
Operating income before depreciation	1,017,166	1,981,805	2,998,971
Depreciation expense	(389,295)	(1,201,128)	(1,590,423)
Operating income	<u>627,871</u>	<u>780,677</u>	<u>1,408,548</u>
Non-operating revenue(expense):			
Interest earning	127,085	187,434	314,519
Gain on sale of assets	7,823	5,993	13,816
Interest expense	(61,108)	(225,072)	(286,180)
Total non-operating revenues(expense), net	<u>73,800</u>	<u>(31,645)</u>	<u>42,155</u>
Net income before capital contributions	<u>701,671</u>	<u>749,032</u>	<u>1,450,703</u>
Capital contributions:			
Capacity fees	147,140	292,796	439,936
Contributed capital assets	213,440	639,734	853,174
Total capital contributions	<u>360,580</u>	<u>932,530</u>	<u>1,293,110</u>
Change in net position	<u>1,062,251</u>	<u>1,681,562</u>	<u>2,743,813</u>
Net position, beginning of year	<u>7,911,867</u>	<u>16,579,169</u>	<u>24,491,036</u>
Net position, end of year	<u>\$ 8,974,118</u>	<u>18,260,731</u>	<u>27,234,849</u>

See accompanying notes to the basic financial statements

**McKinleyville Community Services District
Statement of Cash Flows – Enterprise Fund
For the Fiscal Year Ended June 30, 2019**

	2019
Cash flows from operating activities:	
Cash receipts from customers	\$ 7,159,309
Cash paid to employees	(1,008,971)
Cash paid to vendors and suppliers	(3,377,409)
Net cash provided by operating activities	2,772,929
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(1,463,433)
Proceeds from the sale of capital assets	588,768
Proceeds from capital contributions	439,936
Proceeds from loan issuance	1,141,714
Principal payments on long-term debt	(508,708)
Interest payments on long-term debt	(295,383)
Net cash used in capital and related financing activities	(97,106)
Cash flows from investing activities:	
Interest earnings	310,773
Net cash provided by investing activities	310,773
Net increase in cash and cash equivalents	2,986,596
Cash and cash equivalents, beginning of year	12,827,753
Cash and cash equivalents, end of year	\$ 15,814,349
Reconciliation of cash and cash equivalents to statement of net position:	
Cash and investments	\$ 13,409,393
Cash and investments – restricted	2,404,956
Total cash and cash equivalents	\$ 15,814,349

Continued on next page

See accompanying notes to the basic financial statements

McKinleyville Community Services District
Statement of Cash Flows – Enterprise Funds, continued
For the Fiscal Year Ended June 30, 2019

	2019
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 1,408,548
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	1,590,423
Change in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:	
(Increase)decrease in assets and deferred outflows:	
Accounts receivable	(80,231)
Prepaid expenses	(8,636)
Inventory	4,096
Deferred pension outflows	106,817
Increase(decrease) in liabilities and deferred inflows:	
Accounts payable	(604,630)
Customer deposits	2,140
Unearned revenue	(3,800)
Compensated absences	23,802
Other post employment benefits	363,367
Net pension liabilities	(23,365)
Deferred inflows of resources	(5,602)
Total adjustments	1,364,381
Net cash provided by operating activities	\$ 2,772,929

See accompanying notes to the basic financial statements

McKinleyville Community Services District
Notes to the Basic Financial Statements
June 30, 2019

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The McKinleyville Community Services District (District) was created on April 7, 1970, when McKinleyville's voters voted 589 "yes" votes against 151 "no" votes to form the District. The District initially had authority to serve water and treat sewer wastes. In 1972, the voters added street lighting powers; in 1985 the voters added recreational powers; and in 1995 the voters authorized the construction of the McKinleyville Library.

The District's boundary encompasses 12,140 acres ranging from North Bank Road on the south to Patrick's Creek on the north and services over 5,300 active water services and 4,470 active sewer connections. The District is an independent, special district, governed by a five-member Board of Directors elected by McKinleyville's voters. The District normally conducts a monthly general meeting of the Board of Directors which is held on the first Wednesdays of the month.

B. Basis of Accounting and Measurement Focus

The *basic financial statements* of the District are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Government-wide Financial Statements

These statements are presented on an *economic resources* measurement focus and the accrual basis of accounting for both governmental and business-type activities. Accordingly, all of the District's assets (including capital assets), deferred outflows of resources, liabilities, and deferred inflows of resources are included in the accompanying Statement of Net Position. The Statement of Activities presents the change in net position. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used; such as, unbilled but utilized utility services that are recorded at year end. The Statement of Activities demonstrates the degree to which the operating expenses of a given function are offset by operating revenues. Operating expenses are those that are clearly identifiable with a specific function. The types of transactions reported as operating revenues for the District are charges for services directly related to the operations of the District. Charges for services include revenues from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by the District. Taxes, operating grants, and other items, properly not included among operating revenues, are reported instead as non-operating revenues. Contributed capital and capital grants are included as capital contributions.

Fund Financial Statements

These statements include a Balance Sheet and a Statement of Revenues, Expenditures, and Change in Fund Balance for all major governmental funds. Accompanying these statements is a schedule to reconcile and explain the difference in fund balance, as presented in these statements, to the net position presented in the Government-wide Financial Statements.

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2019

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

B. Basis of Accounting and Measurement Focus, continued

Fund Financial Statements, continued

Governmental funds are accounted for on a spending or *current financial resources* measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures, and Change in Fund Balance presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become measurable and available to finance expenditures of the current period.

Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60-days after year-end) are recognized when due. The primary sources susceptible to accrual for the District are property tax, interest earnings, investment revenue, and operating and capital grant revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. However, exceptions to this rule include principal and interest on debt, which are recognized when due.

The accrual basis of accounting is followed by the proprietary enterprise funds. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, such as unbilled but utilized utility services recorded at year end.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place. Operating revenues and expenses, such as water sales and purchases of water, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Management, administration, and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories, such as interest income and interest expense, are reported as non-operating revenues and expenses.

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity with a self-balancing set of accounts established for the purpose of carrying out specific activities or attaining certain objectives in accordance with specific regulations, restrictions, or limitations.

Funds are organized into two major categories: governmental and proprietary categories. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operational fund of the District or meets the following criteria:

- a) Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of that individual governmental or proprietary fund are at least 10 percent of the corresponding total for all funds of that category or type;
- b) Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental fund or proprietary fund are at least 5 percent of the corresponding total for all governmental and proprietary funds combined; or
- c) The entity has determined that a fund is important to the financial statement user.

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2019

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

B. Basis of Accounting and Measurement Focus, continued

Fund Financial Statements, continued

The funds of the financial reporting entity are described below:

Governmental Funds

General (Parks and Recreation) – This fund is used for all parks and recreation activities within the District; and accounts for and reports all financial resources not accounted for and reported in another fund.

Measure B – This fund is a special revenue fund used to account for the assessments collected and used in accordance with Measure B.

Street Lighting – This fund is used to account for all street lighting activities within the District.

Enterprise Funds

Water – This fund accounts for the water transmission and distribution operations of the District.

Wastewater – This fund is used for the wastewater service operations of the District.

C. Financial Reporting

The District's basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to governmental funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The District has adopted the following GASB pronouncements in the current year:

In November 2016, the GASB issued Statement No. 83 – *Certain Asset Retirement Obligations*. This Statement (1) addresses accounting and financial reporting for certain asset retirement obligations (AROs), (2) establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs, (3) requires that recognition occur when the liability is both incurred and reasonably estimable, (4) requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred, (5) requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually, and (6) requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets.

In April 2018, the GASB issued Statement No. 88 – *Certain Disclosures Related to Debt Including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2019

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

C. Financial Reporting, continued

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

D. Financial Statement Elements

1. Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and disclosures of contingent assets, deferred outflows of resources, liabilities, and deferred inflows of resources at the date of the financial statements and the reported change in District net position during the reporting period. Actual results could differ from those estimates.

2. Cash and Cash Equivalents

Substantially all of the District's cash is invested in interest bearing accounts. The District considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

3. Investments

The District has adopted an investment policy to deposit funds in financial institutions and external investment pools. Investments are to be made in the following area:

- State of California Local Agency Investment Fund (LAIF)
- CalTRUST Funds
- Humboldt County Treasurer's Pool

4. Fair Value Measurements

The District categorizes its investments within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on valuation inputs used to measure the fair value of the asset, as follows:

- **Level 1** – Valuation is based on quoted prices in active markets for identical assets.
- **Level 2** – Valuation is based on directly observable and indirectly observable inputs. These inputs are derived principally from or corroborated by observable market data through correlation or market-corroborated inputs. The concept of market-corroborated inputs incorporates observable market data such as interest rates and yield curves that are observable at commonly quoted intervals.
- **Level 3** – Valuation is based on unobservable inputs where assumptions are made based on factors such as prepayment rates, probability of defaults, loss severity, and other assumptions that are internally generated and cannot be observed in the market.

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2019

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Financial Statement Elements, continued

5. Accounts Receivable

The District extends credit to customers in the normal course of operations. Management deems all accounts receivable as collectible at year-end. Accordingly, an allowance for doubtful accounts has not been recorded.

6. Property Taxes and Assessments

The Humboldt County Assessor's Office assesses all real and personal property within the County each year. The Humboldt County Tax Collector's Office bills and collects the District's share of property taxes and/or tax assessments. The Humboldt County Treasurer's Office remits current and delinquent property tax collections to the District throughout the year. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations.

Property taxes and assessments receivable at year-end are related to property taxes and special assessments collected by the Humboldt County, which have not been credited to the District's cash balance as of June 30. The property tax calendar is as follows:

Lien date	March 1
Levy date	July 1
Due dates	November 1 and February 1
Collection dates	December 10 and April 10

7. Materials and Supplies Inventory

Materials and supplies inventory consists primarily of water meters, pipes, and pipe fittings for construction and repair to the District's water transmission and distribution system. Inventory is valued at cost using the first-in/first-out (FIFO) method. Inventory items are charged to expense at the time inventory items are withdrawn or consumed.

8. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at \$5,000. Donated assets are recorded at acquisition value and/or historical cost at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized.

Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Governmental Activities

- Buildings and improvements – 10 to 50 years
- Other infrastructure – 10 to 50 years
- Machinery and equipment – 5 to 10 years
- Vehicles – 5 to 10 years

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2019

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Financial Statement Elements, continued

8. Capital Assets

Business-Type Activities

- Buildings and improvements – 10 to 50 years
- Water and wastewater infrastructure – 10 to 50 years
- Machinery and equipment – 5 to 10 years
- Vehicles – 5 to 10 years

9. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of resources applicable to future periods.

10. Compensated Absences

It is the District's policy to allow employees to accumulate earned but unused vacation and sick time. The vesting method is used to calculate the liability in which 100% of earned vacation time is payable upon separation, and 50% of earned sick time is payable upon separation if requirements are met. All vacation pay and applicable sick pay is accrued when incurred in the government-wide and enterprise fund financial statements.

11. Other Post-Employment Benefits

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense information about the fiduciary net position of the District Retiree Benefits Plan (the Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

12. Pensions

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

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

- Valuation Date: June 30, 2017
- Measurement Date: June 30, 2018
- Measurement Period: July 1, 2017 to June 30, 2018

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2019

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Financial Statement Elements, continued

13. Deferred Inflows of Resources

Deferred inflows of resources represent the acquisition of resources applicable to future periods.

14. Net Position

The government-wide financial statements utilize a net position presentation. Net position categories are as follows:

- **Net investment in capital assets** – consists of capital assets, net of accumulated depreciation and amortization, and reduced by debt balances outstanding or other long-term borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted** – consists of assets that have restrictions placed upon their use by external constraints imposed either by creditors (debt covenants), grantors, contributors, or laws and regulations of other governments or constraints imposed by law through enabling legislation.
- **Unrestricted** – consists of the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the *net investment in capital assets* or *restricted* components of net position.

15. Fund Balance

The financial statements, governmental funds, report fund balance as non-spendable, restricted, committed, assigned, or unassigned based primarily on the extent to which the District is bound to honor constraints on how specific amounts can be spent.

- **Nonspendable fund balance** – amounts that cannot be spent because they are either (a) not spendable in form; or (b) legally or contractually required to be maintained intact.
- **Restricted fund balance** – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws and regulations of other governments; or (b) imposed by law through constitutional provisions enabling legislation.
- **Committed fund balance** – amounts that can only be used for specific purposes determined by formal action of the District's highest level of decision-making authority (the Board of Directors) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- **Assigned fund balance** – amounts that are constrained by the District's intent to be used for specific purposes. The intent can be established at either the highest level of decision-making, or by a body or an official designated for that purpose.
- **Unassigned fund balance** – the residual classification for the District's general fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2019

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Financial Statement Elements, continued

15. Fund Balance, continued

Fund Balance Policy

The Board of Directors established, modifies, or rescinds fund balance commitments and assignments by passage of an ordinance or resolution. This is done through adoption of the budget and subsequent budget amendments that occur throughout the year.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, followed by the unrestricted, committed, assigned, and unassigned resources as they are needed.

The District believes that sound financial management principles require that sufficient funds be retained by the District to provide a stable financial base at all times. To retain this stable financial base, the District needs to maintain an unrestricted fund balance in its funds sufficient to fund cash flows of the District and to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature. Committed, assigned, and unassigned fund balance are considered unrestricted.

The purpose of the District's fund balance policy is to maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures.

(2) Cash and Cash Equivalents

Cash and cash equivalents as of June 30, 2019 are classified as follows:

	Governmental Activities	Business-Type Activities	Totals
Cash and cash equivalents	\$ 623,033	13,409,393	14,032,426
Cash and cash equivalents – restricted	187,401	2,404,956	2,592,357
Total	\$ 810,434	15,814,349	16,624,783

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2019

(2) Cash and Cash Equivalents, continued

Cash and cash equivalents as of June 30, 2019 consisted of the following:

	Unrestricted	Restricted	Total
Cash			
Cash	\$ 940	-	940
Deposits held with financial institutions	1,765,841	189,104	1,954,945
Total cash	1,766,781	189,104	1,955,885
Cash equivalents			
Deposits with Humboldt County Treasurer	2,909,712	1,460,128	4,369,840
Deposits held with California Local Agency Investment Fund (LAIF)	134,472	-	134,472
Deposit with CalTRUST	9,221,461	943,125	10,164,586
Total cash equivalents	12,265,645	2,403,253	14,668,898
Total	\$ 14,032,426	2,592,357	16,624,783

Authorized Deposits and Investments

Under the District’s investment guidelines and in accordance with Section 53601 of the California Government Code, the District may invest in the California Local Agency Investment Fund (LAIF), CalTRUST Funds, and Humboldt County Treasurer’s Pool. The District’s investment guideline and Section 53601 of the California Government Code do contain specific provisions intended to limit its exposure to interest rate risk, credit risk, custodial risk, and concentration of credit risk.

State of California Local Agency Fund (LAIF)

LAIF is regulated by California Government Code Section 16429 and is under the management of the State of California Treasurer’s Office with oversight provided by the Local Agency Investment Advisory Board.

LAIF is carried at fair value based upon the District’s pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Amounts held with LAIF are highly liquid, as deposits can be converted to cash within a twenty-four hour period without loss of accrued interest. LAIF detail may be obtained from the State of California Treasurer’s website at www.treasurer.ca.gov/pmia-laif/index.asp.

The District’s deposit and withdrawal restrictions and limitations are as follows:

- Each agency in the fund may invest up to \$40 million and may invest without limitation in special bond proceeds accounts.
- Same day transaction processing occurs for orders received before 10:00 a.m.
- Next day transaction processing occurs for orders received after 10:00 a.m.
- Maximum limit of 15 transactions (combination of deposits and withdrawals) per month.
- Minimum transaction amount requirement of \$5,000, in increments of \$1,000.
- Withdrawals of \$10 million or more require 24 hours advance notice.
- Prior to funds transfer, an authorized person must call LAIF to do a verbal transaction.

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2019

(2) Cash and Cash Equivalents, continued

CalTRUST Funds

CalTRUST Short-Term and Medium-Term accounts invest in fixed income securities eligible for investment pursuant to California Government Code Sections 53601 and 53635, and leveraging within the Trust's portfolio is prohibited. The Board of Trustees may adopt investment guidelines to further restrict the type of investments held by the accounts.

CalTRUST Short-Term and Medium-Term accounts consist of funds from all participants which are pooled in each of the accounts. The District receives units in the Trust and designated shares for its investment accounts.

Humboldt County Treasurer's Pool

Humboldt County Treasurer's Pool complies with the California Government Code Sections 53601 and 53635, and the investment policy adopted by the Board of Supervisors of the County of Humboldt.

Changes in fair value that occur during a fiscal year are recognized as unrealized gains or losses and reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by public agencies. Of the District's bank balances, up to \$250,000 is federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to change in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio matures or comes close to maturity evenly over time as necessary to provide requirements for cash flow and liquidity needed for operations.

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2019

(2) Cash and Cash Equivalents, continued

Interest Rate Risk, continued

As of June 30, 2019 the District's authorized deposits had the following maturities:

<u>Cash Equivalents</u>	<u>Total</u>	<u>Average Months Maturity</u>		
		<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25 Months or More</u>
CalTRUST Funds	\$ 10,164,586	299,984	-	9,864,602
California Local Agency Investment Fund	134,472	134,472	-	-
Humboldt County Treasurer	4,369,840	-	-	4,369,840
Total	<u>\$ 14,668,898</u>	<u>434,456</u>	<u>-</u>	<u>14,234,442</u>

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of June 30, 2019 for each investment type.

<u>Cash Equivalents</u>	<u>Total</u>	<u>Rating at Year End</u>
Cal Trust – Short Term Fund	\$ 299,984	AAf
Cal Trust – Medium Term Fund	9,864,602	A+f
California Local Agency Investment Fund	134,472	Not Rated
Humboldt County Treasurer	<u>4,369,840</u>	Not Rated
Total	<u>\$ 14,668,898</u>	

Concentration of Credit Risk

The District's investment policy contains various limitations on the amounts that can be invested in any one governmental agency or non-governmental issuer as stipulated by the California Government Code. The District's depository and investment portfolio as of June 30, 2019 were allocated as follows:

	<u>2019</u>
Cash	\$ 940
Deposits held with financial institutions	1,954,945
Deposits with Humboldt County Treasurer	4,369,840
Deposits held with California Local Agency Investment Fund (LAIF)	134,472
Deposit with CalTrust	<u>10,164,586</u>
Total	<u>\$ 16,624,783</u>

There were no investments in any one non-governmental issuer that represent 5.0% or more of the District's total investments.

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2019

(3) Investments at Fair Value Hierarchy

Investments measured at fair value on a recurring basis, based on their fair value hierarchy at June 30, 2019 are as follows:

<u>Cash Equivalents</u>	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Pooled investment fund:				
Humboldt County Treasurer's Fund	\$ 4,369,840	-	4,369,840	-
CalTrust Medium-Term Fund	<u>9,864,602</u>	<u>-</u>	<u>9,864,602</u>	<u>-</u>
Total pooled investment fund	<u>14,234,442</u>	<u>-</u>	<u>14,234,442</u>	<u>-</u>
Other pooled funds measured at net asset value				
CalTrust Short-Term Fund	299,984			
California Local Agency Investment Fund	<u>134,472</u>			
	<u>434,456</u>			
	<u>\$ 14,668,898</u>			

(4) Capital Assets

Governmental Activities:

Change in capital assets at June 30 was as follows:

	<u>Balance 2018</u>	<u>Additions/ Transfers In</u>	<u>Deletions/ Transfers Out</u>	<u>Balance 2019</u>
Non-depreciable assets:				
Land	\$ 1,560,744	209,000	-	1,769,744
Construction in Progress	<u>149,720</u>	<u>40,700</u>	<u>-</u>	<u>190,420</u>
Total non-depreciable assets	<u>1,710,464</u>	<u>249,700</u>	<u>-</u>	<u>1,960,164</u>
Depreciable assets:				
Buildings and improvements	2,390,722	2,485,023	-	4,875,745
Furniture and equipment	282,025	6,633	-	288,658
Park improvements	3,864,461	-	(2,460,083)	1,404,378
Vehicles	62,109	-	-	62,109
Streetlighting	<u>524,198</u>	<u>10,639</u>	<u>-</u>	<u>534,837</u>
Total depreciable assets	<u>7,123,515</u>	<u>2,502,295</u>	<u>(2,460,083)</u>	<u>7,165,727</u>
Accumulated depreciation				
Buildings and improvements	(1,721,171)	(292,378)	-	(2,013,549)
Furniture and equipment	(250,869)	(6,774)	-	(257,643)
Park improvements	(1,286,283)	(64,039)	123,004	(1,227,318)
Vehicles	(41,816)	(7,359)	-	(49,175)
Streetlighting	<u>(250,421)</u>	<u>(20,004)</u>	<u>-</u>	<u>(270,425)</u>
Total accumulated depreciation	<u>(3,550,560)</u>	<u>(390,554)</u>	<u>123,004</u>	<u>(3,818,110)</u>
Total depreciable assets, net	<u>3,572,955</u>	<u>2,111,741</u>	<u>(2,337,079)</u>	<u>3,347,617</u>
Total capital assets, net	<u>\$ 5,283,419</u>			<u>5,307,781</u>

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2019

(4) Capital Assets, continued

Business-type Activities:

Change in capital assets at June 30 were as follows:

	<u>Balance 2018</u>	<u>Additions/ Transfers In</u>	<u>Deletions/ Transfers Out</u>	<u>Balance 2019</u>
Non-depreciable assets:				
Land	\$ 3,410,931	-	-	3,410,931
Construction in Progress	<u>552,933</u>	<u>819,626</u>	<u>(872,801)</u>	<u>499,758</u>
Total non-depreciable assets	<u>3,963,864</u>	<u>819,626</u>	<u>(872,801)</u>	<u>3,910,689</u>
Depreciable assets:				
Buildings and improvements	467,095	27,467	-	494,562
Water infrastructure	14,501,346	476,624	(25,547)	14,952,423
Wastewater infrastructure	35,641,610	926,214	(87,299)	36,480,525
Tools and equipment	1,114,227	39,041	-	1,153,268
Vehicles	<u>1,029,967</u>	<u>47,262</u>	<u>(28,282)</u>	<u>1,048,947</u>
Total depreciable assets	<u>52,754,245</u>	<u>1,516,608</u>	<u>(141,128)</u>	<u>54,129,725</u>
Accumulated depreciation				
Buildings and improvements	(272,589)	(17,195)	-	(289,784)
Water infrastructure	(6,987,421)	(347,771)	25,547	(7,309,645)
Wastewater infrastructure	(12,016,764)	(1,122,521)	34,620	(13,104,665)
Tools and equipment	(1,043,041)	(22,398)	-	(1,065,439)
Vehicles	<u>(447,809)</u>	<u>(80,538)</u>	<u>28,282</u>	<u>(500,065)</u>
Total accumulated depreciation	<u>(20,767,624)</u>	<u>(1,590,423)</u>	<u>88,449</u>	<u>(22,269,598)</u>
Total depreciable assets, net	<u>31,986,621</u>	<u>(73,815)</u>	<u>(52,679)</u>	<u>31,860,127</u>
Total capital assets, net	<u>\$ 35,950,485</u>			<u>35,770,816</u>

Depreciation expense was charged to various functions at June 30, 2019 as follows:

Governmental activities:	
General (Parks and Recreation)	\$ 370,550
Streetlighting	<u>20,004</u>
Total governmental activities	<u>390,554</u>
Business-type activities	
Water Fund	389,295
Wastewater Fund	<u>1,201,128</u>
Total business-type activities	<u>1,590,423</u>
	<u>\$ 1,980,977</u>

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2019

(5) Compensated Absences

The change to compensated absences balances at June 30 was as follows:

Governmental Activities

<u>Balance</u> <u>2018</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance</u> <u>2019</u>	<u>Due within</u> <u>one year</u>	<u>Due in more</u> <u>than one year</u>
\$ 88,668	43,533	(33,461)	98,740	51,140	47,600

Business-type Activities

<u>Balance</u> <u>2018</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance</u> <u>2019</u>	<u>Due within</u> <u>one year</u>	<u>Due in more</u> <u>than one year</u>
\$ 250,538	92,114	(68,311)	274,341	130,414	143,927

(6) Long-term Debt

Changes in long-term debt at June 30 were as follows:

	<u>Balance</u> <u>2018</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>2019</u>	<u>Current</u> <u>Portion</u>	<u>Long-Term</u> <u>Portion</u>
<i>Governmental Activities:</i>						
Capital lease payable						
PPFCC Lease (Umpqua Loan)	\$ 1,185,614	-	(85,798)	1,099,816	88,872	1,010,944
Total capital lease payable	<u>1,185,614</u>	<u>-</u>	<u>(85,798)</u>	<u>1,099,816</u>	<u>88,872</u>	<u>1,010,944</u>
Note payable						
PG&E Loan	29,727	-	(19,865)	9,862	9,862	-
Total note payable	<u>29,727</u>	<u>-</u>	<u>(19,865)</u>	<u>9,862</u>	<u>9,862</u>	<u>-</u>
Total governmental activities	<u>1,215,341</u>	<u>-</u>	<u>(105,663)</u>	<u>1,109,678</u>	<u>98,734</u>	<u>1,010,944</u>
<i>Business-type Activities</i>						
Notes payable						
Water fund						
ARRA Loan	101,213	-	(11,467)	89,746	11,523	78,223
Davis-Grunsky Act Loan	1,793,822	-	(102,821)	1,691,001	104,965	1,586,036
I-Bank Loan	716,223	-	(44,813)	671,410	46,323	625,087
Total Water fund	<u>2,611,258</u>	<u>-</u>	<u>(159,101)</u>	<u>2,452,157</u>	<u>162,811</u>	<u>2,289,346</u>
Wastewater fund						
State Revolving Fund Loan #3	14,427,792	1,141,714	(279,607)	15,289,899	418,603	14,871,296
Total Wastewater fund	<u>14,427,792</u>	<u>1,141,714</u>	<u>(279,607)</u>	<u>15,289,899</u>	<u>418,603</u>	<u>14,871,296</u>
Total notes payable	<u>17,039,050</u>	<u>1,141,714</u>	<u>(438,708)</u>	<u>17,742,056</u>	<u>581,414</u>	<u>17,160,642</u>
Bond payable						
Wastewater fund						
USDA Revenue Bonds	375,000	-	(70,000)	305,000	80,000	225,000
Total bond payable	<u>375,000</u>	<u>-</u>	<u>(70,000)</u>	<u>305,000</u>	<u>80,000</u>	<u>225,000</u>
Total business-type activities	<u>17,414,050</u>	<u>1,141,714</u>	<u>(508,708)</u>	<u>18,047,056</u>	<u>661,414</u>	<u>17,385,642</u>
Total long-term debt	<u>\$ 18,629,391</u>	<u>1,141,714</u>	<u>(614,371)</u>	<u>19,156,734</u>	<u>760,148</u>	<u>18,396,586</u>

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2019

(6) Long-term Debt, continued

Public Property Financing Corporation of California Lease

For the purpose of financing the construction of the District's Teen and Community Center Project, in October 2014, the District leased the site of the Teen and Community Center Project, and the improvements thereon, to the Public Property Financing Corporation of California (PPFCC) who then leased the property back to the District while assigning all of its rights, title, and interest in the lease agreement, including its rights to received lease payments, to Umpqua Bank. Semi-annual lease payments include interest at 3.55% per annum and are due each May and November through November 2029. The District's repayment obligation is secured by a 50% pledge of its Measure B Assessment revenues received each fiscal year.

Future lease payments are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 88,872	38,581	127,453
2021	92,054	35,398	127,452
2022	95,351	32,101	127,452
2023	98,767	28,687	127,454
2024	102,304	25,150	127,454
2025-2029	569,182	62,624	631,806
2030	53,286	6,572	59,858
Total	1,099,816	<u>229,113</u>	<u>1,328,929</u>
Current	<u>(88,872)</u>		
Non-current	\$ <u>1,010,944</u>		

PG&E Loan

In 2014, the District entered into a loan agreement with the Pacific Gas and Electric Company (PG&E) to finance improvements to the District's streetlights. The loan amount totaled \$98,181 and bears no interest. In January 2015, the loan amount was reduced to \$96,013 resulting from a change in net project costs to be financed. At the same time, monthly principal payments increased from \$1,423 to \$1,655 through December 2020.

Future debt service on the loan is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 9,862	-	9,862
Total	9,862	<u>-</u>	<u>9,862</u>
Current	<u>(9,862)</u>		
Non-current	\$ <u>-</u>		

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2019

(6) Long-term Debt, continued

ARRA Loan

In 2011, the District entered into a loan agreement with the California Energy Resources Conservation and Development Commission for the purpose of financing water system improvements. The loan amount totaled \$165,100 and bears an interest rate of 1.00% per annum. Semi-annual principal and interest payments of \$6,225 are due June and December of each year. Repayment commenced on December 2012 and continues through December 2026.

Future debt service on the loan is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 11,523	867	12,390
2021	11,641	749	12,390
2022	11,757	633	12,390
2023	11,875	515	12,390
2024	11,994	396	12,390
2025-2027	<u>30,956</u>	<u>459</u>	<u>31,415</u>
Total	89,746	<u>3,619</u>	<u>93,365</u>
Current	<u>(11,523)</u>		
Non-current	\$ <u>78,223</u>		

Davis-Grunsky Act Loan

In 1971, the District entered into a loan agreement with the State of California for a construction loan to finance improvements to the District's water system. The loan amount was not to exceed \$3,673,000 and bears an interest rate of 2.50% per annum. Annual payment of principal is due January of each year and semi-annual payments of interest are due January and July of each year. The terms of the loan agreement defers payment of interest for the first 10 years with such interest to be repaid over the remaining 50 years of the loan. The District was required to establish a reserve fund in an amount specified by the State. The District is subject to levy taxes or special assessments to repay the loan should it not have sufficient resources available to make the scheduled payments.

Future debt service on the loan is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 104,965	36,313	141,278
2021	107,164	34,115	141,279
2022	109,417	31,861	141,278
2023	111,726	29,552	141,278
2024	114,094	27,185	141,279
2025-2029	608,101	98,290	706,391
2030-2033	<u>535,534</u>	<u>29,573</u>	<u>565,107</u>
Total	1,691,001	<u>286,889</u>	<u>1,977,890</u>
Current	<u>(104,965)</u>		
Non-current	\$ <u>1,586,036</u>		

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2019

(6) Long-term Debt, continued

I-Bank Loan

In 2012, the District entered into a loan agreement with the California Infrastructure and Economic Development Bank for the purpose of financing improvements to its water system. The loan amount totaled \$956,034 and bears an interest rate of 3.37% per annum. Annual payment of principal is due August of each year and semi-annual payments of interest are due February and August of each year. Repayment is to continue through August 2030. The loan is secured by a pledge of and lien on the water enterprise fund's net revenues, subject and subordinate to any lien securing senior debt.

Future debt service on the loan is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 46,323	23,860	70,183
2021	47,884	22,134	70,018
2022	49,498	20,350	69,848
2023	51,166	18,505	69,671
2024	52,890	15,866	68,756
2025-2029	292,420	52,606	345,026
2030-2031	131,229	5,053	136,282
Total	671,410	<u>158,374</u>	<u>829,784</u>
Current	<u>(46,323)</u>		
Non-current	\$ <u>625,087</u>		

USDA Revenue Bonds

In 1982, the District issued the 1982 Sewer Revenue Bonds which were purchased by the Rural Development Division of the United States Department of Agriculture. Proceeds of the bonds were used to construct the District's wastewater system improvements. The bond amount totaled \$1,575,000 and bears an interest rate of 5.00% per annum. Semi-annual payments of principal and interest are due August and February of each year through August 2022, when the bond matures. The bond is secured by a pledge of the wastewater enterprise fund's net revenues.

Future debt service is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 80,000	13,250	93,250
2021	80,000	9,250	89,250
2022	80,000	5,250	85,250
2023	65,000	1,625	66,625
Total	305,000	<u>29,375</u>	<u>334,375</u>
Current	<u>(80,000)</u>		
Non-current	\$ <u>225,000</u>		

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2019

(6) Long-term Debt, continued

State Revolving Fund Loans No. 3

In 2015, the District entered into a loan agreement with the State Water Resources Control Board for the purpose of financing a wastewater management facility improvement project. The loan amount totaled \$15,569,506 and bears an interest rate of 1.60% per annum. Annual payment of principal and interest are due September of each year and continues through September 2048. The District is subject to levy taxes or assessments to repay the loan should it not have sufficient resources available to make the scheduled payments.

Future debt service on the loan is as follows:

Year	Principal	Interest	Total
2020	\$ 418,603	244,429	663,032
2021	425,295	237,737	663,032
2022	432,094	230,938	663,032
2023	439,001	224,031	663,032
2024	446,019	217,013	663,032
2025-2029	2,339,357	975,804	3,315,161
2030-2034	2,532,032	783,128	3,315,160
2035-2039	2,740,877	574,284	3,315,161
2040-2044	2,967,276	347,884	3,315,160
2045-2048	2,549,345	102,783	2,652,128
Total	15,289,899	3,938,031	19,227,930
Current	(418,603)		
Non-current	\$ <u>14,871,296</u>		

(7) Other Post Employment Benefit Obligations

Plan Description

The District administers a single-employer defined-benefit post-employment healthcare plan. Benefits vary by hire date. Benefits continue to dependents, including surviving spouses.

Benefits Provided

Retirees are eligible for medical benefits if they retire directly from the District at least age 50 with 5 years of service. Employees hired before January 1, 2017 receive 100% district-paid coverage. Employees hired on or after January 1, 2017 receive 100% of the PPO rate. Dental benefits are not covered.

The District's share of family coverage is subject to a cap. The District's contribution toward family coverage will not increase by more than the greater of 5%, or the actual percentage increase in the cost of dependent coverage.

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2019

(7) Other Post-Employment Benefits Payable, continued

Employees Covered by Benefit Terms

At June 30, 2017 (the valuation date), the following employees were covered by the benefit terms:

	2019
Inactive employees or beneficiaries currently receiving benefit payments	15
Active employees	26
Total plan membership	41

Contributions

The District pays benefits as they come due.

Net OPEB Liability

The District's total OPEB liability was valued as of June 30, 2017 and was used to calculate the net OPEB liability measured as of June 30, 2019.

Actuarial Assumptions and Other Inputs

The total OPEB liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation	2.50%
Salary increases	2.75%; Additional merit-based increases based on CalPERS merit salary increase tables
Healthcare cost trend rates	6.50% in the first year, trending down to 3.84% over 58 years
Mortality rates*	Based on CalPERS tables

* Mortality rates were based on the 2014 CalPERS Active Mortality for Miscellaneous Employees and the 2014 CalPERS Retiree Mortality for Miscellaneous Employees. Inasmuch as these tables are based on appropriate populations, and that these tables are used for pension purposes, these tables are to be the most appropriate for the valuation.

Discount Rate

The discount rate used to measure the total OPEB liability was 3.62%. The District's OPEB Plan is an unfunded plan; therefore, the discount rate was set to the rate of tax-exempt, high-quality 20-year municipal bonds, as of the valuation date.

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2019

(7) Other Post-Employment Benefits Payable, continued

Changes in the Total OPEB Liability

During the year ended June 30, changes in total OPEB liability was as follows:

		<u>2019</u>
Balance at June 30, 2018	\$	7,913,699
Changes for the year:		
Service cost		493,346
Interest		288,256
Changes in assumptions or other inputs		(102,116)
Benefit payments		(102,866)
Implicit rate subsidy fulfilled		<u>(35,201)</u>
Net change		<u>541,419</u>
Balance at June 30, 2019	\$	<u><u>8,455,118</u></u>

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.62%) or 1-percentage-point higher (4.62%) than the current discount rate (3.62%):

	<u>Discount Rate</u> <u>1% Lower</u>	<u>Valuation</u> <u>Discount Rate</u>	<u>Discount Rate</u> <u>1% Higher</u>
Total OPEB liability	\$ <u>10,104,864</u>	<u>8,455,118</u>	<u>7,084,619</u>

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a healthcare cost trend rates that is 1-percentage-point lower (5.50% decreasing to 2.84%) or 1-percentage-point higher (7.50% decreasing to 4.84%) than the current healthcare cost trend rates (6.50% decreasing to 3.84%):

	<u>Trend 1%</u> <u>Lower</u>	<u>Valuation</u> <u>Trend</u>	<u>Trend 1%</u> <u>Higher</u>
Total OPEB liability	\$ <u>6,813,944</u>	<u>8,455,118</u>	<u>10,554,366</u>

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2019

(7) Other Post-Employment Benefits Payable, continued

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2019, the District recognized an OPEB expense of \$769,148. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related OPEB as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions or other inputs	\$ <u>-</u>	<u>(89,662)</u>
Total	\$ <u><u>-</u></u>	<u><u>(89,662)</u></u>

(8) Defined Benefit Pension Plan

Plan Description

All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Defined Pension Plan (Plan or PERF C) administered by the California Public Employees' Retirement System (CalPERS). The Plan consists of a miscellaneous risk pool and a safety risk pool, which are comprised of individual employer miscellaneous and safety plans, respectively. Benefit provisions under the Plan are established by State statute and the District's resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS website or may be obtained from their executive office at 400 P Street, Sacramento, California 95814.

Benefits Provided

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

On September 12, 2012, the California Governor signed the California Public Employees' Pension Reform Act of 2013 (PEPRA) into law. PEPRA took effect January 1, 2013. The new legislation closed the District's CalPERS 2.0% at 60 Risk Pool Retirement Plan to new employee entrants effective December 31, 2012. All employees hired after January 1, 2013, are eligible for the District's CalPERS 2.0% at 62 Retirement Plan under PEPRA.

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2019

(8) Defined Benefit Pension Plan, continued

Benefits Provided, continued

The Plans' provision and benefits in effect at June 30, 2019, are summarized as follows:

	<u>Classic</u>	<u>PEPRA</u>
	Prior to December 31, 2012	On or after January 1, 2013
Hire Date		
Benefit formula	2% @ 55	2% @ 62
Benefit vesting schedule	5 years	5 years
Benefit payments	Monthly for life	Monthly for life
Retirement age	50	52
Monthly benefits, as a percentage of eligible compensation	1.43% to 2.42%	1.00% to 2.50%
Required employee contribution rates	7.000%	6.250%
Required employer contribution rates	8.892%	6.842%

Contributions

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

For the fiscal year ended June 30, 2019, the contributions recognized as part of pension expense for the Plan were as follows:

	<u>2019</u>
Contributions – employer	\$ <u>184,417</u>

Net Pension Liability

As of the fiscal year ended June 30, 2019, the District reported net pension liability for its proportionate share of the net pension liability of the Plan as follows:

	<u>2019</u>
Proportionate share of net pension liability	\$ <u>1,897,638</u>

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability for the miscellaneous risk pool. As of June 30, 2019, the net pension liability of the Plan is measured as of June 30, 2018 (the measurement date). The total pension liability for the Plan's miscellaneous risk pool used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 (the valuation date), rolled forward to June 30, 2018, using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2019

(8) Defined Benefit Pension Plan, continued

Net Pension Liability, continued

The District's proportionate share of the net pension liability for the Plan's miscellaneous risk pool as of the measurement dates June 30, 2018, was as follows:

	Proportionate Share
Proportion – June 30, 2017	0.01948 %
Increase in proportion	0.00022
Proportion – June 30, 2018	0.01969 %

Deferred Pension Outflows (Inflows) of Resources

For the year ended June 30, 2019, the District recognized pension expense of \$225,156. As of the fiscal year ended June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 212,575	-
Differences between actual and expected experience	48,032	-
Changes in assumptions	163,316	-
Net differences between projected and actual earnings on plan investments	9,380	-
Adjustment due to changes in proportions and difference in employer contributions	-	(30,041)
Total	\$ 433,303	(30,041)

As of June 30, 2019, the District reported \$212,575 as deferred outflows of resources related to contributions subsequent to the measurement date. Pension contributions subsequent to the measurement date for the year ended June 30, 2019, will be recognized as a reduction of the net pension liability for the year ended June 30, 2020.

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2019

(8) Defined Benefit Pension Plan, continued

Deferred Pension Outflows (Inflows) of Resources, continued

As of June 30, 2019, other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year	Deferred Net
Ending	Outflows(Inflows)
June 30,	of Resources
<u> </u>	<u> </u>
2020	\$ 169,281
2021	96,288
2022	(57,811)
2023	(17,071)

Actuarial Assumptions

The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions and methods:

Valuation date	June 30, 2017
Measurement date	June 30, 2018
Actuarial cost method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial assumption	
Discount rate	7.15%
Inflation	2.50%
Salary increase	Varies by entry age and service
Mortality table*	Derived using CalPERS membership data
Period upon which actuarial experience survey assumptions were based	1997 - 2015
Post-retirement benefit increase	Contract COLA up to 2.50% until PPPA floor on purchasing power applies; 2.50% thereafter

* The mortality table used was developed based on CalPERS specific data. The table includes 15 years of mortality improvements using Society of Actuaries 90 percent of scale MP 2016. For more details on this table, please refer to the December 2017, experience study report (based on CalPERS demographic data from 1997 to 2015) available online on the CalPERS website.

Discount Rate

The discount rate used to measure the total pension liability as of June 30, 2018, for the PERF C was 7.15%. This discount rate is not adjusted for administrative expenses.

The PERF C fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return for those pension plans' investments were applied to all periods of projected benefit payments to determine the total pension liability.

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2019

(8) Defined Benefit Pension Plans, continued

Discount Rate, continued

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

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

The table below reflects long-term expected real rates of return by asset class. The rates of return were calculated using the capital market assumptions applied to determine the discount rate.

Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the PERF C.

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

As of June 30, 2019, the target allocation and the long-term expected real rate of return by asset class were as follow:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Real Return Years 1-10</u>	<u>Real Return Year 11+</u>
Global Equity	50.00 %	4.80 %	5.38 %
Global Fixed Income	28.00	1.00	2.62
Inflation Sensitive	0.00	0.77	1.81
Private Equity	8.00	6.30	7.23
Real Asset	13.00	3.75	4.93
Infrastructure and Forestland	0.00	0.00	0.00
Liquidity	1.00	0.00	-0.92
Total	<u>100.00 %</u>		

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

The following table presents the District's proportionate share of the net pension liability for the Plan, calculated using the discount rate, as well as what the District's proportional share of the net pension liability would be if it were calculated using a discount rate that is one-percentage point lower or one-percentage point higher than the current rate.

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2019

(8) Defined Benefit Pension Plans, continued

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

At June 30, 2019, the discount rate comparison was as follows:

	Discount Rate - 1%	Current Discount Rate	Discount Rate + 1%
	6.15%	7.15%	8.15%
District's Net Pension Liability	\$ 3,080,752	1,897,638	920,996

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in separately issued CalPERS financial reports. See pages 57 and 58 for the Required Supplementary Information.

(9) Internal Transfers

Inter-fund Operational Transfers

Inter-fund receivables/payables are used to move financial resources from the General (Parks and Recreation) fund to the Measure B fund and the Street Lighting fund, as advances to temporarily support the operations of each respective fund.

As of June 30, 2019, inter-fund receivables/payables between the District's funds were as follows:

Receivable From	Payable To	Amount
Measure B	General (Parks & Recreation)	\$ 580,009
Street Lighting	General (Parks & Recreation)	(15,461)
	Payable to General Fund	\$ 564,548

(10) Net Position

Net investment in capital assets is calculated as follows:

	Governmental Activities	Business-type Activities	2019
Net investment in capital assets:			
Capital assets – not being depreciated	\$ 1,960,164	3,910,689	5,870,853
Capital assets – being depreciated	3,347,617	31,860,127	35,207,744
Long-term debt – current portion	(98,734)	(661,414)	(760,148)
Long-term debt – long-term portion	(1,010,944)	(17,385,642)	(18,396,586)
Total net investment in capital assets	\$ 4,198,103	17,723,760	21,921,863

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2019

(10) Net Position, continued

Restricted net position is calculated as follows:

	Governmental Activities	Business-type Activities	2019
Restricted:			
Capacity fees	\$ -	943,125	943,125
Debt service	-	798,800	798,800
Teen and community center	7,957	-	7,957
Park & Recreation capital projects - Coastal	44,373	-	44,373
Park & Recreation capital projects - Inland	135,071	-	135,071
Total restricted	\$ 187,401	1,741,925	1,929,326

Unrestricted net position is calculated as follows:

	Governmental Activities	Business-type Activities	2019
Unrestricted:			
Assigned	\$ 117,971	274,341	392,312
Unassigned	(3,011,031)	7,494,823	4,483,792
Total unrestricted	\$ (2,893,060)	7,769,164	4,876,104

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2019

(11) Fund Balance

Fund balance is presented in the following categories: non-spendable, restricted, committed, assigned, and unassigned (See Note 1.D.15 for a description of these categories). Fund balance and their funding composition at June 30, 2019, are as follows:

	2019
Restricted:	
Teen and community center	\$ 7,957
Park & Recreation capital projects - Coastal	44,373
Park & Recreation capital projects - Inland	135,071
Total restricted	187,401
Assigned:	
Compensated absences	98,740
Street lighting	19,231
Total assigned	117,971
Unassigned:	
General (Parks and Recreation)	
Operating fund	647,482
Repair and replacement fund	4,300
Catastrophe	106,156
Other postemployment benefits	201,632
Measure B	(580,554)
Streeting lighting	-
Total unassigned	379,016
Total fund balance	\$ 684,388

(12) Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Special District Risk Management Authority (SDRMA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California special districts. The purpose of the SDRMA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage.

At June 30, 2019, the District participated in the liability and property programs of the SDRMA as follows:

- General and auto liability, public officials and employees' errors and omissions: Total risk financing self-insurance limits of \$5,000,000, combined single limit at \$2,500,000 per occurrence.
- Employee dishonesty coverage up to \$1,000,000 per loss includes public employee dishonesty, forgery or alteration, and theft, disappearance, and destruction coverage.

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2019

(12) Risk Management, continued

- Property loss is paid at the replacement cost for property on file, if replaced within two years after the loss, otherwise paid on an actual cash value basis, to a combined total of \$1.0 billion per occurrence, subject to a \$1,000 deductible per occurrence.
- Boiler and machinery coverage for the replacement cost up to \$100 million per occurrence, subject to a \$1,000 deductible per occurrence, unless otherwise specified.
- Public officials' personal liability up to \$500,000 each occurrence, with an annual aggregate of \$500,000 per each elected/appointed official to whom this coverage applies, subject to the terms and a \$500 deductible per claim.
- Workers compensation insurance with statutory limits per occurrence and employer's liability coverage up to \$5 million.

Settled claims have not exceeded any of the coverage amounts in the last fiscal year. There were no reductions in insurance coverage in fiscal year 2019. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no material IBNR claim payables as of June 30, 2019.

(13) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to the issue date that have effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 84

In January 2017, the GASB issued Statement No. 84 – *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2019

(13) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 87

In June 2017, the GASB issued Statement No. 87 – *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 89

In June 2018, the GASB issued Statement No. 89 – *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2019

(13) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 90

In August 2018, the GASB issued Statement No. 90 – *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government’s holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

Governmental Accounting Standards Board Statement No. 91

In May 2019, the GASB issued Statement No. 91 – *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2019

(13) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 91, continued

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

(14) Commitments and Contingencies

Commitments

The District has a contract with Humboldt Bay Municipal Water District (HBMWD) to purchase water. Under the contract, the District pays HBMWD a rate that includes cost allocations of various factors designed to cover costs associated with the operation, maintenance, repair, and replacement of the HBMWD's base water facilities and drinking water treatment facilities.

Grant Awards

Grant funds received by the District are subject to audit by the grantor agencies. Such audit could lead to requests for reimbursements to grantor agencies for expenditures disallowed under terms of the grant. Management of the District believes that such disallowances, if any, would not be significant.

Litigation

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

(15) Subsequent Event

Events occurring after June 30, 2019, have been evaluated for possible adjustment to the financial statements or disclosure as of February 5, 2020, which is the date the financial statements were available to be issued. The District is not aware of any further subsequent events that would require recognition or disclosure in the financial statements.

Required Supplementary Information

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McKinleyville Community Services District
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget to Actual – General (Parks and Recreation) Fund
For the Year Ended June 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property taxes	\$ 621,077	621,077	615,380	(5,697)
Charges for services and facilities	620,013	620,013	491,446	(128,567)
Operating grants and contributions	-	-	43,678	43,678
Capital grants and contributions	19,900	19,900	36,968	17,068
Other income	18,622	18,622	27,818	9,196
Unrestricted investment earnings	16,000	16,000	79,282	63,282
Total revenues	<u>1,295,612</u>	<u>1,295,612</u>	<u>1,294,572</u>	<u>(1,040)</u>
Expenditures:				
Salaries and employee benefits	1,008,030	1,008,030	993,440	14,590
Materials and services	243,934	243,934	206,297	37,637
Capital outlay	43,000	43,000	72,273	(29,273)
Total expenditures	<u>1,294,964</u>	<u>1,294,964</u>	<u>1,272,010</u>	<u>22,954</u>
Excess(deficiency) of revenues over expenditures	<u>648</u>	<u>648</u>	<u>22,562</u>	<u>21,914</u>
Net change in fund balance	648	648	22,562	<u>21,914</u>
Fund balance, beginning of year	<u>1,223,150</u>	<u>1,223,150</u>	<u>1,223,150</u>	
Fund balance, end of year	<u>\$ 1,223,798</u>	<u>1,223,798</u>	<u>1,245,712</u>	

McKinleyville Community Services District
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget to Actual – Measure B Fund
For the Year Ended June 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Special assessments	\$ 210,000	210,000	210,254	254
Operating grants and contributions	-	-	150	(150)
Unrestricted investment earnings	-	-	73	73
Total revenues	<u>210,000</u>	<u>210,000</u>	<u>210,477</u>	<u>177</u>
Expenditures:				
Salaries and benefits	56,265	56,265	52,061	4,204
Materials and services	23,400	23,400	29,547	(6,147)
Debt service				
Principal	88,872	88,872	85,798	3,074
Interest	41,262	41,262	41,341	(79)
Total expenditures	<u>209,799</u>	<u>209,799</u>	<u>208,747</u>	<u>1,052</u>
Excess of revenues over expenditures	<u>201</u>	<u>201</u>	<u>1,730</u>	<u>1,229</u>
Net change in fund balance	201	201	1,730	<u>1,229</u>
Fund balance, beginning of year	<u>(582,284)</u>	<u>(582,284)</u>	<u>(582,284)</u>	
Fund balance, end of year	<u><u>\$ (582,083)</u></u>	<u><u>(582,083)</u></u>	<u><u>(580,554)</u></u>	

McKinleyville Community Services District
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget to Actual – Street Lighting Fund
For the Year Ended June 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Charges for services and facilities	\$ 88,816	88,816	93,409	4,593
Other income	18,600	18,600	19,448	848
Total revenues	<u>107,416</u>	<u>107,416</u>	<u>112,857</u>	<u>5,441</u>
Expenditures:				
Salaries and payroll expenses	46,220	46,220	41,625	4,595
Materials and services	36,051	36,051	21,149	14,902
Debt service				
Principal	19,865	19,865	19,865	-
Capital outlay	2,000	2,000	10,639	(8,639)
Total expenditures	<u>104,136</u>	<u>104,136</u>	<u>93,278</u>	<u>10,858</u>
Excess of revenues over expenditures	<u>3,280</u>	<u>3,280</u>	<u>19,579</u>	<u>16,299</u>
Net change in fund balance	3,280	3,280	19,579	<u>16,299</u>
Fund balance, beginning of year	<u>(348)</u>	<u>(348)</u>	<u>(348)</u>	
Fund balance, end of year	<u>\$ 2,932</u>	<u>2,932</u>	<u>19,231</u>	

McKinleyville Community Service District
Notes to the Required Supplementary Information
June 30, 2019

Basis of Budgeting

The District follows specific procedures in establishing the budgetary data reflected in the financial statements. Each year, the District's General Manager prepares and submits a capital and operating budget to the Board of Directors and adopted no later than June of each year. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all government and proprietary funds. Annual budgets are adopted on the modified accrual basis of accounting for government fund types and the accrual basis for proprietary fund. The adopted budget becomes operative on July 1.

The Board of Directors must approve all supplemental appropriations to the budget and transfers between major funds. The legal level of budgetary control is at the fund level. Budget information is presented as required supplementary information for the General (Parks and Recreation), Measure B, and Street Lighting funds.

McKinleyville Community Service District
Schedules of Changes in District's Total OPEB Liability and Related Ratios
For the Fiscal Year Ended June 30, 2019
Last Ten Years*

Other Post-Employment Benefits Payable

	2019	2018
Total OPEB liability		
Service cost	\$ 493,346	478,977
Interest	288,256	253,523
Changes of assumptions or other inputs	(102,116)	-
Benefit payments	(102,866)	(96,421)
Implicit rate subsidy fulfilled	(35,201)	(28,201)
Net change in total OPEB liability	541,419	607,878
Total OPEB liability – beginning	7,913,699	7,305,821
Total OPEB liability – ending	\$ 8,455,118	7,913,699
Covered-employee payroll	\$ 1,511,378	1,470,927
Total OPEB liability as a percentage of covered-employee payroll	559.43%	538.01%

Note to Schedule

Changes in Benefit Terms – There were no changes to benefit terms for the measurement period ended June 30, 2018.

Changes of Assumptions – In fiscal year 2019, changes in actuarial assumptions are as follows:

Assumptions	2019	2018
Aging/Morbidity factor	Based on actual CalPERS HMO and PPO population data.	Based on a Society of Actuaries study.
Participant contributions	Based on service at retirement and employee group.	Based on hire date.
Salary increases	2.750%	3.000%
Marital status	Current retirees: actual spouse coverage is used. Future retirees: 85% assumed to be married.	Current retirees: actual spouse coverage is used. Future retirees: none noted.

* The District has presented information for those years for which information is available until a full 10-year trend is compiled.

McKinleyville Community Service District
Schedules of the District's Proportionate Share of the Net Pension Liability
As of June 30, 2019
Last Ten Years*

Defined Benefit Plan

<u>Description</u>	<u>6/30/2019</u>	<u>6/30/2018</u>	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>6/30/2015</u>
District's proportion of the net pension liability(asset)	0.01969%	0.01948%	0.01878%	0.01728%	0.01805%
District's proportionate share of the net pension liability(asset)	\$ 1,897,638	1,931,634	1,625,303	1,186,322	1,123,351
District's covered payroll	\$ 1,390,558	1,313,591	1,260,867	1,253,808	1,175,186
District's proportionate share of the net pension liability(asset)as a percentage of its covered payroll	136.47%	147.05%	128.90%	94.62%	95.59%
Plan's fiduciary net position as a percentage of the total pension liability	75.26%	73.31%	74.06%	78.40%	83.21%

Notes to the Schedules of the District's Proportionate Share of Net Pension Liability

Changes in Benefit Terms – Public agencies can make changes to their plan provisions, and such changes occur on an ongoing basis. A summary of the plan provisions that were used for a specific plan can be found in the plan's annual valuation report.

Changes of Assumptions – In December 2017, the CalPERS Board adopted new mortality assumptions for plans participating in the PERF. The new mortality table was developed from the December 2017 experience study and includes 15 years of projected ongoing mortality improvement using 90% of scale MP 2016 published by the Society of Actuaries. The inflation assumption is reduced from 2.75% to 2.50%.

The assumptions for individual salary increases and overall payroll growth are reduced from 3.00% to 2.75%. These changes will be implemented in two steps commencing in the June 30, 2017 funding valuation. However, for financial reporting purposes, these assumption changes are fully reflected in the results for fiscal year 2018.

In fiscal year 2017, the financial reporting discount rate for the PERF C was lowered from 7.65% to 7.15%. In December 2016, the CalPERS Board approved lowering the funding discount rate used in the PERF C from 7.50% to 7.00%, which is to be phased in over a three-year period (7.50% to 7.375%, 7.375% to 7.25%, and 7.25% to 7.00%) beginning with the June 30, 2016, valuation reports. The funding discount rate includes a 15 basis-point reduction for administrative expenses, and the remaining decrease is consistent with the change in the financial reporting discount rate.

In fiscal year 2015, the financial reporting discount rate was increased from 7.50% to 7.65% resulting from eliminating the 15 basis-point reduction for administrative expenses. The funding discount rate remained at 7.50% during this period and remained adjusted for administrative expenses.

* The District has presented information for those years for which information is available until a full 10-year trend is compiled.

McKinleyville Community Service District
Schedules of Pension Plan Contributions
As of June 30, 2019
Last Ten Years*

Defined Benefit Plan

<u>Description</u>	<u>6/30/2019</u>	<u>6/30/2018</u>	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>6/30/2015</u>
Actuarially determined contribution	\$ 212,575	187,417	162,865	155,352	126,683
Contributions in relation to the actuarially determined contribution	<u>(212,575)</u>	<u>(187,417)</u>	<u>(163,266)</u>	<u>(155,352)</u>	<u>(126,683)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>(401)</u>	<u>-</u>	<u>-</u>
District's covered payroll	\$ <u>1,390,558</u>	<u>1,313,591</u>	<u>1,260,867</u>	<u>1,253,808</u>	<u>1,175,186</u>
Contribution's as a percentage of covered-payroll	<u>15.29%</u>	<u>14.27%</u>	<u>12.92%</u>	<u>12.39%</u>	<u>10.78%</u>

Notes to the Schedules of Pension Plan Contributions

* The District has presented information for those years for which information is available until a full 10-year trend is compiled.

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Report on Internal Controls and Compliance

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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*

Board of Directors
McKinleyville Community Services District
McKinleyville, California

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 McKinleyville Community Services District (District), which comprise the statement of net position as of June 30, 2019, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 5, 2020.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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 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*.

**Independent Auditor's Report on Internal Controls Over Financial Reporting
And on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*, continued**

Purpose of this Report

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

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
February 5, 2020