McKinleyville Community Services District

McKinleyville, California

Annual Financial Report
For the Fiscal Year Ended
June 30, 2018

McKINLEYVILLE
COMMUNITY
SERVICES
DISTRICT

Board of Directors as of June 30, 2018

Name	Title	Elected/ Appointed	Current Term
David Couch	President	Elected	09/2008 - 12/2018
George Wheeler	Vice President	Elected	12/2009 - 12/2018
Mary Burke	Director	Elected	03/2017 - 12/2020
John Corbett	Director	Elected	10/2002 - 12/2020
Dennis Mayo	Director	Elected	12/2013 - 12/2018

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, 2018

McKinleyville Community Services District
Annual Financial Report
For the Fiscal Year Ended June 30, 2018

Table of Contents

Financial Section

< Page Intentionally Left Blank >

Fedak & Brown LLP
Certified Public Accountants

Charles Z. Fedak, CPA, MBA
Christopher J. Brown, CPA, CGMA
Jonathan P. Abadesco, CPA
Andy Beck, CPA

Cypress Office:
6081 Orange Avenue
Cypress, California 90630
(657) 214-2307
FAX (714) 527-9154

Riverside Office:
1945 Chicago Avenue, Suite C-1
Riverside, California 92507
(951) 783-9149

Independent Auditor's Report

Board of Directors
McKinleyville Community Services District
McKinleyville, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the McKinleyville Community Services District (District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the McKinleyville Community Services District, as of June 30, 2018, 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.

Emphasis of a Matter

Restatement of Net Position

As discussed in Note 10 to the financial statements, in fiscal year 2018, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* Consequently, the beginning net OPEB liability was recorded and net position was restated. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 and the required supplementary information on pages 51 through 57 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated January 2, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance. That report can be found on pages 58 and 59.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
January 2, 2019

McKinleyville Community Services District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

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, 2018. 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 2018, the District's net position decreased by 13.14% or $3,936,559 to $26,021,854 due to an increase of $1,830,603 as a result of ongoing operations; which was offset by a decrease of $5,767,162 as a result of the implementation of Governmental Accounting Standards Board Statement No. 75. See Note 10 for further discussion.
- In 2018, the District's total revenues increased 7.58% or $654,311 to $9,285,671.
- In 2018, the District's total expenses increased by 19.10% or $1,195,735 to $7,455,068.

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

Fund Financial Statements

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

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

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 20 through 50.

Government-wide Financial Analysis

Statement of Net Position

The following table is a summary of the statement of net position at June 30, 2018.

Condensed Statements of Net Position

		Governmental Activities		Business-Type Activities		Total District	
		2018	2017	2018	2017	2018	2017
Assets:							
Current assets	$	816,956	764,469	13,710,524	10,227,264	14,527,480	10,991,733
Capital assets		5,283,419	5,496,977	35,950,485	33,255,198	41,233,904	38,752,175
Total assets		6,100,375	6,261,446	49,661,009	43,482,462	55,761,384	49,743,908
Deferred outflows of resources		172,999	113,866	410,129	309,124	583,128	422,990
Liabilities:							
Current liabilities		340,001	373,520	1,939,819	2,531,618	2,279,820	2,905,138
Non-current liabilities		4,354,053	2,266,474	23,555,498	14,859,846	27,909,551	17,126,320
Total liabilities		4,694,054	2,639,994	25,495,317	17,391,464	30,189,371	20,031,458
Deferred inflows of resources		48,502	64,419	84,785	112,608	133,287	177,027
Net position:							
Net investment in capital assets		4,068,078	4,177,483	18,536,435	20,375,909	22,604,513	24,553,392
Restricted		168,277	157,127	1,657,373	1,385,999	1,825,650	1,543,126
Unrestricted		(2,705,537)	(663,711)	4,297,228	4,525,606	1,591,691	3,861,895
Total net position	$	1,530,818	3,670,899	24,491,036	26,287,514	26,021,854	29,958,413

Government-wide Financial Analysis, continued

Statement of Net Position, continued

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources of the District exceeded liabilities and deferred inflows of resources by $26,021,854 as of June 30, 2018. The District's total net position is made-up of three components: (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position.

Statement of Activities

The following table is a summary of the statement of activities for the year ended June 30, 2018.

Condensed Statements of Activities

	Governmental Activities		Business-Type Activities		Total District	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues:						
Charges for services	$ 675,995	660,044	6,747,930	6,571,871	7,423,925	7,231,915
Operating grants and contributions	41,105	50,520	66,089	-	107,194	50,520
Capital grants and contributions	29,343	46,728	710,723	434,717	740,066	481,445
Total program revenues	746,443	757,292	7,524,742	7,006,588	8,271,185	7,763,880
General revenues:						
Property taxes	598,430	574,220	-	-	598,430	574,220
Voter approved taxes	209,573	208,775	-	-	209,573	208,775
Investment earnings	17,320	6,267	91,266	20,396	108,586	26,663
Gain on disposal of capital assets	-	-	65,250	15,900	65,250	15,900
Other income	32,647	41,922	-	-	32,647	41,922
Total general revenues	857,970	831,184	156,516	36,296	1,014,486	867,480
Total revenues	1,604,413	1,588,476	7,681,258	7,042,884	9,285,671	8,631,360
Expenses:						
General (Parks & Recreation)	1,640,838	1,390,477	-	-	1,640,838	1,390,477
Measure B	118,111	195,917	-	-	118,111	195,917
Streetlighting	88,947	92,607	-	-	88,947	92,607
Water	-	-	2,710,602	2,614,505	2,710,602	2,614,505
Wastewater	-	-	2,896,570	1,965,827	2,896,570	1,965,827
Total expenses	1,847,896	1,679,001	5,607,172	4,580,332	7,455,068	6,259,333
Change in net position	(243,483)	(90,525)	2,074,086	2,462,552	1,830,603	2,372,027
Net position, beginning of period, as restated	1,774,301	3,761,424	22,416,950	23,824,962	24,191,251	27,586,386
Net position, end of period	$ 1,530,818	3,670,899	24,491,036	26,287,514	26,021,854	29,958,413

Compared to prior year, net position of the District decreased by 13.14% or $3,936,559 to $26,021,854 due to an increase of $1,830,603 as a result of ongoing operations; which was offset by a decrease of $5,767,162 as a result of the implementation of Governmental Accounting Standards Board Statement No. 75. See Note 10 for further discussion.

Total revenues increased 7.58% or $654,311 to $9,285,671, due primarily to increases of $192,010 in charges for services, $56,674 in operating grants and contributions, $258,621 in capital grants and contributions, $81,923 in investment earnings, and $49,350 in gain on disposal of capital assets.

Total expenses increased by 19.10% or $1,195,735 to $7,455,068, due primarily to increases of $930,743 in wastewater fund expenses and $250,361 in general (parks and recreation) fund expenses.

Government-wide Financial Analysis, continued

Change in fund balance – Governmental fund

The following table is a summary of the change in fund balance for all governmental funds for the year ended June 30, 2018.

Condensed Changes in Fund Balance – Governmental Funds

		General (Parks and Recreation)	Measure B	Streetlighting	Total Governmental Activities
Fund balance, beginning of year	$	1,172,403	(598,629)	(21,166)	552,608
Change in fund balance		50,747	16,345	20,818	87,910
Fund balance, end of year	$	1,223,150	(582,284)	(348)	640,518

In 2018, total fund balance increased by 15.91% or $87,910 to $640,518. The General (Parks and Recreation) fund increased by 4.33% or $50,747 to $1,223,150; the Measure B fund increased by 2.73% or $16,345 to a deficit fund balance of $582,284; and the Street Lighting fund increased by 98.36% or $20,818 to a deficit fund balance of $348.

Capital Asset Administration

Capital Assets

		Governmental Activities		Business-Type Activities		Total District	
		2018	2017	2018	2017	2018	2017
Capital assets:							
Non-depreciable assets	$	1,710,464	1,682,772	3,963,864	17,879,003	5,674,328	19,561,775
Depreciable assets		7,123,515	7,106,487	52,754,245	35,158,474	59,877,760	42,264,961
Total capital assets		8,833,979	8,789,259	56,718,109	53,037,477	65,552,088	61,826,736
Accumulated depreciation		(3,550,560)	(3,292,282)	(20,767,624)	(19,782,279)	(24,318,184)	(23,074,561)
Total capital assets, net	$	5,283,419	5,496,977	35,950,485	33,255,198	41,233,904	38,752,175

At the end of fiscal year 2018, the District's investment in capital assets amounted to $41,233,904 (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	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Long-term debt:						
Long-term debt	$ 1,215,341	1,319,494	17,414,050	12,879,289	18,629,391	14,198,783
Total long-term debt:	$ 1,215,341	1,319,494	17,414,050	12,879,289	18,629,391	14,198,783

Long-term debt increased 31.20% or $4,430,608 to $18,629,391 in 2018, primarily due to additional note payable funds received from the State Water Resources Control Board for the purpose of financing a wastewater management facility improvement. See Note 6 for further discussion.

Conditions Affecting Current Financial Position

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

Requests for Information

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

< Page Intentionally Left Blank >

Basic Financial Statements

McKinleyville Community Services District
Statement of Net Position
June 30, 2018

		Governmental Activities	Business-Type Activities	Totals
Current assets:				
Cash and cash equivalents (notes 2 & 3)	$	586,260	10,331,950	10,918,210
Cash and cash equivalents – restricted (notes 2 & 3)		168,277	2,495,803	2,664,080
Accounts receivable		8,381	697,968	706,349
Accrued interest receivable		5,125	11,420	16,545
Prepaid expense		48,913	68,622	117,535
Materials and supplies inventory		-	104,761	104,761
Total current assets		816,956	13,710,524	14,527,480
Non-current assets:				
Capital assets – not being depreciated (note 4)		1,710,464	3,963,864	5,674,328
Capital assets – being depreciated (note 4)		3,572,955	31,986,621	35,559,576
Total non-current assets		5,283,419	35,950,485	41,233,904
Total assets		6,100,375	49,661,009	55,761,384
Deferred outflows of resources:				
Deferred pension outflows (note 8)		172,999	410,129	583,128
Total deferred outflows of resources	$	172,999	410,129	583,128

Continued on next page

See accompanying notes to the basic financial statements

McKinleyville Community Services District
Statement of Net Position, continued
June 30, 2018

	Governmental Activities	Business-Type Activities	Totals
Current liabilities:			
Accounts payable and accrued expenses	$ 73,925	853,124	927,049
Accrued interest on long-term debt	7,067	190,801	197,868
Accrued salaries and related payables	94,413	-	94,413
Customer deposits	8,100	116,522	124,622
Unearned revenue	-	31,488	31,488
Long-term liabilities – due within one year:			
Compensated absences (note 5)	50,833	126,636	177,469
Bond payable (note 6)	-	70,000	70,000
Capital lease payable (note 6)	85,798	-	85,798
Notes payable (note 6)	19,865	551,248	571,113
Total current liabilities	340,001	1,939,819	2,279,820
Non-current liabilities:			
Long-term liabilities – due in more than one year:			
Compensated absences (note 5)	37,835	123,903	161,738
Bond payable (note 6)	-	305,000	305,000
Capital lease payable (note 6)	1,099,816	-	1,099,816
Notes payable (note 6)	9,862	16,487,802	16,497,664
Other post employment benefits (note 7)	2,602,512	5,311,187	7,913,699
Net pension liabilities (note 8)	604,028	1,327,606	1,931,634
Total non-current liabilities	4,354,053	23,555,498	27,909,551
Total liabilities	4,694,054	25,495,317	30,189,371
Deferred inflows of resources:			
Deferred pension inflows (note 8)	48,502	84,785	133,287
Total deferred inflows of resources	48,502	84,785	133,287
Net position: (note 11)			
Net investment in capital assets	4,068,078	18,536,435	22,604,513
Restricted	168,277	1,657,373	1,825,650
Unrestricted	(2,705,537)	4,297,228	1,591,691
Total net position	$ 1,530,818	24,491,036	26,021,854

See accompanying notes to the basic financial statements

McKinleyville Community Services District
Statement of Activities
For the Fiscal Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities	Net (Expense) Revenue and Changes in Net Position: Business-Type Activities	Net (Expense) Revenue and Changes in Net Position: Total
Governmental activities:							
General (Parks and Recreation)	$ 1,640,838	587,437	40,835	29,343	(983,223)	-	(983,223)
Measure B	118,111	-	270	-	(117,841)	-	(117,841)
Street Lighting	88,947	88,558	-	-	(389)	-	(389)
Total governmental activities	1,847,896	675,995	41,105	29,343	(1,101,453)	-	(1,101,453)
Business–Type activities:							
Water	2,710,602	3,327,855	-	267,933	-	885,186	885,186
Wastewater	2,896,570	3,420,075	66,089	442,790	-	1,032,384	1,032,384
Total business–type activities:	5,607,172	6,747,930	66,089	710,723	-	1,917,570	1,917,570
Total	$ 7,455,068	7,423,925	107,194	740,066	(1,101,453)	1,917,570	816,117
General revenues:							
Property taxes					$ 598,430	-	598,430
Special assessments					209,573	-	209,573
Interest earnings					17,320	91,266	108,586
Gain on disposal of capital assets					-	65,250	65,250
Other income					32,647	-	32,647
Total general revenues					857,970	156,516	1,014,486
Change in net position					(243,483)	2,074,086	1,830,603
Net position, beginning of year, as restated (note 10)					1,774,301	22,416,950	24,191,251
Net position, end of year					$ 1,530,818	24,491,036	26,021,854

See accompanying notes to the basic financial statements

McKinleyville Community Services District
Balance Sheet of Governmental Fund
June 30, 2018

	General (Parks and Recreation)	Measure B	Street Lighting	Total Governmental Activities
Assets:				
Cash and investments	$ 586,260	-	-	586,260
Cash and investments – restricted	168,277	-	-	168,277
Accounts receivable	3,501	-	4,880	8,381
Interest receivable	5,125	-	-	5,125
Prepaid expenses	45,482	-	3,431	48,913
Due from other funds	586,474	(581,592)	(4,882)	-
Total assets	$ 1,395,119	(581,592)	3,429	816,956
Liabilities:				
Accounts payable	$ 69,456	692	3,777	73,925
Accrued wages and related payables	94,413	-	-	94,413
Deposits	8,100	-	-	8,100
Total liabilities	171,969	692	3,777	176,438
Fund balance:				
Restricted	168,277	-	-	168,277
Assigned	88,668	-	-	88,668
Unassigned	966,205	(582,284)	(348)	383,573
Total fund balance	1,223,150	(582,284)	(348)	640,518
Total liabilities and fund balance	$ 1,395,119	(581,592)	3,429	816,956

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, 2018

Reconciliation:

Total Fund Balances of Government Funds	$	640,518
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 funds 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		1,710,464
Capital assets – being depreciated		3,572,955
Deferred outflows(inflows) of resources are not financial resources(uses), and therefore are not reported in the governmental funds balance sheet. However, they are reported in the statement of net position. These are as follows:		
Deferred pension outflows		172,999
Deferred pension inflows		(48,502)
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		(7,067)
Compensated absences		(88,668)
Other postemployment benefit obligation		(2,602,512)
Long-term debt		(1,215,341)
Net pension liability		(604,028)
Net Position of Governmental Activities	$	1,530,818

See accompanying notes to the basic financial statements

McKinleyville Community Services District
Statement of Revenues, Expenditures, and Change in Fund Balance of Governmental Fund
For the Year Ended June 30, 2018

	General (Parks and Recreation)	Measure B	Street Lighting	Total Governmental Funds
Revenues				
Property taxes	$ 598,430	-	-	598,430
Special assessments	-	209,573	-	209,573
Charges for services and facilities	587,437	-	88,558	675,995
Operating grants and contributions	40,835	270	-	41,105
Capital grants and contributions	29,343	-	-	29,343
Other income	12,705	910	19,032	32,647
Unrestricted investment earnings	18,517	(1,197)	-	17,320
Total revenues	1,287,267	209,556	107,590	1,604,413
Expenditures				
General government (Parks and Recreation)	1,191,046	-	-	1,191,046
Measure B	-	64,590	-	64,590
Streetlighting	-	-	60,507	60,507
Debt service				
Principal	-	84,288	19,865	104,153
Interest	-	44,333	-	44,333
Capital outlay	45,474	-	6,400	51,874
Total expenditures	1,236,520	193,211	86,772	1,516,503
Excess(deficiency) of expenditures over revenues	50,747	16,345	20,818	87,910
Net change in fund balance	50,747	16,345	20,818	87,910
Fund balance - beginning of year	1,172,403	(598,629)	(21,166)	552,608
Fund Balance - end of year	$ 1,223,150	(582,284)	(348)	640,518

Continued on next page

See accompanying notes to the financial statements

McKinleyville Community Services District
Reconciliation of the Statement of Revenues, Expenditures, and Change in Fund Balance of Governmental Fund to the Statement of Activities
June 30, 2018

Reconciliation:

Net Change in Fund Balance – Total Governmental Funds	$	87,910
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense as follows:		
Capital outlay expense		51,874
Depreciation expense		(265,432)
The repayment of principal of long-term debt consumes current financial resources, and therefore, is reported as debt service principal payments in the governmental funds. However, these payments have no impact on net position, and therefore, are not reported in the statement of activities as follows:		
Debt service principal		104,153
Some expenses reported in the statement of activities do not require the use of current financial resources, and therefore, are not reported as expenses in governmental funds as follows:		
Net change in accrued interest expense on long-term debt		490
Net change in compensated absences for the current period		(1,829)
Net change in other postemployment benefits for the current period		(199,908)
Net change in pension obligations for the current period		(20,741)
Change in Net Position – Total Governmental Activities	$	(243,483)

See accompanying notes to the basic financial statements

McKinleyville Community Services District
Statement of Net Position – Enterprise Fund
For the Fiscal Year Ended June 30, 2018

		Water	Wastewater	2018
Current assets:				
Cash and investments	$	3,880,652	6,451,298	10,331,950
Cash and investments – restricted		1,379,536	1,116,267	2,495,803
Accounts receivable		328,585	369,383	697,968
Accrued interest receivable		5,238	6,182	11,420
Prepaid expenses		34,311	34,311	68,622
Inventory		78,922	25,839	104,761
Total current assets		5,707,244	8,003,280	13,710,524
Non-current assets:				
Capital assets – not being depreciated		525,063	3,438,801	3,963,864
Capital assets – being depreciated		7,844,534	24,142,087	31,986,621
Total non-current assets		8,369,597	27,580,888	35,950,485
Total assets		14,076,841	35,584,168	49,661,009
Deferred outflows of resources:				
Deferred pension outflows		193,326	216,803	410,129
Total deferred outflows of resources	$	193,326	216,803	410,129

Continued on next page

See accompanying notes to the basic financial statements

McKinleyville Community Services District
Statement of Net Position – Enterprise Fund, continued
For the Fiscal Year Ended June 30, 2018

		Water	Wastewater	2018
Current liabilities				
Accounts payable	$	154,672	698,452	853,124
Accrued interest payable		10,079	180,722	190,801
Customer deposits		116,522	-	116,522
Unearned revenue		15,744	15,744	31,488
Long-term liabilities – due within one year:				
Compensated absences		63,244	63,392	126,636
Bond payable		-	70,000	70,000
Notes payable		159,045	392,203	551,248
Total current liabilities		519,306	1,420,513	1,939,819
Non-current liabilites:				
Long-term liabilities – due within one year:				
Compensated absences		61,884	62,019	123,903
Bond payable		-	305,000	305,000
Notes payable		2,452,213	14,035,589	16,487,802
Other post employment benefits		2,650,047	2,661,140	5,311,187
Net pension liabilities		633,752	693,854	1,327,606
Total current liabilities		5,797,896	17,757,602	23,555,498
Total liabilities		6,317,202	19,178,115	25,495,317
Deferred inflows of resources:				
Deferred pension inflows		41,098	43,687	84,785
Total deferred inflows of resources		41,098	43,687	84,785
Net position:				
Net investment in capital assets		5,758,339	12,778,096	18,536,435
Restricted		1,379,536	277,837	1,657,373
Unrestricted		773,992	3,523,236	4,297,228
Total net position	$	7,911,867	16,579,169	24,491,036

See accompanying notes to the basic financial statements

McKinleyville Community Services District
Statement of Revenues, Expenditures, and Change in Fund Net Position – Enterprise Fund
For the Fiscal Year Ended June 30, 2018

	Water	Wastewater	2018
Operating revenues:			
Water revenue	$ 3,180,456	-	3,180,456
Sewer revenue	-	3,324,146	3,324,146
Other service charges	147,399	95,929	243,328
Operating grant	-	66,089	66,089
Total operating revenues	3,327,855	3,486,164	6,814,019
Operating expenses:			
Water purchase	867,122	-	867,122
Salaries and benefits	482,153	563,219	1,045,372
Employee benefits	595,365	680,783	1,276,148
Professional services	40,765	41,135	81,900
Utilities	52,412	236,442	288,854
Insurance expense	33,807	28,838	62,645
Other operating expense	210,103	318,533	528,636
Total operating expenses	2,281,727	1,868,950	4,150,677
Operating income before depreciation	1,046,128	1,617,214	2,663,342
Depreciation expense	(363,985)	(829,508)	(1,193,493)
Operating income	682,143	787,706	1,469,849
Non-operating revenue(expense):			
Interest earning	45,377	45,889	91,266
Gain on sale of assets	-	65,250	65,250
Interest expense	(64,890)	(198,112)	(263,002)
Total non-operating revenues, net	(19,513)	(86,973)	(106,486)
Net income before capital contributions	662,630	700,733	1,363,363
Capital contributions:			
Capacity fees	175,033	268,886	443,919
Contributed capital assets	92,900	173,904	266,804
Total capital contributions	267,933	442,790	710,723
Change in net position	930,563	1,143,523	2,074,086
Net position, beginning of year, as restated (note 1	6,981,304	15,435,646	22,416,950
Net position, end of year	$ 7,911,867	16,579,169	24,491,036

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, 2018

		2018
Cash flows from operating activities:		
Cash receipts from customers	$	6,748,178
Cash paid to employees		(1,024,788)
Cash paid to vendors and suppliers		(3,700,291)
Net cash provided by operating activities		2,023,099
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets		(3,680,632)
Proceeds from the sale of capital assets		123,906
Proceeds from capital contributions		443,919
Proceeds from loan issuance		4,814,628
Principal payments on long-term debt		(279,867)
Interest payments on long-term debt		(190,037)
Net cash provided by capital and related financing activities		1,231,917
Cash flows from investing activities:		
Interest earnings		88,725
Net cash provided by investing activities		88,725
Net increase in cash and cash equivalents		3,343,741
Cash and cash equivalents, beginning of year		9,484,012
Cash and cash equivalents, end of year	$	12,827,753
Reconciliation of cash and cash equivalents to statement of net position:		
Cash and investments	$	10,331,950
Cash and investments – restricted		2,495,803
Total cash and cash equivalents	$	12,827,753

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, 2018

		2018
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	1,469,849
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense		1,193,493
Change in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:		
(Increase)decrease in assets and deferred ouflows:		
Accounts receivable		(74,379)
Prepaid expenses		(68,622)
Inventory		6,023
Deferred pension outflows		(101,005)
Increase(decrease) in liabilities and deferred inflows:		
Accounts payable		(1,022,069)
Customer deposits		1,654
Unearned revenue		6,884
Compensated absences		20,584
Other post employment benefits		407,970
Net pension liabilites		210,540
Deferred inflows of resources		(27,823)
Total adjustments		553,250
Net cash provided by operating activities	$	2,023,099

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 Service 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 the McKinleyville Library.

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

B. Basis of Accounting and Measurement Focus

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

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

Government-wide Financial Statements

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

Fund Financial Statements

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

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

B. Basis of Accounting and Measurement Focus, continued

Fund Financial Statements, continued

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

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

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

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

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

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

a) Total assets and deferred outflows of resources, liabilities and deferred inflows resources, revenues, or expenditures/expenses of that individual governmental or proprietary fund are at least 10 percent of the corresponding total for all funds of that category or type;

b) Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental fund or proprietary fund are at least 5 percent of the corresponding total for all governmental and proprietary funds combined; or

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

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

B. Basis of Accounting and Measurement Focus, continued

Fund Financial Statements, continued

The funds of the financial reporting entity are described below:

Governmental Funds

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

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

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

Enterprise Funds

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

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

C. Financial Reporting

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

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

In June 2015, the GASB issued Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

This Statement replaces the requirements of Statement No. 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57 – *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB.

In March 2016, the GASB issued Statement No. 81 – *Irrevocable Split-Interest Agreements.* The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

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

C. Financial Reporting, continued

In March 2017, the GASB issued Statement No. 85 – *Omnibus 2017.* The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).

In May 2017, the GASB issued Statement No. 86 – *Certain Debt Extinguishment Issues.* The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

D. Financial Statement Elements

1. Use of Estimates

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

2. Cash and Cash Equivalents

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

3. Investments

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

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

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

D. Financial Statement Elements, continued

4. Fair Value Measurements

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

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

5. Accounts Receivable

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

6. Property Taxes and Assessments

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

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

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

7. Materials and Supplies Inventory

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

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

D. Financial Statement Elements, continued

8. Capital Assets

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

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

Governmental Activities

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

Business-Type Activities

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

9. Deferred Outflows of Resources

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

10. Compensated Absences

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

11. Other Post-Employment Benefits

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

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

D. Financial Statement Elements, continued

12. Pensions

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

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

- Valuation Date: June 30, 2016
- Measurement Date: June 30, 2017
- Measurement Period: July 1, 2016 to June 30, 2017

13. Deferred Inflows of Resources

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

14. Net Position

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

- **Net investment in capital assets** – consists of capital assets, net of accumulated depreciation and amortization, and reduced by debt balances outstanding or other long-term borrowings that are attributable to the acquisition, construction, or improvement of those assets.

- **Restricted** – consists of assets that have restrictions placed upon their use by external constraints imposed either by creditors (debt covenants), grantors, contributors, or laws and regulations of other governments or constraints imposed by law through enabling legislation.

- **Unrestricted** – consists of the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets or restricted components of net position.

15. Fund Balance

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

- **Nonspendable fund balance –** amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.

- **Restricted fund balance** – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws and regulations of other governments; or (b) imposed by law through constitutional provisions enabling legislation.

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

D. Financial Statement Elements, continued

15. Fund Balance, continued

- **Committed fund balance** – amounts that can only be used for specific purposes determined by formal action of the District's highest level of decision-making authority (the Board of Directors) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- **Assigned fund balance** – amounts that are constrained by the District's intent to be used for specific purposes. The intent can be established at either the highest level of decision-making, or by a body or an official designated for that purpose.
- **Unassigned fund balance** – the residual classification for the District's general fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

Fund Balance Policy

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

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

The District believes that sound financial management principles require that sufficient funds be retained by the District to provide a stable financial base at all times. To retain this stable financial base, the District needs to maintain an unrestricted fund balance in its funds sufficient to fund cash flows of the District and to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature. Committed, assigned, and unassigned fund balances 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, 2018 are classified as follows:

		Governmental Activities	Business-Type Activities	Totals
Cash and cash equivalents	$	586,260	10,331,950	10,918,210
Cash and cash equivalents – restricted		168,277	2,495,803	2,664,080
Total	$	754,537	12,827,753	13,582,290

(2) Cash and Cash Equivalents, continued

Authorized Deposits and Investments

Cash and cash equivalents as of June 30, 2018 consisted of the following:

		Unrestricted	Restricted	Total
Cash				
Cash	$	940	-	940
Deposits held with financial instititions		1,374,572	180,972	1,555,544
Total cash and cash equivalents		1,375,512	180,972	1,556,484
Cash equivalents				
Deposits with Humbolt County Treasurer		3,745,823	1,715,016	5,460,839
Deposits held with California Local Agency Investment Fund (LAIF)		131,490	-	131,490
Deposit with CalTRUST		5,665,385	768,092	6,433,477
Total cash equivalents		9,542,698	2,483,108	12,025,806
Total	$	10,918,210	2,664,080	13,582,290

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

State of California Local Agency Fund (LAIF)

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

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

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

- Each agency in the fund may invest up to $40 million and may invest without limitation in special bond proceeds accounts.
- Same day transaction processing occurs for orders received before 10:00 a.m.
- Next day transaction processing occurs for orders received after 10:00 a.m.
- Maximum limit of 15 transactions (combination of deposits and withdrawals) per month.
- Minimum transaction amount requirement of $5,000, in increments of $1,000.
- Withdrawals of $10,000,000 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.

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

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, 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 the 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.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Code and the District's investment policy contain legal and policy requirements that would limit the exposure to custodial credit risk for investments. 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.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The longer the maturity an investment has the greater its fair value has sensitivity to changes in market interest rates. The District's investment policy follows the Code as it relates to limits on investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates.

(2) Cash and Cash Equivalents, continued

Interest Rate Risk, continued

As of June 30, 2018 the District's authorized deposits had the following maturities:

		Average Months Maturity		
Cash Equivalents	**Total**	**12 Months or Less**	**13 to 24 Months**	**25 Months or More**
CalTRUST Funds	$ 6,433,477	205,834	-	6,227,643
California Local Agency Investment Fund	131,490	131,490	-	-
Humbolt County Treasurer	5,460,839	-	-	5,460,839
Total	$ 12,025,806	337,324	-	11,688,482

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, 2018 for each investment type.

Cash Equivalents	**Total**	**Rating at Year End**
Cal Trust – Short Term Fund	$ 205,834	AAf
Cal Trust – Medium Term Fund	6,227,643	A+f
California Local Agency Investment Fund	131,490	Not Rated
Humbolt County Treasurer	5,460,839	Not Rated
Total	$ 12,025,806	

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, 2018 were allocated as follows:

	2018
Cash	$ 940
Deposits held with financial instititions	1,555,544
Deposits with Humbolt County Treasurer	5,460,839
Deposits held with California Local Agency Investment Fund (LAIF)	131,490
Deposit with CalTrust	6,433,477
Total	$ 13,582,290

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, 2018 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	$ 5,460,839	-	5,460,839	-
CalTrust Medium-Term Fund	6,227,643	-	6,227,643	-
Total pooled investment fund	11,688,482	-	11,688,482	-
Other pooled funds measured at net asset value				
CalTrust Short-Term Fund	205,834			
California Local Agency Investment Fund	131,490			
	337,324			
	$ 12,025,806			

(4) Capital Assets

Governmental Activities:

Changes in capital assets at June 30 were as follows:

	Balance 2017	Additions/ Transfers In	Deletions/ Transfers Out	Balance 2018
Non-depreciable assets:				
Land	$ 1,560,744	-	-	1,560,744
Construction in Progress	122,028	30,887	(3,195)	149,720
Total non-depreciable assets	1,682,772	30,887	(3,195)	1,710,464
Depreciable assets:				
Buildings and improvements	2,376,135	14,587	-	2,390,722
Furniture and equipment	282,025	-	-	282,025
Park improvements	3,861,266	3,195	-	3,864,461
Vehicles	69,263	-	(7,154)	62,109
Streetlighting	517,798	6,400	-	524,198
Total depreciable assets	7,106,487	24,182	(7,154)	7,123,515
Accumulated depreciation				
Buildings and improvements	(1,636,461)	(84,710)	-	(1,721,171)
Furniture and equipment	(244,469)	(6,400)	-	(250,869)
Park improvements	(1,139,790)	(146,493)	-	(1,286,283)
Vehicles	(40,860)	(8,110)	7,154	(41,816)
Streetlighting	(230,702)	(19,719)	-	(250,421)
Total accumulated depreciation	(3,292,282)	(265,432)	7,154	(3,550,560)
Total depreciable assets, net	3,814,205	(241,250)	-	3,572,955
Total capital assets, net	$ 5,496,977			5,283,419

(4) Capital Assets, continued

Business-type Activities:

Changes in capital assets at June 30 were as follows:

	Balance 2017	Additions/ Transfers In	Deletions/ Transfers Out	Balance 2018
Non-depreciable assets:				
Land	$ 3,410,931	-	-	3,410,931
Construction in Progress	14,468,072	3,643,430	(17,558,569)	552,933
Total non-depreciable assets	17,879,003	3,643,430	(17,558,569)	3,963,864
Depreciable assets:				
Buildings and improvements	467,095	-	-	467,095
Water infrastructure	13,738,847	762,499	-	14,501,346
Wastewater infrastructure	18,621,987	17,019,623	-	35,641,610
Tools and equipment	1,092,430	21,797	-	1,114,227
Vehicles	1,238,115	(208,148)	-	1,029,967
Total depreciable assets	35,158,474	17,595,771	-	52,754,245
Accumulated depreciation				
Buildings and improvements	(256,169)	(16,420)	-	(272,589)
Water infrastructure	(6,666,804)	(320,617)	-	(6,987,421)
Wastewater infrastructure	(11,267,096)	(749,668)	-	(12,016,764)
Tools and equipment	(1,018,716)	(24,325)	-	(1,043,041)
Vehicles	(573,494)	(82,463)	208,148	(447,809)
Total accumulated depreciation	(19,782,279)	(1,193,493)	208,148	(20,767,624)
Total depreciable assets, net	15,376,195	16,402,278	208,148	31,986,621
Total capital assets, net	$ 33,255,198			35,950,485

Depreciation expense was charged to various functions at June 30, 2018 as follows:

Governmental activities:	
General (Parks and Recreation)	$ 163,710
Measure B	82,003
Streetlighting	19,719
Total governmental activities	265,432
Business-type activities	
Water Fund	363,985
Wastewater Fund	829,508
Total business-type activities	1,193,493
	$ 1,458,925

(5) Compensated Absences

The changes to compensated absences balances at June 30 were as follows:

Governmental Activities

	Balance 2017	Earned	Taken	Balance 2018	Due within one year	Due in more than one year
$	86,839	26,994	(25,165)	88,668	50,833	37,835

Business-type Activities

	Balance 2017	Earned	Taken	Balance 2018	Due within one year	Due in more than one year
$	229,955	64,404	(43,820)	250,539	126,636	123,903

(6) Long-term Debt

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

	Balance 2017	Additions	Payments	Balance 2018	Current Portion	Long-Term Portion
Governmental Activities:						
Capital lease payable						
PPFCC Lease (Umpqua Loan)	$ 1,269,902	-	(84,288)	1,185,614	85,798	1,099,816
Total capital lease payable	1,269,902	-	(84,288)	1,185,614	85,798	1,099,816
Note payable						
PG&E Loan	49,592	-	(19,865)	29,727	19,865	9,862
Total note payable	49,592	-	(19,865)	29,727	19,865	9,862
Total governmental activities	1,319,494	-	(104,153)	1,215,341	105,663	1,109,678
Business-type Activities						
Notes payable						
Water fund						
ARRA Loan	112,566	-	(11,353)	101,213	11,411	89,802
Davis-Grunsky Act Loan	1,894,550	-	(100,728)	1,793,822	102,821	1,691,001
I-Bank Loan	759,575	-	(43,352)	716,223	44,813	671,410
Total Water fund	2,766,691	-	(155,433)	2,611,258	159,045	2,452,213
Wastewater fund						
Lourenco Loan	27,258	-	(27,258)	-	-	-
State Revolving Fund Loan #2	27,176	-	(27,176)	-	-	-
State Revolving Fund Loan #3	9,613,164	4,814,628	-	14,427,792	392,203	14,035,589
Total Wastewater fund	9,667,598	4,814,628	(54,434)	14,427,792	392,203	14,035,589
Total notes payable	12,434,289	4,814,628	(209,867)	17,039,050	551,248	16,487,802
Bond payable						
Wastewater fund						
USDA Revenue Bonds	445,000	-	(70,000)	375,000	70,000	305,000
Total bond payable	445,000	-	(70,000)	375,000	70,000	305,000
Total business-type activities	12,879,289	4,814,628	(279,867)	17,414,050	621,248	16,792,802
Total long-term debt	$ 14,198,783	4,814,628	(384,020)	18,629,391	726,911	17,902,480

(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
2019	$ 85,798	41,652	127,450
2020	88,872	38,581	127,453
2021	92,054	35,398	127,452
2022	95,351	32,101	127,452
2023	98,767	28,687	127,454
2024-2028	549,500	78,086	627,586
2029-2030	175,272	16,260	191,532
Total	1,185,614	270,765	1,456,379
Current	(85,798)		
Non-current	$ 1,099,816		

PG&E Loan

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

Future debt service on the loan is as follows:

Year	Principal	Interest	Total
2019	$ 19,865	-	19,865
2020	9,862	-	9,862
Total	29,727	-	29,727
Current	(19,865)		
Non-current	$ 9,862		

(6) Long-term Debt, continued

ARRA Loan

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

Future debt service on the loan is as follows:

Year	Principal	Interest	Total
2019	$ 11,411	979	12,390
2020	11,523	867	12,390
2021	11,641	749	12,390
2022	11,757	633	12,390
2023	11,875	515	12,390
2024-2027	43,006	855	43,861
Total	101,213	4,598	105,811
Current	(11,411)		
Non-current	$ 89,802		

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
2019	$	102,821	38,457	141,278
2020		104,965	36,313	141,278
2021		107,163	34,115	141,278
2022		109,417	31,861	141,278
2023		111,726	29,551	141,277
2024-2028		595,346	111,045	706,391
2029-2033		662,384	44,004	706,388
Total		1,793,822	325,346	2,119,168
Current		(102,821)		
Non-current	$	1,691,001		

(6) Long-term Debt, continued

I-Bank Loan

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

Future debt service on the loan is as follows:

Year	Principal	Interest	Total
2019	$ 44,813	25,530	70,343
2020	46,323	23,860	70,183
2021	47,884	22,134	70,018
2022	49,498	20,350	69,848
2023	51,166	24,952	76,118
2024-2028	282,886	58,656	341,542
2029-2031	193,653	8,607	202,260
Total	716,223	184,089	900,312
Current	(44,813)		
Non-current	$ 671,410		

USDA Revenue Bonds

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

Future debt service is as follows:

Year	Principal	Interest	Total
2019	$ 70,000	17,000	87,000
2020	80,000	13,250	93,250
2021	80,000	9,250	89,250
2022	80,000	5,250	85,250
2023	65,000	1,625	66,625
Total	375,000	46,375	421,375
Current	(70,000)		
Non-current	$ 305,000		

(6) Long-term Debt, continued

Umpqua Bank Loan

In 1998, the District entered into a loan agreement with Umpqua Bank for the purpose of financing improvements to its wastewater system. The loan amount totaled $675,000 and with an interest rate of 5.50% per annum. Payments of principal and interest of $4,644 were due monthly through December 2017. As of June 30, 2018, the District paid the remaining balance of the loan.

State Revolving Fund Loans No. 2

In 1998, the District entered into a loan agreement with the State Water Resources Control Board for the purpose of financing phase 2 of a wastewater capacity expansion project. The loan amount totaled $430,293 and with an interest rate of 2.60% per annum. Annual payment of principal and interest was due March of each year and through 2018. As of June 30, 2018, the District paid the remaining balance of the loan.

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 $14,427,792 and bears an interest rate of 1.60% per annum. Annual payment of principal and interest are due September of each year. Repayment commences on September 2018 and continues through September 2047. The District is subject to levy taxes or assessments to repay the loan should it not have sufficient resources available to make the scheduled payments.

Future debt service on the loan is as follows:

Year	Principal	Interest	Total
2019	$ 392,203	43,604	435,807
2020	384,147	224,569	608,716
2021	390,293	218,423	608,716
2022	396,538	212,178	608,716
2023	402,883	205,834	608,717
2024-2028	2,113,193	930,389	3,043,582
2029-2033	2,287,746	755,837	3,043,583
2034-2038	2,476,717	566,866	3,043,583
2039-2043	2,681,297	362,286	3,043,583
2044-2048	2,902,775	140,808	3,043,583
Total	14,427,792	3,660,794	18,088,586
Current	(392,203)		
Non-current	$ 14,035,589		

(7) Other Post Employment Benefit Obligations

Plan Description

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

Benefits Provided

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

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

Employees Covered by Benefit Terms

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

	2018
Inactive employees or beneficiaries currently receiving benefit payments	15
Active employees	26
Total plan membership	41

Contributions

The District pays benefits as they come due.

Net OPEB Liability

The District's net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017.

Actuarial Assumptions and Other Inputs

The total OPEB liability in the June 30, 2018, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation	2.50%
Salary increases	Aggregate salary increases 3.00%. Individual salary increases based on CalPERS
Discount rate	3.50%
Healthcare cost trend rate	7.00% in the first year, trending down to 3.94% over 57 years

(7) Other Post-Employment Benefits Payable, continued

Actuarial Assumptions and Other Inputs, continued

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

Discount Rate

The discount rate used to measure the total OPEB liability was 3.50%. 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.

Changes is the Total OPEB Liability

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

		2018
Balance at June 30, 2017	$	7,305,821
Changes for the year:		
Service cost		478,977
Interest		253,523
Employer contributions		(124,622)
Net change		607,878
Balance at June 30, 2018	$	7,913,699

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 (2.50%) or 1-percentage-point higher (4.50%) than the current discount rate (3.50%):

		Discount Rate 1% Lower	**Valuation Discount Rate**	**Discount Rate 1% Higher**
Total OPEB liability	$	9,346,715	7,913,699	6,770,158

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 healthcare cost trend rates that are 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) than the current healthcare cost trend rates (7.00%):

		Trend 1% Lower	**Valuation Trend**	**Trend 1% Higher**
Total OPEB liability	$	6,442,857	7,913,699	9,868,604

(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, 2018, the District recognized an OPEB expense of $732,500. At June 30, 2018, the District did not report any deferred outflows of resources or deferred inflows of resources related OPEB.

(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 CalPERS website or may be obtained from their executive office at 400 P Street, Sacramento, California 95814.

Benefits Provided

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

On September 12, 2012, the California Governor signed the California Public Employees' Pension Reform Act of 2013 (PEPRA) into law. PEPRA took effect January 1, 2013. The new legislation closed the District's CalPERS 2.0% at 60 Risk Pool Retirement Plan to new employee entrants, not previously employed by an agency under CalPERS, 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 Plans' provision and benefits in effect at June 30, 2018, 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	52
Monthly benefits, as a percentage of eligible compensation	1.43% to 2.42%	1.00% to 2.50%
Required employee contribution rates	7.000%	6.250%
Required employer contribution rates	8.418%	6.533%

(8) Defined Benefit Pension Plan, continued

Contributions

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

For the fiscal year ended June 30, 2018, the contributions for the Plan were as follows:

		2018
Contributions – employer	$	163,266

Net Pension Liability

As of the fiscal year ended June 30, 2018, the District reported a net pension liability for its proportionate share of the net pension liability of each Plan as follows:

		2018
Proportionate share of net pension liability	$	1,931,634

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, 2018, the net pension liability of the Plan is measured as of June 30, 2017 (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, 2016 (the valuation date), rolled forward to June 30, 2017, 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 changes in proportionate share of the net pension liability for the Plan's miscellaneous risk pool as of the measurement dates June 30, 2017, was as follows:

	Proportionate Share	
Proportion – June 30, 2016	0.01878	%
Decrease in proportion	0.00069	
Proportion – June 30, 2017	0.01948	%

(8) Defined Benefit Pension Plan, continued

Deferred Pension Outflows (Inflows) of Resources

For the year ended June 30, 2018, the District recognized pension expense of $286,870. As of the fiscal year ended June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 184,417	-
Differences between actual and expected experience	-	(37,241)
Changes in assumptions	320,295	-
Net differences between projected and actual earnings on plan investments	78,416	-
Adjustment due to changes in porportions and difference in employer contributions	-	(96,046)
Total	$ 583,128	(133,287)

For the year ended June 30, 2018, the District's deferred outflows of resources related to contributions subsequent to the measurement date totaled $184,417; and other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ending June 30,	Deferred Net Outflows(Inflows) of Resources
2019	$ 13,841
2020	186,754
2021	111,384
2022	(46,555)

(8) Defined Benefit Pension Plan, continued

The total pension liability in the June 30, 2016, actuarial valuation report was determined using the following actuarial assumptions:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Actuarial cost method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial assumption	
Discount rate	7.15%
Inflation	2.75%
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 - 2011
Post-retirement benefit increase	Contract COLA up to 2.75% until PPPA floor on purchasing power applies; 2.75% thereafter.

* The mortality table used was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the April 2014 experience study report (based on CalPERS demographic data from 1997 to 2011) available online.

Discount Rate

The discount rates used in the actuarial valuations to measure the total pension liability as of June 30, 2017, reflect the long-term expected rates of return. The discount rates used to measure the total pension liability as of June 30, 2017, was 7.15%. These differ from the discount rates used as of June 30, 2016, which was 7.65%, due to a decrease in the long-term expected rate of return. The financial reporting discount rates are not adjusted for administrative expenses and are consistent with the funding discount rates at the end of the three-year funding discount rate phase-in period.

To determine whether the municipal bond rate should be used in the calculation of the discount rate, the amortization and smoothing periods adopted by CalPERS in 2013 were used. The crossover test was performed for a miscellaneous agent plan and a safety agent plan selected as being more at risk of failing the crossover test and resulting in a discount rate that would be different from the long-term expected rate of return on pension investments.

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

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

(8) Defined Benefit Pension Plans, continued

Discount Rate, continued

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

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

As of June 30, 2018, the target allocation and the long-term expected real rate of return by asset class were as follow:

Asset Class	Target Allocation	Real Return Years 1-10	Real Return Year 11+
Global Equity	47.00 %	4.90 %	0.54 %
Global Fixed Income	19.00	0.80	2.27
Inflation Sensitive	6.00	0.60	1.39
Private Equity	12.00	6.60	6.63
Real Asset	11.00	2.80	5.21
Infrastructure and Forestland	3.00	3.90	5.36
Liquidity	2.00	(0.40)	(0.90)
Total	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, 2018, 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	$ 3,074,564	1,931,634	985,039

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 56 and 57 for the Required Supplementary Information.

(9) Internal Transfers

Inter-fund Operational Transfers

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

As of June 30, 2018, inter-fund receivables/payables between the District's funds were as follows:

Receivable From	Payable To		Amount
Measure B Fund	General (Parks & Recreation) Fund	$	581,592
Street Lighting Fund	General (Parks & Recreation) Fund		4,882
Payable to General Fund		$	586,474

(10) Restatement of Net Position

In fiscal year 2018, the District implemented GASB Statement No. 75, to recognize its net OPEB liability. Following the implementation, the District recognized net OPEB liability and recorded a prior period adjustment $5,767,162 at June 30, 2017.

Previously recorded net position of $29,958,413 has been restated to $24,191,251 as of June 30, 2017. In addition, the effect of the implementation of GASB 75 is recorded as an adjustment to the beginning net position. The effect of the above changes is summarized as follows:

		Governmental Activities	Business-type Activities	Total
Net position at June 30, 2017, as previously stated	$	3,670,899	26,287,514	29,958,413
Effect of adjustment to net OPEB liability		(1,896,598)	(3,870,564)	(5,767,162)
Net position at June 30, 2018, as restated	$	1,774,301	22,416,950	24,191,251

(11) Net Position

Net investment in capital assets is calculated as follows:

		Governmental Activities	Business-type Activities	2018
Net investment in capital assets:				
Capital assets – not being depreciated	$	1,710,464	3,963,864	5,674,328
Capital assets – being depreciated		3,572,955	31,986,621	35,559,576
Long-term debt – current portion		(105,663)	(621,248)	(726,911)
Long-term debt – long-term portion		(1,109,678)	(16,792,802)	(17,902,480)
Total net investment in capital asset	$	4,068,078	18,536,435	22,604,513

(11) Net Position, continued

Restricted net position is calculated as follows:

		Governmental Activities	Business-type Activities	2018
Restricted:				
Capacity fees	$	-	872,915	872,915
Debt service		-	784,458	784,458
Teen and community center		7,957	-	7,957
Park & Recreation capital projects - Coastal		43,766	-	43,766
Park & Recreation capital projects - Inland		116,554	-	116,554
Total restricted	$	168,277	1,657,373	1,825,650

Unrestricted net position is calculated as follows:

		Governmental Activities	Business-type Activities	2018
Unrestricted:	$			
Assigned		88,668	250,539	339,207
Unassigned		(2,794,205)	4,046,689	1,252,484
Total unrestricted	$	(2,705,537)	4,297,228	1,591,691

(12) Fund Balance

Fund balances are 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, 2018, are as follows:

		2018
Restricted:		
Teen and community center	$	7,957
Park & Recreation capital projects - Coastal		43,766
Park & Recreation capital projects - Inland		116,554
Total restricted		168,277
Assigned:		
Compensated absences		88,668
Total assigned		88,668
Unassigned:		
General (Parks and Recreation)		
Operating fund		762,382
Repair and replacement fund		4,400
Catastrophe		105,668
Other postemployment benefits		93,755
Measure B		(582,284)
Streeting lighting		(348)
Total unassigned		383,573
Total fund balance	$	640,518

(13) 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, 2018, the District participated in the liability and property programs of the SDRMA as follows:

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

(13) Risk Management, continued

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

Settled claims have not exceeded any of the coverage amounts in the last fiscal year. There were no reductions in insurance coverage in fiscal year 2018. 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, 2018.

(14) 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. 83

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

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

Governmental Accounting Standards Board Statement No. 84

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

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

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

Governmental Accounting Standards Board Statement No. 84, continued

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

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

Governmental Accounting Standards Board Statement No. 87

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

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

Governmental Accounting Standards Board Statement No. 88

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

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

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

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

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

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

Governmental Accounting Standards Board Statement No. 89

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

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

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

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

(15) Commitments and Contingencies

Commitments

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

Grant Awards

Grant funds received by the District are subject to audit by the grantor agencies. Such audit could lead to requests for reimbursements to the 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.

(16) Subsequent Event

Events occurring after June 30, 2018, have been evaluated for possible adjustment to the financial statements or disclosure as of January 2, 2019, which is the date the financial statements were available to be issued. The District is not aware of any further subsequent events that would require recognition or disclosure in the financial statements.

Required Supplementary Information

< Page Intentionally Left Blank >

McKinleyville Community Services District
Schedule of Revenues, Expenditures, and Change in Fund Balance
Budget to Actual – General (Parks and Recreation) Fund
For the Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance Positive
	Original	Final	Amounts	(Negative)
Revenues:	$			
Property taxes	525,000	525,000	598,430	73,430
Charges for services and facilities	641,016	641,016	587,437	(53,579)
Operating grants and contributions	2,000	2,000	40,835	38,835
Capital grants and contributions	25,000	25,000	29,343	4,343
Other income	16,232	16,232	12,705	(3,527)
Unrestricted investment earnings	10,000	10,000	18,517	8,517
Total revenues	1,219,248	1,219,248	1,287,267	68,019
Expenditures:				
Salaries and employee benefits	972,299	972,299	961,554	10,745
Materials and services	240,780	240,780	229,492	11,288
Capital outlay	42,000	42,000	45,474	(3,474)
Total expenditures	1,255,079	1,255,079	1,236,520	18,559
Excess(deficiency) of revenues over expenditures	(35,831)	(35,831)	50,747	86,578
Net change in fund balance	(35,831)	(35,831)	50,747	$ 86,578
Fund balance, beginning of year	1,172,403	1,172,403	1,172,403	
Fund balance, end of year	$ 1,136,572	1,136,572	1,223,150	

McKinleyville Community Services District
Schedule of Revenues, Expenditures, and Change in Fund Balance
Budget to Actual – Measure B Fund
For the Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance Positive
	Original	Final	Amounts	(Negative)
Revenues:	$			
Special assessments	214,662	214,662	209,573	(5,089)
Operating grants and contributions	-	-	270	(270)
Other income	-	-	910	910
Unrestricted investment earnings	-	-	(1,197)	(1,197)
Total revenues	214,662	214,662	209,556	(5,646)
Expenditures:				
Salaries and benefits	54,464	54,464	39,472	14,992
Materials and services	32,400	32,400	25,118	7,282
Debt service				
Principal	82,831	82,831	84,288	(1,457)
Interest	44,619	44,619	44,333	286
Total expenditures	214,314	214,314	193,211	21,103
Excess of revenues over expenditures	348	348	16,345	15,457
Net change in fund balance	348	348	16,345	$ 15,457
Fund balance, beginning of year	(598,629)	(598,629)	(598,629)	
Fund balance, end of year	$ (598,281)	(598,281)	(582,284)	

McKinleyville Community Services District
Schedule of Revenues, Expenditures, and Change in Fund Balance
Budget to Actual – Street Lighting Fund
For the Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance Positive
	Original	Final	Amounts	(Negative)
Revenues:				
Charges for services and facilities	$ 83,800	83,800	88,558	4,758
Other income	17,450	17,450	19,032	1,582
Total revenues	101,250	101,250	107,590	6,340
Expenditures:				
Salaries and payroll expenses	22,103	22,103	22,159	(56)
Employee benefits	21,447	21,447	14,727	6,720
Materials and services	35,660	35,660	23,621	12,039
Debt service				
Principal	19,865	19,865	19,865	-
Capital outlay	2,000	2,000	6,400	(4,400)
Total expenditures	101,075	101,075	86,772	14,303
Excess of revenues over expenditures	175	175	20,818	20,643
Net change in fund balance	175	175	20,818	$ 20,643
Fund balance, beginning of year	(21,166)	(21,166)	(21,166)	
Fund balance, end of year	$ (20,991)	(20,991)	(348)	

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 accrual basis for the 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
Schedule of Changes in District's Total OPEB Liability and Related Ratios
For the Fiscal Year Ended June 30, 2018
Last Ten Years*

Other Post-Employment Benefits Payable

		2018
Total OPEB liability		
Service cost	$	478,977
Interest		253,523
Employer contributions		(124,622)
Net change in total OPEB liability		607,878
Total OPEB liability – beginning		7,305,821
Total OPEB liability – ending	$	7,913,699
Covered-employee payroll	$	1,515,055
Total OPEB liability as a percentage of covered-employee payroll		522.34%

Note to Schedule

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

***Changes of Assumptions* –** There were no changes of assumption for the measurement period ended June 30, 2018.

***** The Cooperative 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, 2018
Last Ten Years*

Defined Benefit Plan

Description		6/30/2018	6/30/2017	6/30/2016	6/30/2015
District's proportion of the net pension liability(asset)		0.01743%	0.01878%	0.01728%	0.01805%
District's proportionate share of the net pension liability(asset)	$	1,931,634	1,625,303	1,186,322	1,123,351
District's covered-employee payroll	$	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-employee payroll		147.05%	128.90%	94.62%	95.59%
Plan's fiduciary net position as a percentage of the total pension liability		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 – The District 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 the District's plan can be found in the plan's annual valuation report.

Changes of Assumptions – In fiscal year 2018, the financial reporting discount rate was lowered from 7.65% to 7.15%. In December 2016, the CalPERS Board approved lowering the funding discount rate used from 7.50% to 7.00%, which is to be phased-in over a three-year period (7.50% to 7.375%, 7.375% to 7.25%, and 7.25% to 7.00%) beginning with the June 30, 2016, valuation reports. The funding discount rate includes a 15 basis-point reduction for administrative expenses, and the remaining decrease is consistent with the change in the financial reporting discount rate.

***** 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, 2018
Last Ten Years*

Defined Benefit Plan

Description		6/30/2018	6/30/2017	6/30/2016	6/30/2015
Actuarially determined contribution	$	187,417	162,865	155,352	126,683
Contributions in relation to the actuarially determined contribution		(187,417)	(163,266)	(155,352)	(126,683)
Contribution deficiency (excess)	$	-	(401)	-	-
District's covered payroll	$	1,313,591	1,260,867	1,253,808	1,175,186
Contribution's as a percentage of covered-employee payroll		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.

< Page Intentionally Left Blank >

Report on Compliance and Internal Controls

< Page Intentionally Left Blank >

Fedak & Brown LLP
Certified Public Accountants

Charles Z. Fedak, CPA, MBA
Christopher J. Brown, CPA, CGMA
Jonathan P. Abadesco, CPA
Andy Beck, CPA

Cypress Office:
6081 Orange Avenue
Cypress, California 90630
(657) 214-2307
FAX (714) 527-9154

Riverside Office:
1945 Chicago Avenue, Suite C-1
Riverside, California 92507
(951) 783-9149

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, 2018, 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 2, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

Purpose of this Report

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

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
January 2, 2019