Mission statement of McKinleyville Community Services District:
"Provide McKinleyville with safe and reliable water, wastewater, lighting, open space, parks and recreation, library services, and other appropriate services for an urban community in an environmentally and fiscally responsible manner."

NOTICE IS HEREBY GIVEN THAT A *Special* MEETING OF THE
MCKINLEYVILLE COMMUNITY SERVICES DISTRICT BOARD OF DIRECTORS
AUDIT AND FINANCE COMMITTEE MEETING
WILL BE HELD
TUESDAY, DECEMBER 21, 2022 AT 1:00 PM

LOCATION: MCSD District Office Conference Room
1656 Sutter Road
McKinleyville, CA 95519

MEETING AGENDA

1. Introductions & Call to Order

2. Public Comment

3. Review and Discuss Audited Financials for FY 2021-22

Posted 10:00 am on December 9, 2022

Pursuant to California Government Code Section 54957.5. this agenda and complete packet are available for public inspection on the web at McKinleyvillecsd.com or upon request at the MCSD office, 1656 Sutter Road, McKinleyville.

McKinleyville Community Services District will, on request, make agendas available in appropriate alternative formats to persons with a disability, as required by Section 202 of the Americans with Disabilities Act of 1990 (42 U.S.C. Sec. 12132), and the federal rules and regulations adopted in implementation thereof. Individuals who need this agenda in an alternative format or who need a disability-related modification or accommodation in order to participate in the meeting should contact the Board Secretary at (707) 839-3251. Notification 48 hours prior to the meeting will enable the District to make reasonable arrangements for accommodations.

McKinleyville Community Services District

AUDIT & FINANCE COMMITTEE

December 21, 2022 TYPE OF ITEM: **ACTION**

ITEM: 3 **Approve FY21-22 Audited Financial Statements**

PRESENTED BY: **Nicole Alvarado, Finance Director**

TYPE OF ACTION: **Roll Call Vote**

Recommendation:

Staff recommends that the Board listen to the auditor's presentation, review the information provided, discuss, take public comment, and approve the FY21-22 Audited Financial Statements and recommend for approval by the Board of Directors.

Discussion:

The District's annual audit for Fiscal Year 21-22 is complete. Attached is a draft of the FY21-22 Audited Financial Statements. The Audit & Finance Committee may ask questions, review, and discuss the draft. If approved the draft will be finalized and submitted to the Board of Directors for their consideration at the January meeting.

Alternatives:

Staff analysis consists of the following potential alternative

- Take No Action

Fiscal Analysis:

Not applicable

Environmental Requirements:

Not applicable

Exhibits/Attachments:

- Attachment 1 – MCSD Basic Financial Statements with the Report of the Independent Auditor for Fiscal Year 21-22

McKinleyville Community Services District

McKinleyville, California

Annual Financial Report
For the Fiscal Year Ended
June 30, 2022

Board of Directors as of June 30, 2022

Name	Title	Elected/ Appointed	Current Term
David Couch	President	Elected	09/2009 - 12/2022
Joellen Clark-Peterson	Vice President	Elected	12/2020 - 12/2022
Scott Binder	Director	Elected	12/2020 - 12/2024
Dennis Mayo	Director	Elected	09/2008 - 12/2022
Greg Orsini	Director	Elected	12/2020 - 12/2024

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, 2022

McKinleyville Community Services District
Annual Financial Report
For the Fiscal Year Ended June 30, 2022

Table of Contents

Financial Section

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Independent Auditor's Report

Board of Directors
McKinleyville Community Services District
McKinleyville, California

Report on the Audit of the Financial Statements

Opinions

We have audited the 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, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the District, as of June 30, 2022, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

The District's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Independent Auditor's Report, continued

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8 and the required supplementary information on pages 59 through 66 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 January 4, 2023, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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.

Fedak & Brown LLP
Cypress, California
January 4, 2023

McKinleyville Community Services District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2022

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, 2022. 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 2022, the District's net position increased by 5.07% or $1,712,034 to $35,499,905 as a result of ongoing operations.
- In 2022, the District's total revenues decreased 3.75% or $426,731 to $10,961,301.
- In 2022, the District's total expenses increased by 6.88%or $595,556 to $9,249,267.

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?" The Statement of Net Position and the 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 plus deferred outflows of resources, and liabilities plus 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 type of grants the District applies for to assess the *overall financial health* of the District.

Fund Financial Statements

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

Governmental fund is 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 fund 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 fund* 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 21 through 58.

Government-wide Financial Analysis

Statement of Net Position

The following table is a summary of the statement of net position at June 30, 2022.

Condensed Statements of Net Position

	Governmental Activities		Business-Type Activities		Total District	
	2022	**2021**	**2022**	**2021**	**2022**	**2021**
Assets:						
Current assets	$ 879,048	913,090	32,986,667	23,531,635	33,865,715	24,444,725
Capital assets	4,786,246	4,961,095	39,398,265	36,569,676	44,184,511	41,530,771
Total assets	5,665,294	5,874,185	72,384,932	60,101,311	78,050,226	65,975,496
Deferred outflows of resources	1,001,873	905,688	2,276,664	1,891,923	3,278,537	2,797,611
Liabilities:						
Current liabilities	346,255	329,362	2,253,326	1,512,485	2,599,581	1,841,847
Non-current liabilities	3,972,023	4,850,094	32,144,835	26,236,690	36,116,858	31,086,784
Total liabilities	4,318,278	5,179,456	34,398,161	27,749,175	38,716,439	32,928,631
Deferred inflows of resources	1,690,399	679,236	5,422,020	1,377,369	7,112,419	2,056,605
Net position:						
Net investment in capital assets	3,962,707	4,042,205	11,570,935	17,946,371	15,533,642	21,988,576
Restricted	224,235	218,325	9,946,787	788,179	10,171,022	1,006,504
Unrestricted	(3,528,452)	(3,339,349)	13,323,693	14,132,140	9,795,241	10,792,791
Total net position	$ 658,490	921,181	34,841,415	32,866,690	35,499,905	33,787,871

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 exceeded liabilities and deferred inflows of resources by $35,499,905 as of June 30, 2022. 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.

Condensed Statements of Activities

	Governmental Activities		Business-Type Activities		Total District	
	2022	2021	2022	2021	2022	2021
Revenues:						
Program revenues:						
Charge for services	$ 552,111	403,485	8,140,798	8,188,960	8,692,909	8,592,445
Operating grants and contributions	14,773	5,326	-	-	14,773	5,326
Capital grants and contributions	-	10,040	1,567,835	1,694,164	1,567,835	1,704,204
Total program revenues	566,884	418,851	9,708,633	9,883,124	10,275,517	10,301,975
General revenues:						
Property taxes	729,263	671,671	-	-	729,263	671,671
Voter approved taxes	216,405	217,031	-	-	216,405	217,031
Investment earnings	(50,303)	39,754	(238,030)	101,584	(288,333)	141,338
Gain on disposal of capital assets	7,501	4,601	400	212	7,901	4,813
Other income	20,548	51,204	-	-	20,548	51,204
Total general revenues	923,414	984,261	(237,630)	101,796	685,784	1,086,057
Total revenues	1,490,298	1,403,112	9,471,003	9,984,920	10,961,301	11,388,032
Expenses:						
General (Parks & Recreation)	1,447,221	1,483,744	-	-	1,447,221	1,483,744
Measure B	202,702	125,972	-	-	202,702	125,972
Streetlighting	103,066	118,448	-	-	103,066	118,448
Water	-	-	3,539,726	3,279,421	3,539,726	3,279,421
Wastewater	-	-	3,956,552	3,646,126	3,956,552	3,646,126
Total expenses	1,752,989	1,728,164	7,496,278	6,925,547	9,249,267	8,653,711
Changes in net position	(262,691)	(325,052)	1,974,725	3,059,373	1,712,034	2,734,321
Net position, beginning of year	921,181	1,246,233	32,866,690	29,807,317	33,787,871	31,053,550
Net position, end of year	$ 658,490	921,181	34,841,415	32,866,690	35,499,905	33,787,871

Compared to the prior year, net position of the District increased by 5.07% or $1,712,034 to $35,499,905 as a result of ongoing operations.

Total revenues decreased 3.75% or $426,731 to $10,961,301, due primarily to decreases of $429,671 in investment earnings and $136,369 capital grants and contributions; which were offset by an increase of $100,464 in charges for services.

Total expenses increased by 6.88% or $595,556 to $9,249,267, due primarily to increases of $310,426 in wastewater fund expenses and $260,305 in water fund expenses.

Government-wide Financial Analysis, continued

Changes in fund balance – Governmental fund

The following table is a summary of the changes in fund balance for the governmental fund for the year ended June 30, 2022.

Condensed Changes in Fund Balance – Governmental Funds

	General (Parks and Recreation)	Measure B	Streetlighting	Total Governmental Activities
Fund balance, beginning of year	$ 1,212,410	(555,657)	78,648	735,401
Changes in fund balance	(37,781)	(56,033)	39,354	(54,460)
Fund balance, end of year	$ 1,174,629	(611,690)	118,002	680,941

In 2022, total fund balance decreased by 7.41% or $54,460 to $680,941. The General (Parks and Recreation) fund decreased by 3.12% or $37,781 to $1,174,629; the Measure B fund decreased by 10.08% or $56,033 to a deficit fund balance of $611,690; and the Street Lighting fund increased by 50.04% or $39,354 to $118,002.

Capital Asset Administration

Capital Assets

	Governmental Activities		Business-Type Activities		Total District	
	2022	2021	2022	2021	2022	2021
Capital assets:						
Non-depreciable assets	$ 2,026,000	2,015,414	9,789,364	6,138,782	11,815,364	8,154,196
Depreciable assets	7,243,272	7,211,142	57,037,342	56,040,582	64,280,614	63,251,724
Total capital assets	9,269,272	9,226,556	66,826,706	62,179,364	76,095,978	71,405,920
Accumulated depreciation	(4,483,026)	(4,265,461)	(27,428,441)	(25,609,688)	(31,911,467)	(29,875,149)
Total capital assets, net	$ 4,786,246	4,961,095	39,398,265	36,569,676	44,184,511	41,530,771

At the end of fiscal year 2022, the District's investment in capital assets amounted to $44,184,511 (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.

Long-Term Debt Administration

Long-Term Debt

		Governmental Activities		Business-Type Activities		Total District	
		2022	2021	2022	2021	2022	2021
Long-term debt:							
Long-term debt	$	823,539	918,890	27,827,330	18,623,305	28,650,869	19,542,195
Total long-term debt:	$	823,539	918,890	27,827,330	18,623,305	28,650,869	19,542,195

Long-term debt increased 46.61% or $9,108,674 to $28,650,869 in 2022, primarily due issuance of debt of $9,976,476; which was offset by principal payments of $867,802. See note 6 for further discussion.

Conditions Affecting Current Financial Position

The COVID-19 outbreak in the United States has caused business disruption through labor shortages and business closings. While the disruption is currently expected to be temporary, there is considerable uncertainty around its duration. Consequently, the related financial impact on the District cannot be estimated at this time.

Management is unaware of any other 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, Nicole Alvarado, 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, 2022

		Governmental Activities	Business-Type Activities	Totals
Current assets:				
Cash and cash equivalents (notes 2 & 3)	$	561,819	21,429,211	21,991,030
Cash and cash equivalents – restricted (notes 2 & 3)		224,235	9,946,787	10,171,022
Accounts receivable		9,205	993,956	1,003,161
Accrued interest receivable		30,357	91,182	121,539
Prepaid expense		53,432	205,347	258,779
Grant receivable		-	202,432	202,432
Materials and supplies inventory		-	117,752	117,752
Total current assets		879,048	32,986,667	33,865,715
Non-current assets:				
Capital assets – not being depreciated (note 4)		2,026,000	9,789,364	11,815,364
Capital assets – being depreciated (note 4)		2,760,246	29,608,901	32,369,147
Total non-current assets		4,786,246	39,398,265	44,184,511
Total assets		5,665,294	72,384,932	78,050,226
Deferred outflows of resources:				
Deferred OPEB outflows (note 7)		858,708	1,952,413	2,811,121
Deferred pension outflows (note 8)		143,165	324,251	467,416
Total deferred outflows of resources	$	1,001,873	2,276,664	3,278,537

Continued on next page

See accompanying notes to the basic financial statements

McKinleyville Community Services District
Statement of Net Position, continued
June 30, 2022

		Governmental Activities	Business-Type Activities	Totals
Current liabilities:				
Accounts payable and accrued expenses	$	79,327	727,818	807,145
Accrued interest on long-term debt		5,212	310,593	315,805
Accrued salaries and related payables		110,280	162	110,442
Customer deposits		8,500	130,687	139,187
Unearned revenue		-	36,056	36,056
Long-term liabilities – due within one year:				
Compensated absences (note 5)		44,169	137,900	182,069
Bond payable (note 6)		-	65,000	65,000
Certificate of participation (note 6)		-	140,000	140,000
Capital lease payable (note 6)		98,767	-	98,767
Notes payable (note 6)		-	705,110	705,110
Total current liabilities		346,255	2,253,326	2,599,581
Non-current liabilities:				
Long-term liabilities – due in more than one year:				
Compensated absences (note 5)		34,520	121,964	156,484
Certificate of participation (note 6)		-	8,637,214	8,637,214
Capital lease payable (note 6)		724,772	-	724,772
Notes payable (note 6)		-	18,280,006	18,280,006
Other post employment benefits (note 7)		2,678,440	4,264,183	6,942,623
Net pension liabilities (note 8)		534,291	841,468	1,375,759
Total non-current liabilities		3,972,023	32,144,835	36,116,858
Total liabilities		4,318,278	34,398,161	38,716,439
Deferred inflows of resources:				
Deferred OPEB inflows (note 7)		1,447,518	4,463,936	5,911,454
Deferred pension inflows (note 8)		242,881	958,084	1,200,965
Total deferred inflows of resources		1,690,399	5,422,020	7,112,419
Net position: (note 10)				
Net investment in capital assets		3,962,707	11,570,935	15,533,642
Restricted		224,235	9,946,787	10,171,022
Unrestricted		(3,528,452)	13,323,693	9,795,241
Total net position	$	658,490	34,841,415	35,499,905

See accompanying notes to the basic financial statements

McKinleyville Community Services District
Statement of Activities
For the Fiscal Year Ended June 30, 2022

		Program Revenues			Net (Expense) Revenue and Changes in Net Position		
Functions/Programs	**Expenses**	**Charge for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Business-Type Activities**	**Total**
Governmental activities:							
General (Parks & Recreation)	$ 1,447,221	446,471	14,773	-	(985,977)	-	(985,977)
Measure B	202,702	-	-	-	(202,702)	-	(202,702)
Street Lighting	103,066	105,640	-	-	2,574	-	2,574
Total governmental activities	1,752,989	552,111	14,773	-	(1,186,105)	-	(1,186,105)
Business-Type activities:							
Water	3,539,726	3,996,822	-	274,561	-	731,657	731,657
Wastewater	3,956,552	4,143,976	-	1,293,274	-	1,480,698	1,480,698
Total business-type activities	7,496,278	8,140,798	-	1,567,835	-	2,212,355	2,212,355
Total	$ 9,249,267	8,692,909	14,773	1,567,835	(1,186,105)	2,212,355	1,026,250
		General revenues:					
		Property taxes			$ 729,263	-	729,263
		Special assessments			216,405	-	216,405
		Investment earnings			(50,303)	(238,030)	(288,333)
		Gain on disposal of capital assets			7,501	400	7,901
		Other income			20,548	-	20,548
		Total general revenues			923,414	(237,630)	685,784
		Changes in net position			(262,691)	1,974,725	1,712,034
		Net position, beginning of year			921,181	32,866,690	33,787,871
		Net position, end of year			$ 658,490	34,841,415	35,499,905

See accompanying notes to the basic financial statements

McKinleyville Community Services District
Balance Sheet of Governmental Fund
June 30, 2022

	General (Parks and Recreation)	Measure B	Street Lighting	Total Governmental Fund
Assets:				
Cash and investments	$ 456,485	-	105,334	561,819
Cash and investments – restricted	224,235	-	-	224,235
Accounts receivable	4,892	-	4,313	9,205
Interest receivable	26,277	4,080	-	30,357
Prepaid expenses	43,165	-	10,267	53,432
Due from other funds (note 9)	614,297	(614,297)	-	-
Total assets	$ 1,369,351	(610,217)	119,914	879,048
Liabilities:				
Accounts payable	$ 75,942	1,473	1,912	79,327
Accrued wages and related payables	110,280	-	-	110,280
Deposits	8,500	-	-	8,500
Total liabilities	194,722	1,473	1,912	198,107
Fund balance: (note 11)				
Nonspendable	43,165	-	10,267	53,432
Restricted	224,235	-	-	224,235
Assigned	78,689	-	107,735	186,424
Unassigned	828,540	(611,690)	-	216,850
Total fund balance	1,174,629	(611,690)	118,002	680,941
Total liabilities and fund balance	$ 1,369,351	(610,217)	119,914	879,048

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, 2022

Reconciliation:

Total Fund Balance of Governmental Fund	$	680,941
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental fund balance sheet. However, the statement of net position includes those capital assets. In the current period, these amounts were as follows:		
Capital assets – not being depreciated		2,026,000
Capital assets – being depreciated		2,760,246
Deferred outflows(inflows) of resources are not financial resources(uses) and, therefore, are not reported in the governmental fund balance sheet. However, they are reported in the statement of net position as follows:		
Deferred OPEB outflows		858,708
Deferred OPEB inflows		(1,447,518)
Deferred pension outflows		143,165
Deferred pension inflows		(242,881)
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:		
Accrued interest on long-term debt		(5,212)
Compensated absences		(78,689)
Long-term debt		(823,539)
Other post employment benefit obligation		(2,678,440)
Net pension liability		(534,291)
Net Position of Governmental Activities	$	658,490

See accompanying notes to the basic financial statements

McKinleyville Community Services District
Statement of Revenues, Expenditures, and Changes in
Fund Balance of Governmental Fund
For the Year Ended June 30, 2022

		General (Parks and Recreation)	Measure B	Street Lighting	Total Governmental Fund
Revenues					
Property taxes	$	729,263	-	-	729,263
Special assessments		-	216,405	-	216,405
Charge for services and facilities		446,471	-	105,640	552,111
Operating grants and contributions		14,773	-	-	14,773
Other income		2,502	-	18,046	20,548
Investment return		(58,971)	8,668	-	(50,303)
Total revenues		1,134,038	225,073	123,686	1,482,797
Expenditures					
General government (Parks & Recreation)		1,136,206	-	-	1,136,206
Measure B		-	153,966	-	153,966
Streetlighting		-	-	77,330	77,330
Capital outlay		43,114	-	7,002	50,116
Debt service:					
Principal		-	95,351	-	95,351
Interest		-	31,789	-	31,789
Total expenditures		1,179,320	281,106	84,332	1,544,758
Excess of revenues over expenditures expenditures		(45,282)	(56,033)	39,354	(61,961)
Other financing sources (uses)					
Gain on disposal of capital assets		7,501	-	-	7,501
Total other financing sources (uses)		7,501	-	-	7,501
Net change in fund balance		(37,781)	(56,033)	39,354	(54,460)
Fund balance, beginning of year		1,212,410	(555,657)	78,648	735,401
Fund Balance, end of year	$	1,174,629	(611,690)	118,002	680,941

Continued on next page

See accompanying notes to the financial statements

McKinleyville Community Services District
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Fund to the Statement of Activities
For the Fiscal Year Ended June 30, 2022

Reconciliation:

Net Change in Fund Balance of Total Governmental Fund	$	(54,460)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental fund reports 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:		
Capital outlay expense		50,116
Depreciation expense		(223,485)
Loss of disposal of capital assets		(1,480)
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:		
Debt service principal		95,351
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 fund as follows:		
Net change in accrued interest expense on long-term debt		277
Net change in compensated absences for the current period		(12,234)
Net change in other post employment benefits for the current period		(58,692)
Net change in pension obligations for the current period		(58,084)
Changes in Net Position of Governmental Activities	$	(262,691)

See accompanying notes to the basic financial statements

McKinleyville Community Services District
Statement of Net Position – Enterprise Fund
June 30, 2022

		Water	Wastewater	2022
Current assets:				
Cash and investments	$	9,209,947	12,219,264	21,429,211
Cash and investments – restricted		5,305,838	4,640,949	9,946,787
Accounts receivable		501,239	492,717	993,956
Accrued interest receivable		39,175	52,007	91,182
Grant receivable		136,720	65,712	202,432
Prepaid expenses		102,674	102,673	205,347
Inventory		91,008	26,744	117,752
Total current assets		15,386,601	17,600,066	32,986,667
Non-current assets:				
Capital assets – not being depreciated		1,219,267	8,570,097	9,789,364
Capital assets – being depreciated		7,037,326	22,571,575	29,608,901
Total non-current assets		8,256,593	31,141,672	39,398,265
Total assets		23,643,194	48,741,738	72,384,932
Deferred outflows of resources:				
Deferred OPEB outflows		974,593	977,820	1,952,413
Deferred pension outflows		152,189	172,062	324,251
Total deferred outflows of resources	$	1,126,782	1,149,882	2,276,664

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, 2022

		Water	Wastewater	2022
Current liabilities:				
Accounts payable	$	207,085	520,733	727,818
Accrued interest payable		85,389	225,204	310,593
Accrued payroll and payroll liabilities		-	162	162
Customer deposits		111,807	18,880	130,687
Unearned revenue		18,028	18,028	36,056
Long-term liabilities – due within one year:				
Compensated absences		68,799	69,101	137,900
Bond payable		-	65,000	65,000
Certificate of participation		65,000	75,000	140,000
Notes payable		174,709	530,401	705,110
Total current liabilities		730,817	1,522,509	2,253,326
Non-current liabilities:				
Long-term liabilities – due within one year:				
Compensated absences		60,929	61,035	121,964
Certificate of participation		4,767,090	3,870,124	8,637,214
Notes payable		1,777,103	16,502,903	18,280,006
Other post employment benefits		2,125,076	2,139,107	4,264,183
Net pension liabilities		384,963	456,505	841,468
Total non-current liabilities		9,115,161	23,029,674	32,144,835
Total liabilities		9,845,978	24,552,183	34,398,161
Deferred inflows of resources:				
Deferred OPEB inflows		2,221,766	2,242,170	4,463,936
Deferred pension inflows		478,883	479,201	958,084
Total deferred inflows of resources		2,700,649	2,721,371	5,422,020
Net position:				
Net investment in capital assets		1,472,691	10,098,244	11,570,935
Restricted		5,305,838	4,640,949	9,946,787
Unrestricted		5,444,820	7,878,873	13,323,693
Total net position	$	12,223,349	22,618,066	34,841,415

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, 2022

	Water	Wastewater	2022
Operating revenues:			
Water revenue	$ 3,849,907	-	3,849,907
Sewer revenue	-	3,999,791	3,999,791
Other service charges	146,915	144,185	291,100
Total operating revenues	3,996,822	4,143,976	8,140,798
Operating expenses:			
Water purchase	1,218,070	-	1,218,070
Salaries and related expenses	552,521	665,819	1,218,340
Employee benefits	583,429	716,806	1,300,235
Services and supplies	133	2,844	2,977
Professional services	56,300	55,711	112,011
Utilities	69,877	218,874	288,751
Insurance expense	51,526	51,495	103,021
Other operating expense	320,214	362,510	682,724
Total operating expenses	2,852,070	2,074,059	4,926,129
Operating income before depreciation	1,144,752	2,069,917	3,214,669
Depreciation expense	(391,803)	(1,439,444)	(1,831,247)
Operating income	752,949	630,473	1,383,422
Non-operating revenues(expenses):			
Investment earning	(101,520)	(136,510)	(238,030)
Gain on sale of assets	197	203	400
Debt issuance expense	(152,538)	(125,572)	(278,110)
Interest expense	(143,315)	(317,477)	(460,792)
Total non-operating expenses, net	(397,176)	(579,356)	(976,532)
Net income before capital contributions	355,773	51,117	406,890
Capital contributions:			
Capacity fees	274,561	449,381	723,942
Contributed capital assets	-	843,893	843,893
Total capital contributions	274,561	1,293,274	1,567,835
Changes in net position	630,334	1,344,391	1,974,725
Net position, beginning of year	11,593,015	21,273,675	32,866,690
Net position, end of year	$ 12,223,349	22,618,066	34,841,415

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, 2022

		2022
Cash flows from operating activities:		
Cash receipts from customers	$	8,157,031
Cash paid to employees		(1,176,178)
Cash paid to vendors and suppliers		(2,971,919)
Net cash provided by operating activities		4,008,934
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets		(4,659,836)
Proceeds from the sale of capital assets		400
Proceeds from capital contributions		3,100,584
Proceeds from loan issuance		9,976,476
Principal payments on long-term debt		(772,451)
Bond issuance cost		(278,110)
Interest payments on long-term debt		(356,839)
Net cash used in capital and related financing activities		7,010,224
Cash flows from investing activities:		
Interest earnings		(281,196)
Net cash provided by investing activities		(281,196)
Net increase in cash and cash equivalents		10,737,962
Cash and cash equivalents, beginning of year		20,638,036
Cash and cash equivalents, end of year	$	31,375,998
Reconciliation of cash and cash equivalents to statement of net position:		
Cash and investments	$	21,429,211
Cash and investments – restricted		9,946,787
Total cash and cash equivalents	$	31,375,998

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, 2022

		2022
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	1,383,422
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense		1,831,247
Change in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:		
(Increase)decrease in assets and deferred ouflows:		
Accounts receivable		4,842
Prepaid expenses		(205,347)
Inventory		(6,148)
Deferred OPEB outflows		(408,263)
Deferred pension outflows		23,522
Increase(decrease) in liabilities and deferred inflows:		
Accounts payable		480,103
Accrued payroll and payroll liabilities		162
Customer deposits		3,455
Unearned revenue		7,936
Compensated absences		42,162
Other post employment benefits		(2,453,970)
Net pension liabilites		(738,840)
Deferred OPEB inflows		3,096,999
Deferred pension inflows		947,652
Total adjustments		2,625,512
Net cash provided by operating activities	$	4,008,934

See accompanying notes to the basic financial statements

(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 Wednesday 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 demonstrates the degree to which direct expense of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. The types of transactions reported as program revenues for the District are to be reported in three categories, if applicable: 1) charge for services, 2) operating grants and contributions, and 3) capital grants and contributions. Charge for services include revenues from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function. Grants and contributions include revenues restricted to meeting the operational or capital requirements of a particular function. Taxes and other items properly not included among program revenues are reported instead as general revenues.

Fund Financial Statements

These statements include the Balance Sheet and the Statement of Revenues, Expenditures, and Changes 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.

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 Changes 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.

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

B. Basis of Accounting and Measurement Focus, continued

Fund Financial Statements, continued

Accordingly, revenues are recorded when received in cash, except those 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 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 water purchases, 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; and

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 total for all governmental and proprietary funds combined; or

c) The entity has determined that a fund is important to the financial statement user.

(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 & 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 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.

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.

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

C. Financial Reporting, continued

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.

In January 2020, the GASB issued Statement No. 92 – *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements.

The requirements of this Statement were as follows: (1) The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance; (2) The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2020; (3) The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2020; and (4) The requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2020; however, in light of the COVID-19 pandemic, the effective date has been postponed by one year. Earlier application is encouraged and is permitted by topic.

In March 2020, the GASB issued Statement No. 93 – *Replacement of Interbank Offered Rates*. The objective of this Statement is to address accounting and financial reporting implications that result from the replacement of an IBOR. This Statement achieves that objective by: (1) Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment; (2) Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate; (3) Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable; (4) Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap; (5) Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap; (6) Clarifying the definition of reference rate, as it is used in Statement 53, as amended; and (7) Providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend.

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

C. Financial Reporting, continued

In October 2021, the GASB issued Statement No. 98 – *The Annual Comprehensive Financial Report.* This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments.

This Statement was developed in response to concerns raised by stakeholders that the common pronunciation of the acronym for comprehensive annual financial report sounds like a profoundly objectionable racial slur.

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. Uncertainty

The COVID-19 outbreak in the United States has caused business disruption through labor shortages and business closings. While the situation is currently expected to be temporary, there is considerable uncertainty around its duration. Consequently, the related financial impact on the District cannot be estimated at this time.

3. 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.

4. 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

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.

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

D. Financial Statement Elements, continued

5. 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.

6. 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.

7. 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

8. 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.

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

D. Financial Statement Elements, continued

9. 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

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

10. Deferred Outflows of Resources

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

11. 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.

12. Pension

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

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

D. Financial Statement Elements, continued

12. Pension, continued

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, 2020
Measurement date:	June 30, 2021
Measurement period:	July 1, 2020 to June 30, 2021

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, 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 governmental fund financial statements 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** – 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** – 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** – 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** – 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** – the residual classification for the District's general fund that includes amounts not contained in 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.

(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 establishes, 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 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, 2022 are classified as follows:

	Governmental Activities	Business-Type Activities	Totals
Cash and cash equivalents	$ 561,819	21,429,211	21,991,030
Cash and cash equivalents – restricted	224,235	9,946,787	10,171,022
Total	$ 786,054	31,375,998	32,162,052

(2) Cash and Cash Equivalents, continued

Cash and equivalents as of June 30, 2022 consisted of the following:

		Unrestricted	Restricted	Total
Cash				
Cash	$	1,240	-	1,240
Deposits held with financial instititions		5,906,586	8,680,301	14,586,887
Total cash		5,907,826	8,680,301	14,588,127
Cash equivalents				
Deposits with Humboldt County Treasurer		5,682,830	1,490,721	7,173,551
Deposits held with California Local Agency Investment Fund (LAIF)		139,190	-	139,190
Deposit with CalTRUST		10,261,184	-	10,261,184
Total cash equivalents		16,083,204	1,490,721	17,573,925
Total	$	21,991,030	10,171,022	32,162,052

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 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 proceed 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.

(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.

Custodial Credit Risk

The custodial credit risk for *deposits* is the risk that, in the event of 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 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 rate 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 changes in market interest rate. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of short-term and long-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.

(2) Cash and Cash Equivalents, continued

Interest Rate Risk, continued

As of June 30, 2022, the District's authorized deposits had the following average maturities:

		Average Months Maturity		
Cash Equivalents	**Total**	**12 Months or Less**	**13 to 24 Months**	**25 Months or More**
CalTRUST Funds	$ 10,261,184	306,505	-	9,954,679
California Local Agency Investment Fund	139,190	139,190	-	-
Humboldt County Treasurer	7,173,551	-	-	7,173,551
Total	$ 17,573,925	445,695	-	17,128,230

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, 2022 for each investment type.

Cash Equivalents	**Total**	**Rating at Year End**
Cal Trust – Short Term Fund	$ 306,505	AAf
Cal Trust – Medium Term Fund	9,954,679	A+f
California Local Agency Investment Fund	139,190	Not Rated
Humboldt County Treasurer	7,173,551	Not Rated
Total	$ 17,573,925	

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, 2022 were allocated as follows:

	Amount	**Allocation**
Cash	$ 1,240	0.00 %
Deposits held with financial instititions	14,586,887	45.35
Deposits with Humboldt County Treasurer	7,173,551	22.30
Deposits held with California Local Agency Investment Fund (LAIF)	139,190	0.43
Deposit with CalTrust	10,261,184	31.90
Total	$ 32,162,052	100.00 %

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

(3) Investments at Fair Value Hierarchy

Investments measured at fair value on a recurring basis, based on their fair value hierarchy at June 30, 2022 are as follows:

Cash Equivalents		Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Pooled investment fund:					
Humboldt County Treasurer's Fund	$	7,173,551	-	7,173,551	-
CalTrust Medium-Term Fund		9,954,679	-	9,954,679	-
Total pooled investment fund		17,128,230	-	17,128,230	-
Other pooled funds measured at net asset value					
CalTrust Short-Term Fund		306,505			
California Local Agency Investment Fund		139,190			
		445,695			
	$	17,573,925			

(4) Capital Assets

Governmental Activities:

The change in capital assets as of June 30 was as follows:

		Balance 2021	Additions/ Transfers In	Deletions/ Transfers Out	Balance 2022
Non-depreciable assets:					
Land	$	1,769,744	-	-	1,769,744
Construction in progress		245,670	10,586	-	256,256
Total non-depreciable assets		2,015,414	10,586	-	2,026,000
Depreciable assets:					
Buildings and improvements		4,901,928	-	-	4,901,928
Furniture and equipment		307,390	-	-	307,390
Park improvements		1,404,378	32,528	-	1,436,906
Vehicles		54,609	-	(7,400)	47,209
Streetlighting		542,837	7,002	-	549,839
Total depreciable assets		7,211,142	39,530	(7,400)	7,243,272
Accumulated depreciation					
Buildings and improvements		(2,357,084)	(174,091)	-	(2,531,175)
Furniture and equipment		(270,455)	(6,651)	-	(277,106)
Park improvements		(1,275,322)	(20,481)	-	(1,295,803)
Vehicles		(51,546)	(1,581)	5,920	(47,207)
Streetlighting		(311,054)	(20,681)	-	(331,735)
Total accumulated depreciation		(4,265,461)	(223,485)	5,920	(4,483,026)
Total depreciable assets, net		2,945,681	(183,955)	(1,480)	2,760,246
Total capital assets, net	$	4,961,095			4,786,246

(4) Capital Assets, continued

Business-type Activities:

The change in capital assets as of June 30 was as follows:

		Balance 2021	Additions/ Transfers In	Deletions/ Transfers Out	Balance 2022
Non-depreciable assets:					
Land	$	4,517,889	110,980	-	4,628,869
Construction in progress		1,620,893	4,564,133	(1,024,531)	5,160,495
Total non-depreciable assets		6,138,782	4,675,113	(1,024,531)	9,789,364
Depreciable assets:					
Buildings and improvements		815,338	-	-	815,338
Water infrastructure		15,118,523	6,618	-	15,125,141
Wastewater infrastructure		37,666,108	903,311	-	38,569,419
Tools and equipment		1,212,166	56,141	-	1,268,307
Vehicles		1,228,447	43,184	(12,494)	1,259,137
Total depreciable assets		56,040,582	1,009,254	(12,494)	57,037,342
Accumulated depreciation					
Buildings and improvements		(348,060)	(29,474)	-	(377,534)
Water infrastructure		(8,018,508)	(339,501)	-	(8,358,009)
Wastewater infrastructure		(15,446,133)	(1,375,472)	-	(16,821,605)
Tools and equipment		(1,113,118)	(34,280)	-	(1,147,398)
Vehicles		(683,869)	(52,520)	12,494	(723,895)
Total accumulated depreciation		(25,609,688)	(1,831,247)	12,494	(27,428,441)
Total depreciable assets, net		30,430,894	(821,993)	-	29,608,901
Total capital assets, net	$	36,569,676			39,398,265

Depreciation expense was charged to various functions for the year ended June 30, 2022 as follows:

Governmental activities:		
General (Parks and Recreation)	$	202,804
Streetlighting		20,681
Total governmental activities		223,485
Business-type activities		
Water Fund		391,803
Wastewater Fund		1,439,444
Total business-type activities		1,831,247
	$	2,054,732

(5) Compensated Absences

The change in compensated absences balances as of June 30 was as follows:

Governmental Activities

	Balance 2021	Earned	Taken	Balance 2022	Due within one year	Due in more than one year
$	66,455	54,366	(42,132)	78,689	44,169	34,520

Business-type Activities

	Balance 2021	Earned	Taken	Balance 2022	Due within one year	Due in more than one year
$	217,702	125,740	(83,578)	259,864	137,900	121,964

(6) Long-term Debt

The change in long-term debt at June 30 was as follows:

	Balance 2021	Additions	Payments	Balance 2022	Current Portion	Long-Term Portion
Governmental Activities:						
Capital lease payable						
PPFCC Lease (Umpqua Loan)	$ 918,890	-	(95,351)	823,539	98,767	724,772
Total capital lease payable	918,890	-	(95,351)	823,539	98,767	724,772
Total governmental activities	918,890	-	(95,351)	823,539	98,767	724,772
Business-type Activities						
Notes payable						
Water fund						
ARRA Loan	66,467	-	(11,815)	54,652	11,817	42,835
Davis-Grunsky Act Loan	1,478,872	-	(109,417)	1,369,455	111,726	1,257,729
I-Bank Loan	577,203	-	(49,498)	527,705	51,166	476,539
Total Water fund	2,122,542	-	(170,730)	1,951,812	174,709	1,777,103
Wastewater fund						
State Revolving Fund Loan #3	14,444,436	-	(431,921)	14,012,515	439,001	13,573,514
State Revolving Fund Microgrid Loan	486,527	1,199,262	-	1,685,789	-	1,685,789
Pialorsi Property Loan	1,424,800	-	(89,800)	1,335,000	91,400	1,243,600
Total Wastewater fund	16,355,763	1,199,262	(521,721)	17,033,304	530,401	16,502,903
Total notes payable	18,478,305	1,199,262	(692,451)	18,985,116	705,110	18,280,006
Bond payable						
Wastewater fund						
USDA Revenue Bonds	145,000	-	(80,000)	65,000	65,000	-
Total bond payable	145,000	-	(80,000)	65,000	65,000	-
Certificate of participation						
Water fund						
Revenue Series 2021A	-	4,335,000	-	4,335,000	65,000	4,270,000
Premium	-	497,090	-	497,090	-	497,090
Total Water fund	-	4,832,090	-	4,832,090	65,000	4,767,090
Wastewater fund						
Revenue Series 2021B	-	3,560,000	-	3,560,000	75,000	3,485,000
Premium	-	385,124	-	385,124	-	385,124
Total Wastewater fund	-	3,945,124	-	3,945,124	75,000	3,870,124
Total certificate of participation	-	8,777,214	-	8,777,214	140,000	8,637,214
Total business-type activities	18,623,305	9,976,476	(772,451)	27,827,330	910,110	26,917,220
Total long-term debt	$ 19,542,195	9,976,476	(867,802)	28,650,869	1,008,877	27,641,992

(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:

Year		Principal	Interest	Total
2023	$	98,767	28,687	127,454
2024		102,304	25,150	127,454
2025		105,968	21,486	127,454
2026		109,764	17,691	127,455
2027		113,696	13,759	127,455
2028-2030		293,040	16,260	309,300
Total		823,539	123,033	946,572
Current		(98,767)		
Non-current	$	724,772		

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:

Year		Principal	Interest	Total
2023	$	11,817	515	12,332
2024		11,936	396	12,332
2025		12,057	275	12,332
2026		12,179	153	12,332
2027		6,663	31	6,694
Total		54,652	1,370	56,022
Current		(11,817)		
Non-current	$	42,835		

(6) Long-term Debt, continued

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:

Year		Principal	Interest	Total
2023		111,726	29,552	141,278
2024		114,094	27,185	141,279
2025		116,520	24,758	141,278
2026		119,007	22,271	141,278
2027		121,557	19,722	141,279
2028-2032		648,309	58,082	706,391
2033		138,242	3,030	141,272
Total		1,369,455	184,600	1,554,055
Current		(111,726)		
Non-current	$	1,257,729		

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:

Year		Principal	Interest	Total
2023	$	51,166	16,922	68,088
2024		52,890	15,168	68,058
2025		54,673	13,356	68,029
2026		56,515	11,482	67,997
2027		58,420	5,265	63,685
2028-2031		254,041	21,758	275,799
Total		527,705	83,951	611,656
Current		(51,166)		
Non-current	$	476,539		

(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. Effective July 1, 2021, 0.60% of the routine interest will be reclassified as the Small Community Grant Fee. Annual payment of principal and interest/fee 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/Fee	Total
2023	$ 439,001	224,031	663,032
2024	446,019	217,013	663,032
2025	453,149	209,883	663,032
2026	460,394	202,638	663,032
2027	467,754	195,278	663,032
2028-2032	2,453,219	861,942	3,315,161
2033-2037	2,655,229	659,931	3,315,160
2038-2042	2,874,555	440,606	3,315,161
2043-2047	3,111,997	203,164	3,315,161
2048	651,198	10,441	661,639
Total	14,012,515	3,224,927	17,237,442
Current	(439,001)		
Non-current	$ 13,573,514		

State Revolving Fund Microgrid Loan

In 2018, the District entered into an agreement with the State Water Resources Control Board (State) whereby the State agrees to provide project funds in the amount of $4,969,180. A portion of the amount totaling $2,484,590 is anticipated to be forgiven and the estimated amount totaling $2,484,590 of the principal will be due to the State. The effective loan will bear an interest rate of 1.80% per annum; however, in lieu of the interest, the District agreed to pay administrative service charge/Small Community Grant Fee. Annual payments of principal and administrative service charge/Small Community Grant Fee are due December of each year after the completion date.

(6) Long-term Debt, continued

Pialorsi Property Loan

On March 2020, the District entered into a loan agreement with JPMorgan Chase Bank, NA for the purpose of financing the acquisition of property to expand the District's ability to recycle reclaimed wastewater. The loan amount totaled $1,508,500 and bears an interest rate of 1.90% per annum. Semi-annual payments of principal and interest are due September and March of each year and continues through March 2035.

Future debt service on the loan is as follows:

Year		Principal	Interest	Total
2023	$	91,400	24,933	116,333
2024		93,200	23,188	116,388
2025		95,000	21,408	116,408
2026		96,800	19,595	116,395
2027		98,700	17,747	116,447
2028-2032		522,100	59,759	581,859
2033-2035		337,800	11,319	349,119
Total		1,335,000	177,949	1,512,949
Current		(91,400)		
Non-current	$	1,243,600		

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 on the bond is as follows:

Year		Principal	Interest	Total
2023	$	65,000	1,625	66,625
Total		65,000	1,625	66,625
Current		(65,000)		
Non-current	$	-		

(6) Long-term Debt, continued

Revenue Certificate of Participation, Series 2021A and Series 2021B

On December 2021, the District issued the Revenue Certificate of Participation, Series 2021A and Series 2021B for the purpose of financing certain capital improvements to its water system including a 4.5 million gallon water tank, three highway sewer crossings, and a water and sewer mainline replacement. The Certificate of Participation, Series 2021A was designated for the water project and the Certificate of Participation, Series 2021B was designated for the wastewater project.

The amount issued for the Certificate of Participation, Series 2021A totaled $4,335,000 and bears interest rates ranging from 2.25% to 4.00% per annum. Annual payments of principal are due August of each year and semi-annual payments of interest are due August and February of each year and continues through August 2051.

Future debt service on the certificate of participation is as follows:

Year	Principal	Interest	Total
2023	$ 65,000	168,811	233,811
2024	85,000	148,800	233,800
2025	90,000	145,300	235,300
2026	95,000	141,600	236,600
2027	100,000	157,700	257,700
2028-2032	550,000	625,500	1,175,500
2033-2037	665,000	514,075	1,179,075
2038-2042	750,000	429,863	1,179,863
2043-2047	870,000	303,000	1,173,000
2048-2052	1,065,000	109,900	1,174,900
Total	4,335,000	2,744,549	7,079,549
Current	(65,000)		
Premium	497,090		
Non-current	$ 4,767,090		

The amount issued for the Certificate of Participation, Series 2021B total $3,560,000 and bears interest rates ranging from 2.25% to 4.00% per annum. Annual payments of principal are due September of each year and semi-annual payments of interest are due September and March of each year and continues through September 2051.

(6) Long-term Debt, continued

Revenue Certificate of Participation, Series 2021A and Series 2021B, continued

Future debt service on the certificate of participation is as follows:

Year	Principal	Interest	Total
2023	$ 75,000	118,150	193,150
2024	75,000	115,900	190,900
2025	80,000	113,575	193,575
2026	80,000	111,175	191,175
2027	85,000	108,806	193,806
2028-2032	450,000	503,438	953,438
2033-2037	540,000	417,294	957,294
2038-2042	600,000	349,088	949,088
2043-2047	705,000	246,900	951,900
2048-2052	870,000	90,000	960,000
Total	3,560,000	2,174,326	5,734,326
Current	(75,000)		
Premium	385,124		
Non-current	$ 3,870,124		

(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. Dependents are eligible to enroll, and benefits continue to surviving spouses. There are no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB 75 to pay related benefits.

Benefits Provided

Retirees are eligible for medical benefits if they retire directly from the District at least at 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.

Employees Covered by Benefit Terms

At June 30, 2021 (the census date), the following employees were covered by the benefit terms:

	2022
Inactive employees or beneficiaries currently receiving benefit payments	8
Active employees	24
Total plan membership	32

(7) Other Post-Employment Benefits Payable, continued

Contributions

The District pays benefits as they come due. For the year ended June 30, 2022, the District contributed $171,114 which includes implicit subsidy credit.

Total OPEB Liability

The District's total OPEB liability was valued as of June 30, 2021, and was used to calculate the total OPEB liability measured as of June 30, 2022.

Actuarial Assumptions and Other Inputs

The total OPEB liability as of June 30, 2022 (measurement date), was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Discount rate	3.69%
Inflation	2.50%
Salary increases	2.80% wage inflation plus seniority, merit, and promotion salary increases based on CalPERS Experience Study and Review of Actuarial Assumptions published in November 2021
Healthcare cost trend rates	Based on 2021 Getzen model that reflects actual premium increases from 2021 to 2022, followed by 5.75% (non-Medicare)/5.40%(Medicare), gradually decreasing to an ultimate rate of 4.04% in 2075
Mortality rates*	Based on CalPERS tables

* The mortality table used was developed based on CalPERS Experience Study and Review of Actuarial Assumptions published in November 2021 for Public Agency Miscellaneous members. Sample pre-retirement, post-retirement non-disabled, and post-retirement disabled base mortality rates are projected fully generationally using 80% of MP-2020 mortality improvement scale.

Discount Rate

The discount rate used to measure the total OPEB liability has been updated from 1.92% as of June 30, 2021, to was 3.69% as of June 30, 2022, based on changes in the municipal bond index, which caused a decrease in the liability. 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.

(7) Other Post-Employment Benefits Payable, continued

Changes is the Total OPEB Liability

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

		2022
Balance at June 30, 2021	$	10,010,085
Changes for the year:		
Service cost		618,445
Interest		202,404
Differences between expected and actual experience		(4,584,910)
Changes in assumptions or other inputs		870,713
Benefit payments		(140,756)
Implicit rate subsidy fulfilled		(33,358)
Net change		(3,067,462)
Balance at June 30, 2022	$	6,942,623

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 (2.69%) or 1-percentage-point higher (4.69%) than the current discount rate (3.69%):

		Discount Rate 1% Lower	Valuation Discount Rate	Discount Rate 1% Higher
Total OPEB liability	$	8,172,639	6,942,623	5,960,444

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 (4.75% non-Medicare/4.40% Medicare decreasing to 3.04%) or 1-percentage-point higher (6.75% non-Medicare/6.40% Medicare decreasing to 5.04%) than the current healthcare cost trend rates (4.75% non-Medicare/4.40% Medicare decreasing to 4.04%):

		Trend 1% Lower	Valuation Trend	Trend 1% Higher
Total OPEB liability	$	5,686,642	6,942,623	8,606,554

(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, 2022, the District recognized an OPEB expense of $467,572. At June 30, 2022, the District reported deferred outflows of resources and deferred inflows of resources related OPEB as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	(5,911,454)
Changes of assumptions or other inputs	2,811,121	-
Total	$ 2,811,121	(5,911,454)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ending June 30,	Deferred Net Outflows(Inflows) of Resources
2023	$ (353,277)
2024	(353,277)
2025	(353,277)
2026	(353,277)
2027	(343,307)
Thereafter	(1,343,918)

(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.

(8) Defined Benefit Pension Plan, continued

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. 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 and took effect January 1, 2013. The new legislation closed the District's CalPERS 2.0% at 55 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.

The Plan's provision and benefits in effect at June 30, 2022, are summarized as follows:

	Classic	PEPRA
Hire Date	Prior to December 31, 2012	On or after January 1, 2013
Benefit formula	2% @ 55	2% @ 62
Benefit vesting schedule	5 years	5 years
Benefit payments	Monthly for life	Monthly for life
Retirement age	50-55	52-62
Monthly benefits, as a percentage of eligible compensation	1.43% to 2.42%	1.00% to 2.50%
Required employee contribution rates	7.000%	6.750%
Required employer contribution rates	10.340%	7.590%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that 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 cost 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.

(8) Defined Benefit Pension Plan, continued

Contributions, continued

For the fiscal year ended June 30, 2022, the contributions to the were as follows:

		2022
Contributions – employer	$	312,417
Contributions – employee (paid by employer)		
Total employer paid contributions	$	312,417

Net Pension Liability

As of the fiscal year ended June 30, 2022, the District reported net pension liability for its proportionate share of the net pension liability of the Plan as follows:

		2022
Proportionate share of net pension liability	$	1,375,759

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, 2022, the net pension liability of the Plan is measured as of June 30, 2021 (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, 2020 (the valuation date), rolled forward to June 30, 2021, 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.

The District's proportionate share of the net pension liability for the Plan's miscellaneous risk pool as of the measurement date June 30, 2021, was as follows:

	Proportionate Share	
Proportion – June 30, 2020	0.02113	%
Increase in proportion	0.00431	
Proportion – June 30, 2021	0.02544	%

(8) Defined Benefit Pension Plan, continued

Deferred Pension Outflows (Inflows) of Resources

For the year ended June 30, 2022, the District recognized pension expense of $602,835. As of the fiscal year ended June 30, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 312,417	-
Difference between actual and expected experience	154,276	-
Net differences between projected and actual earnings on plan investments	-	(1,200,965)
Adjustment due to changes in porportions and difference in employer contributions	723	-
Total	$ 467,416	(1,200,965)

As of June 30, 2022, the District reported $312,417 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, 2022, will be recognized as a reduction of the net pension liability for the year ended June 30, 2023.

As of June 30, 2022, other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized as pension expense as follows:

Fiscal Year Ending June 30,	Deferred Net Outflows(Inflows) of Resources
2023	$ (211,251)
2024	(233,379)
2025	(269,452)
2026	(331,884)

(8) Defined Benefit Pension Plan, continued

Actuarial Assumptions

The total pension liabilities in the June 30, 2020, actuarial valuation were determined using the following actuarial assumptions and methods:

Valuation date	June 30, 2020
Measurement date	June 30, 2021
Actuarial cost method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial assumptions	
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 was developed based on CalPERS specific data. The table includes 15 years of mortality improvement using the 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, 2021, 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 plan's investments were applied to all periods of projected benefit payments to determine the total pension liability.

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.

(8) Defined Benefit Pension Plan, continued

Discount Rate

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 and forecasted information for all 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.

Asset Class	Assumed Asset Allocation	Real Return Years 1-10	Real Return Years 11+
Global equity	50.00 %	4.80 %	5.98 %
Fixed income	28.00	1.00	2.62
Inflation assets	0.00	0.77	1.81
Private equity	8.00	6.30	7.23
Real assets	13.00	3.75	4.93
Liquidity	1.00	0.00	(0.92)
	100.00 %		

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.

At June 30, 2022, the discount rate comparison was as follows:

	Discount Rate - 1% 6.15%	Current Discount Rate 7.15%	Discount Rate + 1% 8.15%
District's net pension liability	$ 2,600,946	1,375,759	362,915

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 64 and 66 for the Required Supplementary Information.

(9) Internal Transfers

Inter-fund Operational Transfers

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

As of June 30, 2022, inter-fund receivables/payables between the District's funds were as follows:

Receivable From	Payable To		Amount
Measure B	General (Parks & Recreation)	$	614,297
Payable to General Fund		$	614,297

(10) Net Position

Net investment in capital assets is calculated as follows:

		Governmental Activities	Business-type Activities	2022
Net investment in capital assets:				
Capital assets – not being depreciated	$	2,026,000	9,789,364	11,815,364
Capital assets – being depreciated		2,760,246	29,608,901	32,369,147
Long-term debt – current portion		(98,767)	(910,110)	(1,008,877)
Long-term debt – long-term portion		(724,772)	(26,917,220)	(27,641,992)
Total net investment in capital assets	$	3,962,707	11,570,935	15,533,642

Restricted net position is calculated as follows:

		Governmental Activities	Business-type Activities	2022
Restricted:				
Debt service	$	-	9,946,787	9,946,787
Teen and community center		7,958	-	7,958
Park & Recreation capital projects - Coastal		53,227	-	53,227
Park & Recreation capital projects - Inland		163,050	-	163,050
Total restricted	$	224,235	9,946,787	10,171,022

(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, 2022, are as follows:

		2022
Nonspendable:		
Prepaid expenses	$	53,432
Restricted:		
Teen and community center		7,958
Park & Recreation capital projects - Coastal		53,227
Park & Recreation capital projects - Inland		163,050
Total restricted		224,235
Assigned:		
Compensated absences		78,689
Street lighting		107,735
Total assigned		186,424
Unassigned:		
General (Parks and Recreation)		
Operating fund		577,237
Repair and replacement fund		3,200
Catastrophe		95,725
Other postemployment benefits		152,378
Measure B		(611,690)
Total unassigned		216,850
Total fund balance	$	680,941

(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, 2022, the District participated in the liability and property programs of the SDRMA as follows:

- Property with insurance limits of $1 billion for property and catastrophic loss; $100 million for boiler and machinery; $10 million for flood; and $2 million for pollution and cyber. The coverage is subject to a deductible of up to $500,000.
- Mobile equipment with insurance limits up to $1 billion, subject to a deductible of $1,000.
- General liability with insurance limits of $5 million for bodily injury, property damage, employment benefits, employee/public officials errors and omission, and employment practices liability; $1 million for employee/public officials dishonesty (crime); and $500,000 for public officials personal. The coverage is subject to a deductible of up to $500.
- Auto liability with insurance limits of $5 million for auto bodily injury, auto property damage, non-owned auto bodily injury, and non-owned auto property damage; and $1 million for uninsured motorist. The coverage is subject to a deductible of up to $1,000.
- Auto physical damage with insurance limits of $100,000 for comprehensive and collision; and $1 billion for high dollar vehicles.
- Trailer with insurance coverage of $100,000 subject to a $250 deductible.
- 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 three fiscal years. There were no reductions in insurance coverage in fiscal year 2022. 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, 2022.

(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. 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.

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

Governmental Accounting Standards Board Statement No. 91, continued

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.

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 were effective for reporting periods beginning after December 15, 2020; however, in light of the COVID-19 pandemic, the effective date has been postponed by one year. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 94

In March 2020, the GASB issued Statement No. 94 – *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

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

Governmental Accounting Standards Board Statement No. 96

In May 2020, the GASB issued Statement No. 96 – *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 97

In June 2020, the GASB issued Statement No. 97 – *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 41 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately. The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement. The Board considered the effective dates for the requirements of this Statement in light of the COVID-19 pandemic and in concert with Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance.

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

Governmental Accounting Standards Board Statement No. 99

In April 2022, the GASB issued Statement No. 99 – *Omnibus 2022*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees.

The requirements of this Statement that are effective as follows:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance.
- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

Governmental Accounting Standards Board Statement No. 100

In June 2022, the GASB issued Statement No. 100 – *Accounting Changes and Error Corrections—An Amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

This Statement defines *accounting changes* as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferability should be based on the qualitative characteristics of financial reporting—understandability, reliability, relevance, timeliness, consistency, and comparability. This Statement also addresses corrections of errors in previously issued financial statements.

The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 101

In June 2022, the GASB issued Statement No. 101 – *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

(14) Commitments and Contingencies

Commitments

The District has a contract with the Humboldt Bay Municipal Water District (HBMWD) to purchase water. Under the contract, the District pays the 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 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, 2022, have been evaluated for possible adjustment to the financial statements or disclosure as of January 4, 2023, 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.

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Required Supplementary Information

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, 2022

	Budgeted Amounts		Actual	Variance Positive
	Original	Final	Amounts	(Negative)
Revenues:				
Property taxes	$ 664,824	664,824	729,263	64,439
Charge for services and facilities	418,030	418,030	446,471	28,441
Operating grants and contributions	1,650	1,650	14,773	13,123
Capital grants and contributions	105,000	15,000	-	(15,000)
Other income	25,712	10,712	2,502	(8,210)
Gain on sale of capital assets	-	-	7,501	7,501
Investment earnings	35,000	35,000	(58,971)	(93,971)
Total revenues	1,250,216	1,145,216	1,141,539	(3,677)
Expenditures:				
Salaries and employee benefits	876,355	876,355	924,987	(48,632)
Materials and services	246,120	246,120	211,219	34,901
Capital outlay	122,000	32,000	43,114	(11,114)
Total expenditures	1,244,475	1,154,475	1,179,320	(24,845)
Net change in fund balance	5,741	(9,259)	(37,781)	22,262
Fund balance, beginning of year	1,212,410	1,212,410	1,212,410	
Fund balance, end of year	$ 1,218,151	1,203,151	1,174,629	

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, 2022

	Budgeted Amounts		Actual	Variance Positive
	Original	Final	Amounts	(Negative)
Revenues:				
Special assessments	$ 221,304	221,304	216,405	(4,899)
Investment earnings	3,700	3,700	8,668	4,968
Total revenues	225,004	225,004	225,073	69
Expenditures:				
Salaries and benefits	58,756	58,756	119,623	(60,867)
Materials and services	38,325	38,325	34,343	3,982
Debt service				
Principal	93,674	93,674	95,351	(1,677)
Interest	33,744	33,744	31,789	1,955
Total expenditures	224,499	224,499	281,106	(56,607)
Net change in fund balance	505	505	(56,033)	(56,538)
Fund balance, beginning of year	(555,657)	(555,657)	(555,657)	
Fund balance, end of year	$ (555,152)	(555,152)	(611,690)	

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, 2022

		Budgeted Amounts		Actual	Variance Positive
		Original	Final	Amounts	(Negative)
Revenues:					
Charge for services and facilities	$	100,885	100,885	105,640	4,755
Other income		18,500	18,500	18,046	(454)
Investment earnings		50	50	-	(50)
Total revenues		119,435	119,435	123,686	4,251
Expenditures:					
Salaries and payroll expenses		50,401	50,401	39,799	10,602
Materials and services		39,275	39,275	37,531	1,744
Capital outlay		47,000	-	7,002	(7,002)
Total expenditures		136,676	89,676	84,332	5,344
Net change in fund balance		(17,241)	29,759	39,354	9,595
Fund balance, beginning of year		78,648	78,648	78,648	
Fund balance, end of year	$	61,407	108,407	118,002	

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, 2022
Last Ten Years*

Other Post-Employment Benefits Payable

		2022	2021	2020	2019	2018
Total OPEB liability						
Service cost	$	618,445	526,898	482,408	493,346	478,977
Interest		202,404	221,939	320,814	288,256	253,523
Difference between expected and actual experience		(4,584,910)	11,520	(2,563,217)	-	-
Change of assumptions or other inputs		870,713	794,185	2,063,476	(102,116)	-
Benefit payments		(140,756)	(108,641)	(102,866)	(102,866)	(96,421)
Implicit rate subsidy fulfilled		(33,358)	(43,940)	(47,609)	(35,201)	(28,201)
Net change in total OPEB liability		(3,067,462)	1,401,961	153,006	541,419	607,878
Total OPEB liability – beginning		10,010,085	8,608,124	8,455,118	7,913,699	7,305,821
Total OPEB liability – ending	$	6,942,623	10,010,085	8,608,124	8,455,118	7,913,699
Covered-employee payroll	$	1,548,839	1,389,995	1,362,167	1,511,378	1,470,927
Total OPEB liability as a percentage of covered-employee payroll		448.25%	720.15%	631.94%	559.43%	538.01%

Note to Schedule

Change in Benefit Terms

There were no changes to benefit terms.

Change of Assumptions

In fiscal year 2022, the discount rate changed from 1.92% to 3.69%. In fiscal year 2021, the discount rate changed from 2.45% to 1.92%. In fiscal year 2020, the discount rate changed from 3.62% to 2.45%. Other changes in assumption are as follows:

Assumptions	2022	2019	2018
Aging/Morbidity factor	Based on CalPERS Experience Study and Review of Actuarial Assumptions published November 2021	Based on actual CalPERS HMO and PPO population data.	Based on a Society of Actuaries study.
Participant contributions	No changes noted	Based on service at retirement and employee group.	Based on hire date.
Salary increases	2.80%	2.750%	3.000%
Marital status	Percentage of active employees assumed to elect spousal coverage have increased from 85% to 100%.	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, 2022
Last Ten Years*

Defined Benefit Plan

Description	6/30/2022	6/30/2021	6/30/2020	6/30/2019	6/30/2018	6/30/2017	6/30/2016	6/30/2015
District's proportion of the net pension liability(asset)	0.02544%	0.02113%	0.02051%	0.01969%	0.01948%	0.01878%	0.01728%	0.01805%
District's proportionate share of the net pension liability(asset)	$ 1,375,759	2,299,309	2,101,815	1,897,638	1,931,634	1,625,303	1,186,322	1,123,351
District's covered payroll	$ 1,554,671	1,474,010	1,461,535	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	88.49%	155.99%	143.81%	136.47%	147.05%	128.90%	94.62%	95.59%
Plan's fiduciary net position as a percentage of the total pension liability	88.29%	75.10%	75.26%	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.

Change of Assumptions and Methods

In fiscal year 2021, there were no changes to actuarial assumptions or methods.

The CalPERS Board of Administration adopted a new amortization policy effective with the June 30, 2019, actuarial valuation. The new policy shortens the period over which actuarial gains and losses are amortized from 30 years to 20 years with the payments computed as a level dollar amount. In addition, the new policy does not utilize a five-year ramp-up and ramp-down on UAL bases attributable to assumption changes and non-investment gains/losses. The new policy also does not utilize a five-year ramp-down on investment gains/losses. These changes will apply only to new UAL bases established on or after June 30, 2019. In fiscal year 2020, no changes have occurred to the actuarial assumptions in relation to financial reporting.

In fiscal year 2020, CalPERS implemented a new actuarial valuation software system for the June 30, 2018 valuation. This new system has refined and improved calculation methodology.

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%.

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

Change of Assumptions and Methods, continued

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% to7.375%, 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, 2022
Last Ten Years*

Defined Benefit Plan

Description		6/30/2022	6/30/2021	6/30/2020	6/30/2019	6/30/2018	6/30/2017	6/30/2016	6/30/2015
Actuarially determined contribution	$	312,417	281,677	251,463	212,575	187,417	162,865	155,352	126,683
Contributions in relation to the actuarially determined contribution		(312,417)	(281,677)	(251,463)	(212,575)	(187,417)	(163,266)	(155,352)	(126,683)
Contribution deficiency (excess)	$	-	-	-	-	-	(401)	-	-
District's covered payroll	$	1,554,671	1,474,010	1,461,535	1,390,558	1,313,591	1,260,867	1,253,808	1,175,186
Contribution's as a percentage of covered-payroll		20.10%	19.11%	17.21%	15.29%	14.27%	12.92%	12.39%	10.78%

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, 2022, 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 January 4, 2023.

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*.

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
Cypress, California
January 4, 2023

McKinleyville Community Services District

Management Report

June 30, 2022

McKinleyville Community Services District

Management Report

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Board of Directors
McKinleyville Community Services District
McKinleyville, California

Dear Members of the Board:

In planning and performing our audit of the basic financial statements of the McKinleyville Community Services District (District) as of and for the year ended June 30, 2022, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, 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 reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- *Reasonably possible*. The chance of the future event or events occurring is more than remote but less than likely.
- *Probable*. The future event or events are likely to occur.

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

Other Comment

Our comment, of which have been discussed with the appropriate members of management, are summarized as follows:

Disclosure of Audit Adjustments and Reclassifications

As your external auditor, we assume that the books and records of the District are properly adjusted before the start of the audit. In many cases, however, audit adjustments and reclassifications are made in the normal course of the audit process to present the District's financial statements in conformity with accounting principles generally accepted in the United States of America or for comparison purposes with the prior year. For the Board of Directors to gain a full and complete understanding and appreciation of the scope and extent of the audit process, we have presented these audit adjustments and reclassifications as an attachment to this letter. There can be very reasonable explanations for situations of having numerous adjustments as well as having no adjustments at all. However, the issue is simply disclosure of the adjustments and reclassifications that were made and to provide the Board of Directors with a better understanding of the scope of the audit.

Management's Response

We have reviewed and approved all of the audit adjusting and reclassifying entries provided by the auditor and will enter those entries into the District's accounting system to close-out the District's year-end trial balance.

* * * * * * * * * *

The purpose of this communication, which is an integral part of our audit, is to describe, for management and those charged with governance, the scope of our testing of internal control and the results of that testing. Accordingly, this communication is not intended to be and should not be used for any other purpose.

Fedak & Brown LLP
Cypress, California
January 4, 2023

APPENDIX

McKinleyville Community Services District

Audit/Finance Committee Letter

June 30, 2022

Board of Directors
McKinleyville Community Services District
McKinleyville, California

We have audited the financial statements of the McKinleyville Community Services District (District) as of and for the year ended June 30, 2022, and have issued our report thereon dated January 4, 2023. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit[1]

As communicated in our engagement letter dated March 16, 2022, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the District solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding significant control deficiencies over financial reporting and material weaknesses, if any, and material noncompliance, and other matters noted during our audit in a separate letter to you dated January 4, 2023.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence.

Compliance with All Ethics Requirements Regarding Independence, continued

An auditor that is not involved in the engagement performed an independent review of the financial statements that was prepared by us based on the information provided by management. This safeguard reduces the threat of self-review risk to an acceptable level.

Significant Risks Identified

We have identified the following significant risks:

- Management override of controls
- Revenue recognition

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the District is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2022. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments. The most sensitive accounting estimates affecting the financial statements are as follows:

- Management's estimate of the fair value of cash and investments which is based on information provided by financial institutions. We evaluated the key factors and assumptions used to develop the fair value of cash and investments in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of capital assets depreciation which is based on historical estimates of each capitalized item's useful life expectancy or cost recovery period. We evaluated the key factors and assumptions used to develop the capital asset depreciation calculations in determining that they are reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the net other post-employment benefit (OPEB) liability, OPEB expense, and deferred OPEB outflows/inflows which are based on an actuarial valuation that was conducted by a third-party actuary. We evaluated the basis, methods, and assumptions used by the actuary in calculating these amounts for the District to determine that they are reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the defined benefit pension plan's net pension liability, pension expense, and deferred pension outflows/inflows which are based on an actuarial valuation which was conducted by a third-party actuary. We evaluated the basis, methods, and assumptions used by the actuary to calculate these amounts for the District to determine that they are reasonable in relation to the financial statements taken as a whole.

Qualitative Aspects of the Entity's Significant Accounting Practices, continued

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the District's financial statements relate to:

- The disclosure of fair value of cash and investments in Note 2 to the basic financial statements which represents amounts susceptible to market fluctuations.
- The disclosure of capital assets, net in Note 4 to the basic financial statements which is based on historical information which could differ from actual useful lives of each capitalized item.
- The disclosure of the District's net OPEB liability in Note 7 to the basic financial statements which is based on actuarial assumptions which could differ from actual costs.
- The disclosure of the District's defined benefit pension plan in Note 8 to the basic financial statements is based on actuarial assumptions which could differ from actual costs.

Significant Unusual Transactions

For purposes of this communication, professional standards require us to communicate to you significant unusual transactions identified during our audit. No significant unusual transactions were identified as a result of our audit procedures that were brought to the attention of management.

Identified or Suspected Fraud

We have not identified or have not obtained information that indicates that fraud may have occurred.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards also require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. All misstatements, including material misstatements (if any), that we identified as a result of our audit procedures are included on the Schedule of Adjusting and Reclassifying Journal Entries on pages 5 through 7. The journal entries were brought to the attention of, and corrected by, management.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the District's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Circumstances that Affect the Form and Content of the Auditor's Report

For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditor's report. There were no circumstances that affect the form and content of the auditor's report.

Representations Requested from Management

We have requested certain written representations from management, which are included in the attached letter dated January 4, 2023.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the District, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the District's auditors.

We appreciate the cooperation extended us by Patrick Kaspari, General Manager, and Nicole Alvarado, Finance Director, in the performance of our audit testwork. We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to continue to be of service to the District.

This information is intended solely for the information and use of the Board of Directors and management of the District and is not intended to be, and should not be, used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this letter, which is a matter of public record.

Fedak & Brown LLP
Cypress, California
January 4, 2023

McKinleyville Community Services District
Schedule of Audit Adjusting and Reclassifying Journal Entries
June 30, 2022

Account	Description	Debit	Credit
Adjusting Journal Entries JE # 1			
To adjust cash with BNY.			
501-65010-000	ISSUANCE EXPENS	90,942.07	
551-65010-000	ISSUANCE EXPENS	74,964.65	
501-10040-000	BNY TrustAcct-2021BondIssue		76,514.73
501-50001-000	INT. REVENUE		14,427.34
551-10040-000	BNY TrustAcct-2021BondIssue		63,422.65
551-50001-000	INT. REVENUE		11,542.00
Total		**165,906.72**	**165,906.72**
Adjusting Journal Entries JE # 2			
To adjust accrued interest and debt.			
004-64001-000	INT. EXPENSE	19,308.38	
004-65001-000	DEBT SVC PRIN	95,351.00	
501-21005-000	ACCRUED INTEREST	62,697.00	
501-49000-000	PROCEEDS OF LTD	497,089.85	
551-21005-000	ACCRUED INTEREST	63,669.00	
551-21005-071	SEWER Interest Payable-SRF WWMF Loan	5,585.00	
551-49000-000	PROCEEDS OF LTD	385,124.10	
951-10099-000	FUND CASH BALANCE	114,659.38	
004-10099-000	FUND CASH BALANCE		114,659.38
501-23010-000	REVENUE BONDS-2021WaterFund		497,089.85
501-64001-000	INT. EXPENSE		62,697.00
551-23010-000	REVENUE BONDS-2021WaterFund		385,124.10
551-64001-000	INT. EXPENSE		63,669.00
551-64001-000	INT. EXPENSE		5,585.00
951-19011-000	AMT TO BE PROVIDED-MEAS.B GLTL		114,659.38
Total		**1,243,483.71**	**1,243,483.71**
Adjusting Journal Entries JE # 3			
To adjust net pension liability.			
501-23210-000	Pension Liability	369,420.00	
501-61050-000	WATER PensionExp Act	116,167.00	
551-23210-000	Pension Liability	369,420.00	
551-61050-000	SEWER PensionExp Act	116,167.00	
951-23210-000	Pension Liability	184,710.00	
951-32101-000	FUND BALANCE - RESTRICTED	58,084.00	
501-15500-000	Pension Deferred Outflows		11,761.00
501-23500-000	Pension Deferred Inflows		473,826.00
551-15500-000	Pension Deferred Outflows		11,761.00
551-23500-000	Pension Deferred Inflows		473,826.00
951-15500-000	Pension Deferred Outflows		5,881.00
951-23500-000	Pension Deferred Inflows		236,913.00
Total		**1,213,968.00**	**1,213,968.00**

McKinleyville Community Services District
Schedule of Audit Adjusting and Reclassifying Journal Entries
June 30, 2022

Account	Description	Debit	Credit
Adjusting Journal Entries JE # 4			
To adjust OPEB.			
501-15550-000	OPEB Deferred Outflows	204,132.00	
501-23200-000	OPEB LIABILITY - RETIREE MED	1,226,985.00	
501-61060-000	WATER OPEBexActuarial	117,383.00	
551-15550-000	OPEB Deferred Outflows	204,132.00	
551-23200-000	OPEB LIABILITY - RETIREE MED	1,226,985.00	
551-61060-000	SEWER OPEBexActuarial	117,383.00	
951-15550-000	OPEB Deferred Outflows	102,066.00	
951-23200-000	OPEB LIABILITY - RETIREE MED	613,492.00	
951-32101-000	FUND BALANCE - RESTRICTED	58,692.00	
501-23510-000	OPEB Deferred Inflows		1,548,500.00
551-23510-000	OPEB Deferred Inflows		1,548,500.00
951-23510-000	OPEB Deferred Inflows		774,250.00
Total		**3,871,250.00**	**3,871,250.00**
Adjusting Journal Entries JE # 5			
To reconcile pooled cash.			
001-10099-000	FUND CASH BALANCE	1,480.00	
001-10500-902	PREPAID INS.	20,216.42	
001-61013-000	WORKER'S COMP.	27,200.54	
005-10500-000	PREPAID INS.	5,054.11	
501-10099-000	FUND CASH BALANCE	311.59	
501-10500-000	PREPAID INS.	50,541.06	
551-10500-000	PREPAID INS.	50,540.62	
901-32101-000	FUND BALANCE - RESTRICTED	1,480.00	
999-62195-000	CWS BAD CK EXP	250.00	
999-62196-000	WEB BAD CK INC	80.00	
001-10099-000	FUND CASH BALANCE		20,216.42
001-10099-000	FUND CASH BALANCE		27,200.54
001-56000-000	LOSS(GAIN) DISP		1,480.00
005-10099-000	FUND CASH BALANCE		5,054.11
501-10099-000	FUND CASH BALANCE		50,541.06
501-62195-000	WATER CWS BAD CK EXP		311.59
551-10099-000	FUND CASH BALANCE		50,540.62
901-10099-000	FUND CASH BALANCE		1,480.00
999-10099-000	FUND CASH BALANCE		271.59
999-10101-000	ACCOUNTS RECEIVABLE/UTILITY		58.41
001-10010-000	PETTY CASH		
Total		**157,154.34**	**157,154.34**
Adjusting Journal Entries JE # 6			
To reconcile prior year ending fund balance to current year beginning fund balance.			
004-32001-000	FUND BALANCE - UNRES. UNDESIG.	46,837.00	
004-65001-000	DEBT SVC PRIN		46,837.00
Total		**46,837.00**	**46,837.00**

McKinleyville Community Services District
Schedule of Audit Adjusting and Reclassifying Journal Entries
June 30, 2022

Account	Description	Debit	Credit
Adjusting Journal Entries JE # 7			
To adjust prepaid expenses.			
001-10500-902	PREPAID INS.	11,290.88	
001-10500-902	PREPAID INS.	6,526.10	
005-10500-000	PREPAID INS.	2,822.72	
005-10500-000	PREPAID INS.	1,631.53	
501-10500-000	PREPAID INS.	28,227.21	
501-10500-000	PREPAID INS.	16,315.26	
551-10500-000	PREPAID INS.	28,227.21	
551-10500-000	PREPAID INS.	16,315.26	
001-61012-000	GRP. HEALTH INS		11,290.88
001-61013-000	WORKER'S COMP.		6,526.10
005-61012-000	GRP. HEALTH INS		2,822.72
005-61013-000	WORKER'S COMP.		1,631.53
501-61012-000	GRP. HEALTH INS		28,227.21
501-61013-000	WORKER'S COMP.		16,315.26
551-61012-000	GRP. HEALTH INS		28,227.21
551-61013-000	WORKER'S COMP.		16,315.26
Total		**111,356.17**	**111,356.17**
Adjusting Journal Entries JE # 8			
To adjust capital assets.			
501-62130-000	DEPRECIATION	43,684.43	
551-62130-000	DEPRECIATION	637,363.03	
501-13201-000	ALLOW. FOR DEP. SOURCE OF SUPP		43,684.43
551-13305-000	ALLOW. FOR DEP.-SWR TREATMENT		262,579.11
551-13310-000	ALLOW. FOR DEP.-SWR DISPOSAL		374,783.92
Total		**681,047.46**	**681,047.46**
Reclassifying Journal Entries JE # 201			
To reclassify 2nd debt payment that was reimbursed in July 2022.			
501-10108-000	ACCOUNTS RECEIVABLE (WB)	109,416.00	
501-22001-000	DAVIS-GRUNSKY PRINCIPAL		109,416.00
Total		**109,416.00**	**109,416.00**
Reclassifying Journal Entries JE # 202			
To reverse prior year RJE 203.			
501-21001-000	ACCOUNTS PAYABLE	85.44	
501-20201-000	FEDERAL INCOME TAX W/H		85.44
Total		**85.44**	**85.44**
Reclassifying Journal Entries JE # 203			
To reclassify interest receivable from prior year.			
001-10301-000	ACCRUED INTEREST RECEIVABLE	12,924.03	
001-10151-000	PROPERTY TAXES RECEIVABLE		12,924.03
Total		**12,924.03**	**12,924.03**