



McKinleyville Community Services District
McKinleyville, California

Annual Financial Report
For the Fiscal Year Ended
June 30, 2021



Board of Directors as of June 30, 2021

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

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

McKinleyville Community Services District
Annual Financial Report
For the Fiscal Year Ended June 30, 2021

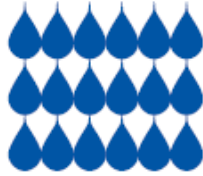
**McKinleyville Community Services District
Annual Financial Report
For the Fiscal Year Ended June 30, 2021**

Table of Contents

	<u>Page No.</u>
Table of Contents	i
Financial Section	
Independent Auditor’s Report	1-2
Management’s Discussion and Analysis	3-7
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	8-9
Statement of Activities	10
Fund Financial Statements:	
Balance Sheet of Governmental Fund	11
Reconciliation of the Balance Sheet of Governmental Fund to the Statement of Net Position	12
Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Fund	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Fund to the Statement of Activities	14
Statement of Net Position – Enterprise Fund	15-16
Statement of Revenues, Expenses, and Changes in Fund Net Position – Enterprise Fund	17
Statement of Cash Flows – Enterprise Fund	18-19
Notes to the Basic Financial Statements	20-54
Required Supplementary Information	
Schedule of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual – General (Parks and Recreation) Fund	55
Schedule of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual – Measure B Fund	56
Schedule of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual – Street Lighting Fund	57
Notes to the Required Supplementary Information	58
Schedules of Changes in District’s Total OPEB Liability and Related Ratios	59
Schedules of the District’s Proportionate Share of the Net Pension Liability	60-61
Schedules of Pension Plan Contributions	62
Report on Compliance and Internal Controls	
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	63-64

Financial Section

< Page Intentionally Left Blank >



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

Fedak & Brown LLP

Certified Public Accountants

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, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the McKinleyville Community Services District, as of June 30, 2021, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report, continued

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 and the required supplementary information on pages 55 through 62 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 5, 2022, 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 63 and 64.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
January 5, 2022

**McKinleyville Community Services District
Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2021**

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, 2021. 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 2021, the District’s net position increased by 8.81% or \$2,734,321 to \$33,787,871 as a result of ongoing operations.
- In 2021, the District’s total revenues increased 5.44% or \$587,095 to \$11,388,032.
- In 2021, the District’s total expenses increased by 2.11% or \$179,031 to \$8,653,711.

Using This Financial Report

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

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

Government-wide Financial Statements

Statement of Net Position and Statement of Activities

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

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

**McKinleyville Community Services District
Management's Discussion and Analysis, continued
For the Fiscal Year Ended June 30, 2021**

Fund Financial Statements

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

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

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 20 through 54.

Government-wide Financial Analysis

Statement of Net Position

The following table is a summary of the statement of net position at June 30, 2021.

	Condensed Statements of Net Position					
	Governmental Activities		Business-Type Activities		Total District	
	2021	2020	2021	2020	2021	2020
Assets:						
Current assets	\$ 913,090	989,646	23,531,635	20,669,686	24,444,725	21,659,332
Capital assets	4,961,095	5,116,259	36,569,676	36,374,174	41,530,771	41,490,433
Total assets	5,874,185	6,105,905	60,101,311	57,043,860	65,975,496	63,149,765
Deferred outflows of resources	905,688	746,245	1,891,923	1,562,572	2,797,611	2,308,817
Liabilities:						
Current liabilities	322,698	334,598	1,520,173	1,643,335	1,842,871	1,977,933
Non-current liabilities	4,856,758	4,471,194	26,229,002	25,535,057	31,085,760	30,006,251
Total liabilities	5,179,456	4,805,792	27,749,175	27,178,392	32,928,631	31,984,184
Deferred inflows of resources	679,236	800,125	1,377,369	1,620,723	2,056,605	2,420,848
Net position:						
Net investment in capital assets	4,042,205	4,105,315	17,946,371	17,481,830	21,988,576	21,587,145
Restricted	218,325	197,530	788,179	1,735,159	1,006,504	1,932,689
Unrestricted	(3,339,349)	(3,056,612)	14,132,140	10,590,328	10,792,791	7,533,716
Total net position	\$ 921,181	1,246,233	32,866,690	29,807,317	33,787,871	31,053,550

**McKinleyville Community Services District
Management's Discussion and Analysis, continued
For the Fiscal Year Ended June 30, 2021**

Government-wide Financial Analysis, continued

Statement of Net Position, continued

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$33,787,871 as of June 30, 2021. 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, 2021.

	Condensed Statements of Activities					
	Governmental Activities		Business-Type Activities		Total District	
	2021	2020	2021	2020	2021	2020
Revenues:						
Program revenues:						
Charge for services	\$ 403,485	487,233	8,188,960	7,561,946	8,592,445	8,049,179
Operating grants and contributions	5,326	40,148	-	273,205	5,326	313,353
Capital grants and contributions	10,040	23,980	1,694,164	971,808	1,704,204	995,788
Total program revenues	418,851	551,361	9,883,124	8,806,959	10,301,975	9,358,320
General revenues:						
Property taxes	671,671	677,798	-	-	671,671	677,798
Voter approved taxes	217,031	212,622	-	-	217,031	212,622
Investment earnings	39,754	95,418	101,584	405,116	141,338	500,534
Gain on disposal of capital assets	4,601	-	212	7,901	4,813	7,901
Other income	51,204	43,762	-	-	51,204	43,762
Total general revenues	984,261	1,029,600	101,796	413,017	1,086,057	1,442,617
Total revenues	1,403,112	1,580,961	9,984,920	9,219,976	11,388,032	10,800,937
Expenses:						
General (Parks & Recreation)	1,483,744	1,580,958	-	-	1,483,744	1,580,958
Measure B	125,972	141,509	-	-	125,972	141,509
Streetlighting	118,448	104,705	-	-	118,448	104,705
Water	-	-	3,279,421	3,162,794	3,279,421	3,162,794
Wastewater	-	-	3,646,126	3,484,714	3,646,126	3,484,714
Total expenses	1,728,164	1,827,172	6,925,547	6,647,508	8,653,711	8,474,680
Changes in net position	(325,052)	(246,211)	3,059,373	2,572,468	2,734,321	2,326,257
Net position, beginning of year	1,246,233	1,492,444	29,807,317	27,234,849	31,053,550	28,727,293
Net position, end of year	\$ 921,181	1,246,233	32,866,690	29,807,317	33,787,871	31,053,550

Compared to the prior year, net position of the District increased by 8.81% or \$2,734,321 to \$33,787,871 as a result of ongoing operations.

Total revenues increased 5.44% or \$587,095 to \$11,388,032, due primarily to increases of \$708,416 in capital grants and contributions and \$543,266 in charges for services; which were offset by decreases of \$359,196 in investment earnings and \$308,027 in operating grants and contributions.

Total expenses increased by 2.11% or \$179,031 to \$8,653,711, due primarily to increases of \$161,412 in wastewater fund expenses and \$116,627 in water fund expenses; which were offset by a decrease of \$97,214 in General (Parks & Recreation) expenses.

**McKinleyville Community Services District
Management's Discussion and Analysis, continued
For the Fiscal Year Ended June 30, 2021**

Government-wide Financial Analysis, continued

Changes in fund balance – Governmental fund

The following table is a summary of the changes in fund balance for the governmental fund for the year ended June 30, 2021.

Condensed Changes in Fund Balance – Governmental Funds

	General (Parks and Recreation)	Measure B	Streetlighting	Total Governmental Activities
Fund balance, beginning of year	\$ 1,329,653	(574,782)	49,097	803,968
Changes in fund balance	<u>(117,243)</u>	<u>19,125</u>	<u>29,551</u>	<u>(68,567)</u>
Fund balance, end of year	<u>\$ 1,212,410</u>	<u>(555,657)</u>	<u>78,648</u>	<u>735,401</u>

In 2021, total fund balance decreased by 8.53% or \$68,567 to \$735,401. The General (Parks and Recreation) fund decreased by 8.82% or \$117,243 to \$1,212,410; the Measure B fund increased by 3.33% or \$19,125 to a deficit fund balance of \$555,657; and the Street Lighting fund increased by 60.19% or \$29,551 to \$78,648.

Capital Asset Administration

	Capital Assets					
	Governmental Activities		Business-Type Activities		Total District	
	2021	2020	2021	2020	2021	2020
Capital assets:						
Non-depreciable assets	\$ 2,015,414	1,996,189	6,138,782	5,395,478	8,154,196	7,391,667
Depreciable assets	<u>7,211,142</u>	<u>7,169,727</u>	<u>56,040,582</u>	<u>54,900,187</u>	<u>63,251,724</u>	<u>62,069,914</u>
Total capital assets	9,226,556	9,165,916	62,179,364	60,295,665	71,405,920	69,461,581
Accumulated depreciation	<u>(4,265,461)</u>	<u>(4,049,657)</u>	<u>(25,609,688)</u>	<u>(23,921,491)</u>	<u>(29,875,149)</u>	<u>(27,971,148)</u>
Total capital assets, net	<u>\$ 4,961,095</u>	<u>5,116,259</u>	<u>36,569,676</u>	<u>36,374,174</u>	<u>41,530,771</u>	<u>41,490,433</u>

At the end of fiscal year 2021, the District's investment in capital assets amounted to \$41,530,771 (net of accumulated depreciation). This investment in capital assets includes land, buildings, building improvements, furnishings and equipment, collection and distribution systems, tanks, wells, water transmission and distribution systems, and construction-in-process. See note 4 for further discussion.

**McKinleyville Community Services District
Management's Discussion and Analysis, continued
For the Fiscal Year Ended June 30, 2021**

Long-Term Debt Administration

	Long-Term Debt					
	Governmental Activities		Business-Type Activities		Total District	
	2021	2020	2021	2020	2021	2020
Long-term debt:						
Long-term debt	\$ 918,890	1,010,944	18,623,305	18,892,344	19,542,195	19,903,288
Total long-term debt:	\$ 918,890	1,010,944	18,623,305	18,892,344	19,542,195	19,903,288

Long-term debt decreased 1.81% or \$361,093 to \$19,542,195 in 2021, primarily due principal payment of \$847,620, which was offset by a receipt of a loan of \$486,527. See note 6 for further discussion.

Conditions Affecting Current Financial Position

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

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

Requests for Information

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

Basic Financial Statements

McKinleyville Community Services District
Statement of Net Position
June 30, 2021

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Totals</u>
Current assets:			
Cash and cash equivalents (notes 2 & 3)	\$ 665,457	19,186,826	19,852,283
Cash and cash equivalents – restricted (notes 2 & 3)	218,326	1,451,210	1,669,536
Accounts receivable	21,604	998,798	1,020,402
Accrued interest receivable	7,703	48,016	55,719
Grant receivable	-	1,735,181	1,735,181
Materials and supplies inventory	-	111,604	111,604
Total current assets	<u>913,090</u>	<u>23,531,635</u>	<u>24,444,725</u>
Non-current assets:			
Capital assets – not being depreciated (note 4)	2,015,414	6,138,782	8,154,196
Capital assets – being depreciated (note 4)	<u>2,945,681</u>	<u>30,430,894</u>	<u>33,376,575</u>
Total non-current assets	<u>4,961,095</u>	<u>36,569,676</u>	<u>41,530,771</u>
Total assets	<u>5,874,185</u>	<u>60,101,311</u>	<u>65,975,496</u>
Deferred outflows of resources:			
Deferred OPEB outflows (note 7)	756,642	1,544,150	2,300,792
Deferred pension outflows (note 8)	<u>149,046</u>	<u>347,773</u>	<u>496,819</u>
Total deferred outflows of resources	<u>\$ 905,688</u>	<u>1,891,923</u>	<u>2,797,611</u>

Continued on next page

See accompanying notes to the basic financial statements

McKinleyville Community Services District
Statement of Net Position, continued
June 30, 2021

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
Current liabilities:			
Accounts payable and accrued expenses	\$ 71,254	247,715	318,969
Accrued interest on long-term debt	5,489	206,640	212,129
Accrued salaries and related payables	98,785	-	98,785
Customer deposits	7,650	127,232	134,882
Unearned revenue	-	28,120	28,120
Long-term liabilities – due within one year:			
Compensated absences (note 5)	44,169	137,900	182,069
Bond payable (note 6)	-	80,000	80,000
Capital lease payable (note 6)	95,351	-	95,351
Notes payable (note 6)	-	692,566	692,566
Total current liabilities	<u>322,698</u>	<u>1,520,173</u>	<u>1,842,871</u>
Non-current liabilities:			
Long-term liabilities – due in more than one year:			
Compensated absences (note 5)	22,286	79,802	102,088
Bond payable (note 6)	-	65,000	65,000
Capital lease payable (note 6)	823,539	-	823,539
Notes payable (note 6)	-	17,785,739	17,785,739
Other post employment benefits (note 7)	3,291,932	6,718,153	10,010,085
Net pension liabilities (note 8)	719,001	1,580,308	2,299,309
Total non-current liabilities	<u>4,856,758</u>	<u>26,229,002</u>	<u>31,085,760</u>
Total liabilities	<u>5,179,456</u>	<u>27,749,175</u>	<u>32,928,631</u>
Deferred inflows of resources:			
Deferred OPEB inflows (note 7)	673,268	1,366,937	2,040,205
Deferred pension inflows (note 8)	5,968	10,432	16,400
Total deferred inflows of resources	<u>679,236</u>	<u>1,377,369</u>	<u>2,056,605</u>
Net position: (note 10)			
Net investment in capital assets	4,042,205	17,946,371	21,988,576
Restricted	218,325	788,179	1,006,504
Unrestricted	(3,339,349)	14,132,140	10,792,791
Total net position	<u>\$ 921,181</u>	<u>32,866,690</u>	<u>33,787,871</u>

See accompanying notes to the basic financial statements

McKinleyville Community Services District
Statement of Activities
For the Fiscal Year Ended June 30, 2021

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>		
		<u>Charge for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Governmental activities:							
General (Parks & Recreation)	\$ 1,483,744	303,030	5,326	10,040	(1,165,348)	-	(1,165,348)
Measure B	125,972	-	-	-	(125,972)	-	(125,972)
Street Lighting	118,448	100,455	-	-	(17,993)	-	(17,993)
Total governmental activities	1,728,164	403,485	5,326	10,040	(1,309,313)	-	(1,309,313)
Business-Type activities:							
Water	3,279,421	4,132,533	-	520,172	-	1,373,284	1,373,284
Wastewater	3,646,126	4,056,427	-	1,173,992	-	1,584,293	1,584,293
Total business-type activities	6,925,547	8,188,960	-	1,694,164	-	2,957,577	2,957,577
Total	\$ 8,653,711	8,592,445	5,326	1,704,204	(1,309,313)	2,957,577	1,648,264
General revenues:							
					\$ 671,671	-	671,671
					217,031	-	217,031
					39,754	101,584	141,338
					4,601	212	4,813
					51,204	-	51,204
					984,261	101,796	1,086,057
					(325,052)	3,059,373	2,734,321
					1,246,233	29,807,317	31,053,550
					\$ 921,181	32,866,690	33,787,871

See accompanying notes to the basic financial statements

McKinleyville Community Services District
Balance Sheet of Governmental Fund
June 30, 2021

	<u>General (Parks and Recreation)</u>	<u>Measure B</u>	<u>Street Lighting</u>	<u>Total Governmental Fund</u>
Assets:				
Cash and investments	\$ 665,457	-	-	665,457
Cash and investments – restricted	218,326	-	-	218,326
Accounts receivable	17,123	-	4,481	21,604
Interest receivable	5,939	1,764	-	7,703
Due from other funds (note 9)	480,179	(556,231)	76,052	-
Total assets	<u>\$ 1,387,024</u>	<u>(554,467)</u>	<u>80,533</u>	<u>913,090</u>
Liabilities:				
Accounts payable	\$ 68,179	1,190	1,885	71,254
Accrued wages and related payables	98,785	-	-	98,785
Deposits	7,650	-	-	7,650
Total liabilities	<u>174,614</u>	<u>1,190</u>	<u>1,885</u>	<u>177,689</u>
Fund balance: (note 11)				
Restricted	218,325	-	-	218,325
Assigned	66,455	-	78,648	145,103
Unassigned	927,630	(555,657)	-	371,973
Total fund balance	<u>1,212,410</u>	<u>(555,657)</u>	<u>78,648</u>	<u>735,401</u>
Total liabilities and fund balance	<u>\$ 1,387,024</u>	<u>(554,467)</u>	<u>80,533</u>	<u>913,090</u>

Continued on next page

See accompanying notes to the financial statements

McKinleyville Community Services District
Reconciliation of the Balance Sheet of
Governmental Fund to the Statement of Net Position
June 30, 2021

Reconciliation:

Total Fund Balance of Governmental Fund	\$	735,401
<p>Amounts reported for governmental activities in the statement of net position are different because:</p> <p>Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental fund balance sheet. However, the statement of net position includes those capital assets. In the current period, these amounts were as follows:</p>		
Capital assets – not being depreciated		2,015,414
Capital assets – being depreciated		2,945,681
<p>Deferred outflows(inflows) of resources are not financial resources(uses) and, therefore, are not reported in the governmental fund balance sheet. However, they are reported in the statement of net position as follows:</p>		
Deferred OPEB outflows		756,642
Deferred OPEB inflows		(673,268)
Deferred pension outflows		149,046
Deferred pension inflows		(5,968)
<p>Long-term liabilities applicable to the District are not due and payable in the current period and, accordingly, are not reported as governmental fund liabilities. All liabilities, both current and long-term, are reported in the statement of net position as follows:</p>		
Accrued interest on long-term debt		(5,489)
Compensated absences		(66,455)
Long-term debt		(918,890)
Other post employment benefit obligation		(3,291,932)
Net pension liability		(719,001)
Net pension liability		<u>(719,001)</u>
Net Position of Governmental Activities	\$	<u><u>921,181</u></u>

See accompanying notes to the basic financial statements

McKinleyville Community Services District
Statement of Revenues, Expenditures, and Changes in
Fund Balance of Governmental Fund
For the Year Ended June 30, 2021

	<u>General (Parks and Recreation)</u>	<u>Measure B</u>	<u>Street Lighting</u>	<u>Total Governmental Fund</u>
Revenues				
Property taxes	\$ 671,671	-	-	671,671
Special assessments	-	217,031	-	217,031
Charge for services and facilities	303,030	-	100,455	403,485
Operating grants and contributions	5,326	-	-	5,326
Capital grants and contributions	10,040	-	-	10,040
Other income	32,274	-	18,930	51,204
Gain on disposal of capital assets	4,601	-	-	4,601
Investment earnings	34,280	5,474	-	39,754
Total revenues	<u>1,061,222</u>	<u>222,505</u>	<u>119,385</u>	<u>1,403,112</u>
Expenditures				
General government (Parks & Recreation)	1,114,325	-	-	1,114,325
Measure B	-	76,240	-	76,240
Streetlighting	-	-	85,834	85,834
Debt service:				
Principal	-	92,054	-	92,054
Interest	-	35,086	-	35,086
Capital outlay	64,140	-	4,000	68,140
Total expenditures	<u>1,178,465</u>	<u>203,380</u>	<u>89,834</u>	<u>1,471,679</u>
Net change in fund balance	(117,243)	19,125	29,551	(68,567)
Fund balance, beginning of year	<u>1,329,653</u>	<u>(574,782)</u>	<u>49,097</u>	<u>803,968</u>
Fund Balance, end of year	<u>\$ 1,212,410</u>	<u>(555,657)</u>	<u>78,648</u>	<u>735,401</u>

Continued on next page

See accompanying notes to the financial statements

McKinleyville Community Services District
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of
Governmental Fund to the Statement of Activities
For the Fiscal Year Ended June 30, 2021

Reconciliation:

Net Change in Fund Balance of Total Governmental Fund	\$	(68,567)
<p>Amounts reported for governmental activities in the statement of activities are different because: Governmental fund reports capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense as follows:</p>		
Capital outlay expense		68,140
Depreciation expense		(223,304)
<p>The repayment of principal of long-term debt consumes current financial resources and, therefore, is reported as debt service principal payments in the governmental fund. However, these payments have no impact on net position and, therefore, are not reported in the statement of activities as follows:</p>		
Debt service principal		92,054
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenses in governmental fund as follows:</p>		
Net change in accrued interest expense on long-term debt		544
Net change in compensated absences for the current period		48,557
Net change in other post employment benefits for the current period		(201,661)
Net change in pension obligations for the current period		<u>(40,815)</u>
Changes in Net Position of Governmental Activities	\$	<u><u>(325,052)</u></u>

See accompanying notes to the basic financial statements

McKinleyville Community Services District
Statement of Net Position – Enterprise Fund
June 30, 2021

	Water	Waste water	2021
Current assets:			
Cash and investments	\$ 8,081,050	11,105,776	19,186,826
Cash and investments – restricted	619,234	831,976	1,451,210
Accounts receivable	496,168	502,630	998,798
Accrued interest receivable	20,666	27,350	48,016
Grant receivable	365,268	1,369,913	1,735,181
Inventory	86,206	25,398	111,604
Total current assets	9,668,592	13,863,043	23,531,635
Non-current assets:			
Capital assets – not being depreciated	920,876	5,217,906	6,138,782
Capital assets – being depreciated	7,372,054	23,058,840	30,430,894
Total non-current assets	8,292,930	28,276,746	36,569,676
Total assets	17,961,522	42,139,789	60,101,311
Deferred outflows of resources:			
Deferred OPEB outflows	770,462	773,688	1,544,150
Deferred pension outflows	163,950	183,823	347,773
Total deferred outflows of resources	\$ 934,412	957,511	1,891,923

Continued on next page

See accompanying notes to the basic financial statements

McKinleyville Community Services District
Statement of Net Position – Enterprise Fund, continued
June 30, 2021

	Water	Waste water	2021
Current liabilities:			
Accounts payable	\$ 146,299	101,416	247,715
Accrued interest payable	8,105	198,535	206,640
Customer deposits	118,441	8,791	127,232
Unearned revenue	14,060	14,060	28,120
Long-term liabilities – due within one year:			
Compensated absences	68,799	69,101	137,900
Bond payable	-	80,000	80,000
Notes payable	170,672	521,894	692,566
Total current liabilities	526,376	993,797	1,520,173
Non-current liabilities:			
Long-term liabilities – due within one year:			
Compensated absences	39,905	39,897	79,802
Bond payable	-	65,000	65,000
Notes payable	1,951,870	15,833,869	17,785,739
Other post employment benefits	3,352,061	3,366,092	6,718,153
Net pension liabilities	754,383	825,925	1,580,308
Total non-current liabilities	6,098,219	20,130,783	26,229,002
Total liabilities	6,624,595	21,124,580	27,749,175
Deferred inflows of resources:			
Deferred OPEB inflows	673,267	693,670	1,366,937
Deferred pension inflows	5,057	5,375	10,432
Total deferred inflows of resources	678,324	699,045	1,377,369
Net position:			
Net investment in capital assets	6,170,388	11,775,983	17,946,371
Restricted	619,234	168,945	788,179
Unrestricted	4,803,393	9,328,747	14,132,140
Total net position	\$ 11,593,015	21,273,675	32,866,690

See accompanying notes to the basic financial statements

McKinleyville Community Services District
Statement of Revenues, Expenses, and Changes in Fund Net Position – Enterprise Fund
For the Fiscal Year Ended June 30, 2021

	<u>Water</u>	<u>Wastewater</u>	<u>2021</u>
Operating revenues:			
Water revenue	\$ 4,000,025	-	4,000,025
Sewer revenue	-	3,938,438	3,938,438
Other service charges	132,508	117,989	250,497
Operating grant	-	-	-
Total operating revenues	<u>4,132,533</u>	<u>4,056,427</u>	<u>8,188,960</u>
Operating expenses:			
Water purchase	1,147,401	-	1,147,401
Salaries and related expenses	544,665	663,536	1,208,201
Employee benefits	659,676	775,435	1,435,111
Services and supplies	16	3,126	3,142
Professional services	58,637	44,822	103,459
Utilities	66,113	216,511	282,624
Insurance expense	52,321	52,321	104,642
Other operating expense	286,074	370,902	656,976
Total operating expenses	<u>2,814,903</u>	<u>2,126,653</u>	<u>4,941,556</u>
Operating income before depreciation	1,317,630	1,929,774	3,247,404
Depreciation expense	(411,198)	(1,276,999)	(1,688,197)
Operating income	<u>906,432</u>	<u>652,775</u>	<u>1,559,207</u>
Non-operating revenues(expenses):			
Investment earning	34,012	67,572	101,584
Gain on sale of assets	106	106	212
Interest expense	(53,320)	(242,474)	(295,794)
Total non-operating revenues(expenses), net	<u>(19,202)</u>	<u>(174,796)</u>	<u>(193,998)</u>
Net income before capital contributions	<u>887,230</u>	<u>477,979</u>	<u>1,365,209</u>
Capital contributions:			
Capacity fees	223,212	391,177	614,389
Contributed capital assets	296,960	782,815	1,079,775
Total capital contributions	<u>520,172</u>	<u>1,173,992</u>	<u>1,694,164</u>
Changes in net position	<u>1,407,402</u>	<u>1,651,971</u>	<u>3,059,373</u>
Net position, beginning of year	<u>10,185,613</u>	<u>19,621,704</u>	<u>29,807,317</u>
Net position, end of year	<u>\$ 11,593,015</u>	<u>21,273,675</u>	<u>32,866,690</u>

See accompanying notes to the basic financial statements

**McKinleyville Community Services District
Statement of Cash Flows – Enterprise Fund
For the Fiscal Year Ended June 30, 2021**

	<u>2021</u>
Cash flows from operating activities:	
Cash receipts from customers	\$ 8,028,549
Cash paid to employees	(1,297,294)
Cash paid to vendors and suppliers	<u>(3,262,062)</u>
Net cash provided by operating activities	<u>3,469,193</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(1,883,699)
Proceeds from the sale of capital assets	212
Proceeds from capital contributions	285,337
Proceeds from loan issuance	486,527
Principal payments on long-term debt	(755,566)
Interest payments on long-term debt	<u>(327,988)</u>
Net cash used in capital and related financing activities	<u>(2,195,177)</u>
Cash flows from investing activities:	
Interest earnings	<u>66,749</u>
Net cash provided by investing activities	<u>66,749</u>
Net increase in cash and cash equivalents	1,340,765
Cash and cash equivalents, beginning of year	<u>19,297,271</u>
Cash and cash equivalents, end of year	<u>\$ 20,638,036</u>
Reconciliation of cash and cash equivalents to statement of net position:	
Cash and investments	\$ 19,186,826
Cash and investments – restricted	<u>1,451,210</u>
Total cash and cash equivalents	<u>\$ 20,638,036</u>

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, 2021

	2021
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ <u>1,559,207</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	1,688,197
Change in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:	
(Increase)decrease in assets and deferred outflows:	
Accounts receivable	(164,139)
Prepaid expenses	104,136
Inventory	(17,519)
Deferred OPEB outflows	(297,760)
Deferred pension outflows	(31,591)
Increase(decrease) in liabilities and deferred inflows:	
Accounts payable	(119,266)
Customer deposits	8,990
Unearned revenue	(5,262)
Compensated absences	(89,093)
Other post employment benefits	940,910
Net pension liabilities	135,737
Deferred OPEB inflows	(230,412)
Deferred pension inflows	<u>(12,942)</u>
Total adjustments	<u>1,909,986</u>
Net cash provided by operating activities	\$ <u><u>3,469,193</u></u>

See accompanying notes to the basic financial statements

McKinleyville Community Services District
Notes to the Basic Financial Statements
June 30, 2021

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

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

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

B. Basis of Accounting and Measurement Focus

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

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

Government-wide Financial Statements

These statements are presented on an *economic resources* measurement focus and the accrual basis of accounting for both governmental and business-type activities. Accordingly, all of the District's assets (including capital assets), deferred outflows of resources, liabilities, and deferred inflows of resources are included in the accompanying Statement of Net Position. The Statement of Activities demonstrates the degree to which direct expense of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. The types of transactions reported as program revenues for the District are to be reported in three categories, if applicable: 1) charge for services, 2) operating grants and contributions, and 3) capital grants and contributions. Charge for services include revenues from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function. Grants and contributions include revenues restricted to meeting the operational or capital requirements of a particular function. Taxes and other items properly not included among program revenues are reported instead as general revenues.

Fund Financial Statements

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

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

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

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

B. Basis of Accounting and Measurement Focus, continued

Fund Financial Statements, continued

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

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

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

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

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

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

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

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

B. Basis of Accounting and Measurement Focus, continued

Fund Financial Statements, continued

The funds of the financial reporting entity are described below:

Governmental Funds

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

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

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

Enterprise Funds

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

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

C. Financial Reporting

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

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

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

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

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

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

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

D. Financial Reporting, continued

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

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

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

D. Financial Statement Elements

1. Use of Estimates

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

2. Uncertainty

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

3. Cash and Cash Equivalents

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

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

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

D. Financial Statement Elements, continued

4. Investments

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

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

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

5. Fair Value Measurements

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

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

6. Accounts Receivable

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

7. Property Taxes and Assessments

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

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

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

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

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

D. Financial Statement Elements, continued

8. Materials and Supplies Inventory

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

9. Capital Assets

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

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

Governmental Activities

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

Business-Type Activities

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

10. Deferred Outflows of Resources

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

11. Compensated Absences

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

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

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

D. Financial Statement Elements, continued

12. Pension

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

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, 2019
- Measurement date: June 30, 2020
- Measurement period: July 1, 2019 to June 30, 2020

13. Deferred Inflows of Resources

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

14. Net Position

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

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

15. Fund Balance

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

- **Nonspendable** – amounts that cannot be spent because they are either (a) not spendable in form; or (b) legally or contractually required to be maintained intact.
- **Restricted** – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws and regulations of other governments; or (b) imposed by law through constitutional provisions enabling legislation.

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

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

D. Financial Statement Elements, continued

15. Fund Balance, continued

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

Fund Balance Policy

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

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

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

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

(2) Cash and Cash Equivalents

Cash and cash equivalents as of June 30, 2021 are classified as follows:

	Governmental Activities	Business-Type Activities	Totals
Cash and cash equivalents	\$ 665,457	19,186,826	19,852,283
Cash and cash equivalents – restricted	218,326	1,451,210	1,669,536
Total	\$ 883,783	20,638,036	21,521,819

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

(2) Cash and Cash Equivalents, continued

Cash and equivalents as of June 30, 2021 consisted of the following:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash			
Cash	\$ 1,240	-	1,240
Deposits held with financial institutions	4,334,624	176,902	4,511,526
Total cash	4,335,864	176,902	4,512,766
Cash equivalents			
Deposits with Humboldt County Treasurer	4,757,952	1,492,634	6,250,586
Deposits held with California Local Agency Investment Fund (LAIF)	138,803	-	138,803
Deposit with CalTRUST	10,619,664	-	10,619,664
Total cash equivalents	15,516,419	1,492,634	17,009,053
Total	\$ 19,852,283	1,669,536	21,521,819

Authorized Deposits and Investments

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

State of California Local Agency Fund (LAIF)

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

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

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

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

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

(2) Cash and Cash Equivalents, continued

CalTRUST Funds

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

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

Humboldt County Treasurer's Pool

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

Custodial Credit Risk

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

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

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

Interest Rate Risk

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

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

(2) Cash and Cash Equivalents, continued

Interest Rate Risk, continued

As of June 30, 2021, the District's authorized deposits had the following average maturities:

<u>Cash Equivalents</u>	<u>Total</u>	<u>Average Months Maturity</u>		
		<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25 Months or More</u>
CalTRUST Funds	\$ 10,619,664	308,605	-	10,311,059
California Local Agency Investment Fund	138,803	138,803	-	-
Humboldt County Treasurer	6,250,586	-	-	6,250,586
Total	\$ 17,009,053	447,408	-	16,561,645

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, 2021 for each investment type.

<u>Cash Equivalents</u>	<u>Total</u>	<u>Rating at Year End</u>
Cal Trust – Short Term Fund	\$ 308,605	AAf
Cal Trust – Medium Term Fund	10,311,059	A+f
California Local Agency Investment Fund	138,803	Not Rated
Humboldt County Treasurer	6,250,586	Not Rated
Total	\$ 17,009,053	

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, 2021 were allocated as follows:

	<u>Amount</u>	<u>Allocation</u>
Cash	\$ 1,240	0.01 %
Deposits held with financial institutions	4,511,526	20.96
Deposits with Humboldt County Treasurer	6,250,586	29.04
Deposits held with California Local Agency Investment Fund (LAIF)	138,803	0.64
Deposit with CalTrust	10,619,664	49.34
Total	\$ 21,521,819	100.00 %

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

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

(3) Investments at Fair Value Hierarchy

Investments measured at fair value on a recurring basis, based on their fair value hierarchy at June 30, 2021 are as follows:

<u>Cash Equivalents</u>	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Pooled investment fund:				
Humboldt County Treasurer's Fund	\$ 6,250,586	-	6,250,586	-
CalTrust Medium-Term Fund	<u>10,311,059</u>	<u>-</u>	<u>10,311,059</u>	<u>-</u>
Total pooled investment fund	<u>16,561,645</u>	<u>-</u>	<u>16,561,645</u>	<u>-</u>
Other pooled funds measured at net asset value				
CalTrust Short-Term Fund	308,605			
California Local Agency Investment Fund	<u>138,803</u>			
	<u>447,408</u>			
	<u>\$ 17,009,053</u>			

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

(4) Capital Assets

Governmental Activities:

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

	<u>Balance 2020</u>	<u>Additions/ Transfers In</u>	<u>Deletions/ Transfers Out</u>	<u>Balance 2021</u>
Non-depreciable assets:				
Land	\$ 1,769,744	-	-	1,769,744
Construction in progress	226,445	19,225	-	245,670
Total non-depreciable assets	<u>1,996,189</u>	<u>19,225</u>	<u>-</u>	<u>2,015,414</u>
Depreciable assets:				
Buildings and improvements	4,875,745	26,183	-	4,901,928
Furniture and equipment	288,658	18,732	-	307,390
Park improvements	1,404,378	-	-	1,404,378
Vehicles	62,109	-	(7,500)	54,609
Streetlighting	538,837	4,000	-	542,837
Total depreciable assets	<u>7,169,727</u>	<u>48,915</u>	<u>(7,500)</u>	<u>7,211,142</u>
Accumulated depreciation				
Buildings and improvements	(2,184,542)	(172,542)	-	(2,357,084)
Furniture and equipment	(264,174)	(6,281)	-	(270,455)
Park improvements	(1,255,083)	(20,239)	-	(1,275,322)
Vehicles	(55,185)	(3,861)	7,500	(51,546)
Streetlighting	(290,673)	(20,381)	-	(311,054)
Total accumulated depreciation	<u>(4,049,657)</u>	<u>(223,304)</u>	<u>7,500</u>	<u>(4,265,461)</u>
Total depreciable assets, net	<u>3,120,070</u>	<u>(174,389)</u>	<u>-</u>	<u>2,945,681</u>
Total capital assets, net	<u>\$ 5,116,259</u>			<u>4,961,095</u>

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

(4) Capital Assets, continued

Business-type Activities:

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

	<u>Balance 2020</u>	<u>Additions/ Transfers In</u>	<u>Deletions/ Transfers Out</u>	<u>Balance 2021</u>
Non-depreciable assets:				
Land	\$ 4,511,801	6,088	-	4,517,889
Construction in progress	883,677	1,736,224	(999,008)	1,620,893
Total non-depreciable assets	<u>5,395,478</u>	<u>1,742,312</u>	<u>(999,008)</u>	<u>6,138,782</u>
Depreciable assets:				
Buildings and improvements	759,562	55,776	-	815,338
Water infrastructure	15,050,422	68,101	-	15,118,523
Wastewater infrastructure	36,704,640	961,468	-	37,666,108
Tools and equipment	1,199,062	13,104	-	1,212,166
Vehicles	1,186,501	41,946	-	1,228,447
Total depreciable assets	<u>54,900,187</u>	<u>1,140,395</u>	<u>-</u>	<u>56,040,582</u>
Accumulated depreciation				
Buildings and improvements	(311,733)	(36,327)	-	(348,060)
Water infrastructure	(7,674,249)	(344,259)	-	(8,018,508)
Wastewater infrastructure	(14,257,807)	(1,188,326)	-	(15,446,133)
Tools and equipment	(1,088,074)	(25,044)	-	(1,113,118)
Vehicles	(589,628)	(94,241)	-	(683,869)
Total accumulated depreciation	<u>(23,921,491)</u>	<u>(1,688,197)</u>	<u>-</u>	<u>(25,609,688)</u>
Total depreciable assets, net	<u>30,978,696</u>	<u>(547,802)</u>	<u>-</u>	<u>30,430,894</u>
Total capital assets, net	<u>\$ 36,374,174</u>			<u>36,569,676</u>

Depreciation expense was charged to various functions for the year ended June 30, 2021 as follows:

Governmental activities:	
General (Parks and Recreation)	\$ 202,923
Streetlighting	20,381
Total governmental activities	<u>223,304</u>
Business-type activities	
Water Fund	411,198
Wastewater Fund	1,276,999
Total business-type activities	<u>1,688,197</u>
	<u>\$ 1,911,501</u>

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

(5) Compensated Absences

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

Governmental Activities

	<u>Balance 2020</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance 2021</u>	<u>Due within one year</u>	<u>Due in more than one year</u>
\$	115,012	42,362	(90,919)	66,455	44,169	22,286

Business-type Activities

	<u>Balance 2020</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance 2021</u>	<u>Due within one year</u>	<u>Due in more than one year</u>
\$	306,795	98,014	(187,107)	217,702	137,900	79,802

(6) Long-term Debt

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

	<u>Balance 2020</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 2021</u>	<u>Current Portion</u>	<u>Long-Term Portion</u>
<i>Governmental Activities:</i>						
Capital lease payable						
PPFCC Lease (Umpqua Loan)	\$ 1,010,944	-	(92,054)	918,890	95,351	823,539
Total capital lease payable	1,010,944	-	(92,054)	918,890	95,351	823,539
Total governmental activities	1,010,944	-	(92,054)	918,890	95,351	823,539
<i>Business-type Activities</i>						
Notes payable						
Water fund						
ARRA Loan	78,166	-	(11,699)	66,467	11,757	54,710
Davis-Grunsky Act Loan	1,586,036	-	(107,164)	1,478,872	109,417	1,369,455
I-Bank Loan	625,087	-	(47,884)	577,203	49,498	527,705
Total Water fund	2,289,289	-	(166,747)	2,122,542	170,672	1,951,870
Wastewater fund						
State Revolving Fund Loan #3	14,869,555	-	(425,119)	14,444,436	432,094	14,012,342
State Revolving Fund Microgrid Loan	-	486,527	-	486,527	-	486,527
Pialorsi Property Loan	1,508,500	-	(83,700)	1,424,800	89,800	1,335,000
Total Wastewater fund	16,378,055	486,527	(508,819)	16,355,763	521,894	15,833,869
Total notes payable	18,667,344	486,527	(675,566)	18,478,305	692,566	17,785,739
Bond payable						
Wastewater fund						
USDA Revenue Bonds	225,000	-	(80,000)	145,000	80,000	65,000
Total bond payable	225,000	-	(80,000)	145,000	80,000	65,000
Total business-type activities	18,892,344	486,527	(755,566)	18,623,305	772,566	17,850,739
Total long-term debt	\$ 19,903,288	486,527	(847,620)	19,542,195	867,917	18,674,278

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

(6) Long-term Debt, continued

Public Property Financing Corporation of California Lease

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

Future lease payments are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 95,351	32,101	127,452
2023	98,767	28,687	127,454
2024	102,304	25,150	127,454
2025	105,968	21,486	127,454
2026	109,764	17,691	127,455
2027-2030	<u>406,736</u>	<u>30,019</u>	<u>436,755</u>
Total	918,890	<u>155,134</u>	<u>1,074,024</u>
Current	<u>(95,351)</u>		
Non-current	<u>\$ 823,539</u>		

ARRA Loan

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

Future debt service on the loan is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 11,757	633	12,390
2023	11,875	515	12,390
2024	11,994	396	12,390
2025	12,115	275	12,390
2026	12,237	153	12,390
2027	<u>6,489</u>	<u>31</u>	<u>6,520</u>
Total	66,467	<u>2,003</u>	<u>68,470</u>
Current	<u>(11,757)</u>		
Non-current	<u>\$ 54,710</u>		

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

(6) Long-term Debt, continued

Davis-Grunsky Act Loan

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

Future debt service on the loan is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 109,417	31,861	141,278
2023	111,726	29,552	141,278
2024	114,094	27,185	141,279
2025	116,520	24,758	141,278
2026	119,007	22,271	141,278
2027-2031	634,574	71,817	706,391
2032-2033	273,534	9,017	282,551
Total	1,478,872	<u>216,461</u>	<u>1,695,333</u>
Current	<u>(109,417)</u>		
Non-current	\$ <u>1,369,455</u>		

I-Bank Loan

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

Future debt service on the loan is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 49,498	18,618	68,116
2023	51,166	16,922	68,088
2024	52,890	15,168	68,058
2025	54,673	13,356	68,029
2026	56,515	11,482	67,997
2027-2031	312,461	27,023	339,484
Total	577,203	<u>102,569</u>	<u>679,772</u>
Current	<u>(49,498)</u>		
Non-current	\$ <u>527,705</u>		

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

(6) Long-term Debt, continued

USDA Revenue Bonds

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

Future debt service on the bond is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 80,000	5,250	85,250
2023	65,000	1,625	66,625
Total	145,000	<u>6,875</u>	<u>151,875</u>
Current	<u>(80,000)</u>		
Non-current	<u>\$ 65,000</u>		

State Revolving Fund Loans No. 3

In 2015, the District entered into a loan agreement with the State Water Resources Control Board for the purpose of financing a wastewater management facility improvement project. The loan amount totaled \$15,569,506 and bears an interest rate of 1.60% per annum. Effective July 1, 2021, 0.60% of the routine interest will be reclassified as the Small Community Grant Fee. Annual payment of principal and interest/fee are due September of each year and continues through September 2048. The District is subject to levy taxes or assessments to repay the loan should it not have sufficient resources available to make the scheduled payments.

Future debt service on the loan is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest/Fee</u>	<u>Total</u>
2022	\$ 432,094	230,938	663,032
2023	439,001	224,031	663,032
2024	446,019	217,013	663,032
2025	453,149	209,883	663,032
2026	460,394	202,638	663,032
2027-2031	2,414,750	900,410	3,315,160
2032-2036	2,613,415	701,746	3,315,161
2037-2041	2,829,286	485,874	3,315,160
2042-2046	3,062,989	252,171	3,315,160
2047-2048	1,293,339	31,160	1,324,499
Total	14,444,436	<u>3,455,864</u>	<u>17,900,300</u>
Current	<u>(432,094)</u>		
Non-current	<u>\$ 14,012,342</u>		

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

(6) Long-term Debt, continued

State Revolving Fund Microgrid Loan

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

Pialorsi Property Loan

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

Future debt service on the loan is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 89,800	26,647	116,447
2023	91,400	24,933	116,333
2024	93,200	23,188	116,388
2025	95,000	21,408	116,408
2026	96,800	19,595	116,395
2027-2031	512,300	69,539	581,839
2032-2035	446,300	19,286	465,586
Total	1,424,800	<u>204,595</u>	<u>1,629,395</u>
Current	<u>(89,800)</u>		
Non-current	<u>\$ 1,335,000</u>		

(7) Other Post Employment Benefit Obligations

Plan Description

The District administers a single-employer defined-benefit post-employment healthcare plan. Benefits vary by hire date. Dependents are eligible to enroll, and benefits continue to surviving spouses. There are no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB 75 to pay related benefits.

Benefits Provided

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

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

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

(7) Other Post-Employment Benefits Payable, continued

Employees Covered by Benefit Terms

At June 30, 2019 (the census date), the following employees were covered by the benefit terms:

	2021
Inactive employees or beneficiaries currently receiving benefit payments	11
Active employees	24
Total plan membership	35

Contributions

The District pays benefits as they come due. For the year ended June 30, 2021, the District contributed \$152,581 which includes implicit subsidy credit.

Total OPEB Liability

The District's total OPEB liability was valued as of June 30, 2019, and was used to calculate the total OPEB liability measured as of June 30, 2021.

Actuarial Assumptions and Other Inputs

The total OPEB liability as of June 30, 2021 (measurement date), was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Discount rate	1.92%
Inflation	2.50%
Salary increases	2.75%; Additional merit-based increases based on CalPERS merit salary increase tables
Healthcare cost trend rates	Pre-Medicare – 6.00%; Medicare – 4.00% Trending down to 3.84% over 55 years based on calendar years
Mortality rates*	Based on CalPERS tables

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

Discount Rate

The discount rate used to measure the total OPEB liability was 1.92%. The District's OPEB Plan is an unfunded plan; therefore, the discount rate was set to the rate of tax-exempt, high-quality 20-year municipal bonds, as of the valuation date.

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

(7) Other Post-Employment Benefits Payable, continued

Changes in the Total OPEB Liability

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

	2021
Balance at June 30, 2020	\$ 8,608,124
Changes for the year:	
Service cost	526,898
Interest	221,939
Differences between expected and actual experience	11,520
Changes in assumptions or other inputs	794,185
Benefit payments	(108,641)
Implicit rate subsidy fulfilled	(43,940)
Net change	1,401,961
Balance at June 30, 2021	\$ 10,010,085

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 (0.92%) or 1-percentage-point higher (2.92%) than the current discount rate (1.92%):

	Discount Rate 1% Lower	Valuation Discount Rate	Discount Rate 1% Higher
Total OPEB liability	\$ 11,802,144	10,010,085	8,571,407

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

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

	Trend 1% Lower	Valuation Trend	Trend 1% Higher
Total OPEB liability	\$ 8,043,596	10,010,085	12,640,926

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

(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, 2021, the District recognized an OPEB expense of \$766,980. At June 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related OPEB as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	(2,040,205)
Changes of assumptions or other inputs	2,300,792	-
Total	\$ 2,300,792	(2,040,205)

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

Fiscal Year Ending June 30,	Deferred Net Outflows(Inflows) of Resources
2022	\$ 18,143
2023	18,143
2024	18,143
2025	18,143
2026	18,143
Thereafter	169,872

(8) Defined Benefit Pension Plan

Plan Description

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

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

(8) Defined Benefit Pension Plan, continued

Benefits Provided

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

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

The Plan's provision and benefits in effect at June 30, 2021, are summarized as follows:

	Classic	PEPRA
	Prior to December 31, 2012	On or after January 1, 2013
Hire Date		
Benefit formula	2% @ 55	2% @ 62
Benefit vesting schedule	5 years	5 years
Benefit payments	Monthly for life	Monthly for life
Retirement age	50-55	52-62
Monthly benefits, as a percentage of eligible compensation	1.43% to 2.42%	1.00% to 2.50%
Required employee contribution rates	7.000%	6.750%
Required employer contribution rates	10.484%	7.732%

Contributions

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

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

(8) Defined Benefit Pension Plan, continued

Contributions, continued

For the fiscal year ended June 30, 2021, the contributions to the were as follows:

	2021
Contributions – employer	\$ 281,677

Net Pension Liability

As of the fiscal year ended June 30, 2021, the District reported net pension liability for its proportionate share of the net pension liability of the Plan as follows:

	2021
Proportionate share of net pension liability	\$ 2,299,309

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, 2021, the net pension liability of the Plan is measured as of June 30, 2020 (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, 2019 (the valuation date), rolled forward to June 30, 2020, using standard update procedures. The District’s proportion of the net pension liability was based on a projection of the District’s long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

The District’s proportionate share of the net pension liability for the Plan’s miscellaneous risk pool as of the measurement date June 30, 2020, was as follows:

	Proportionate Share
Proportion – June 30, 2019	0.02051 %
Increase in proportion	0.00062
Proportion – June 30, 2020	0.02113 %

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

(8) Defined Benefit Pension Plan, continued

Deferred Pension Outflows (Inflows) of Resources

For the year ended June 30, 2021, the District recognized pension expense of \$413,696. As of the fiscal year ended June 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 281,677	-
Difference between actual and expected experience	118,488	-
Change in assumptions	-	(16,400)
Net differences between projected and actual earnings on plan investments	68,305	-
Adjustment due to changes in proportions and difference in employer contributions	<u>28,349</u>	<u>-</u>
Total	<u>\$ 496,819</u>	<u>(16,400)</u>

As of June 30, 2021, the District reported \$281,677 as deferred outflows of resources related to contributions subsequent to the measurement date. Pension contributions subsequent to the measurement date for the year ended June 30, 2021, will be recognized as a reduction of the net pension liability for the year ended June 30, 2022.

As of June 30, 2021, other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized as pension expense as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Deferred Net Outflows(Inflows) of Resources</u>
2022	\$ 37,442
2023	73,264
2024	55,275
2025	32,761

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

(8) Defined Benefit Pension Plan, continued

Actuarial Assumptions

The total pension liabilities in the June 30, 2019, actuarial valuation were determined using the following actuarial assumptions and methods:

Valuation dates	June 30, 2019
Measurement dates	June 30, 2020
Actuarial cost method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial assumptions	
Discount rate	7.15%
Inflation	2.50%
Salary increase	Varies by entry age and service
Mortality Table*	Derived using CalPERS membership data
Period upon which actuarial Experience survey assumptions were based	1997 – 2015
Post-retirement benefit increase	Contract COLA up to 2.50% until PPPA floor on purchasing power applies; 2.50% thereafter

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

Discount Rate

The discount rate used to measure the total pension liability as of June 30, 2020, for the PERF C was 7.15%. This discount rate is not adjusted for administrative expenses.

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

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

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

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

(8) Defined Benefit Pension Plan, continued

Actuarial Assumptions, continued

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

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

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

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

At June 30, 2021, the discount rate comparison was as follows:

	Discount Rate - 1%	Current Discount Rate	Discount Rate + 1%
	<u>6.15%</u>	<u>7.15%</u>	<u>8.15%</u>
District's net pension liability	\$ <u>3,494,531</u>	<u>2,299,309</u>	<u>1,311,734</u>

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 60 and 62 for the Required Supplementary Information.

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

(9) Internal Transfers

Inter-fund Operational Transfers

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

As of June 30, 2021, inter-fund receivables/payables between the District's funds were as follows:

Receivable From	Payable To	Amount
	General	
Measure B	(Parks & Recreation)	\$ 556,231
	General	
Street Lighting	(Parks & Recreation)	<u>(76,052)</u>
	Payable to General Fund	\$ <u>480,179</u>

(10) Net Position

Net investment in capital assets is calculated as follows:

	Governmental Activities	Business-type Activities	2021
Net investment in capital assets:			
Capital assets – not being depreciated	\$ 2,015,414	6,138,782	8,154,196
Capital assets – being depreciated	2,945,681	30,430,894	33,376,575
Long-term debt – current portion	(95,351)	(772,566)	(867,917)
Long-term debt – long-term portion	<u>(823,539)</u>	<u>(17,850,739)</u>	<u>(18,674,278)</u>
Total net investment in capital assets	\$ <u>4,042,205</u>	<u>17,946,371</u>	<u>21,988,576</u>

Restricted net position is calculated as follows:

	Governmental Activities	Business-type Activities	2021
Restricted:			
Debt service	\$ -	788,180	788,180
Teen and community center	7,957	-	7,957
Park & Recreation capital projects - Coastal	52,420	-	52,420
Park & Recreation capital projects - Inland	<u>157,948</u>	<u>-</u>	<u>157,948</u>
Total restricted	\$ <u>218,325</u>	<u>788,180</u>	<u>1,006,505</u>

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

(10) Net Position, continued

Unrestricted net position is calculated as follows:

	Governmental Activities	Business-type Activities	2021
Unrestricted:	\$		
Reserved	145,103	217,702	362,805
Unreserved	(3,484,452)	13,914,437	10,429,985
Total unrestricted	\$ (3,339,349)	14,132,139	10,792,790

(11) Fund Balance

Fund balance is presented in the following categories: non-spendable, restricted, committed, assigned, and unassigned (See Note 1.D.15 for a description of these categories). Fund balance and their funding composition at June 30, 2021, are as follows:

	2021
Restricted:	
Teen and community center	\$ 7,957
Park & Recreation capital projects - Coastal	52,420
Park & Recreation capital projects - Inland	157,948
Total restricted	218,325
Assigned:	
Compensated absences	66,455
Street lighting	78,648
Total assigned	145,103
Unassigned:	
General (Parks and Recreation)	
Operating fund	544,755
Repair and replacement fund	3,900
Catastrophe	99,222
Other postemployment benefits	279,753
Measure B	(555,657)
Total unassigned	371,973
Total fund balance	\$ 735,401

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

(12) Risk Management

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

At June 30, 2021, 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.
- 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 for 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 three fiscal years. There were no reductions in insurance coverage in fiscal year 2021. 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, 2021.

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

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

Governmental Accounting Standards Board Statement No. 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.

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

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

Governmental Accounting Standards Board Statement No. 87, continued

The requirements of this Statement were effective for reporting periods beginning after December 15, 2019; however, in light of the COVID-19 pandemic, the effective date has been postponed by 18 months. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 89

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

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

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

The requirements of this Statement were effective for reporting periods beginning after December 15, 2019; however, in light of the COVID-19 pandemic, the effective date has been postponed by one year. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

Governmental Accounting Standards Board Statement No. 91

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

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

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

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

Governmental Accounting Standards Board Statement No. 91, continued

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

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

Governmental Accounting Standards Board Statement No. 92

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

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

Governmental Accounting Standards Board Statement No. 93

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

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

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

Governmental Accounting Standards Board Statement No. 93, continued

The requirements of this Statement were effective as follows: (1) The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021; and (2) All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020; however, in light of the COVID-19 pandemic, the effective dates have been postponed by one year. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 94

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

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

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

Governmental Accounting Standards Board Statement No. 96

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

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

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

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

Governmental Accounting Standards Board Statement No. 97

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

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

(14) Commitments and Contingencies

Commitments

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

Grant Awards

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

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2021

(14) Commitments and Contingencies, continued

Litigation

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

(15) Subsequent Event

Events occurring after June 30, 2021, have been evaluated for possible adjustment to the financial statements or disclosure as of January 5, 2022, 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.

<Page Intentionally Left Blank>

Required Supplementary Information

< Page Intentionally Left Blank >

McKinleyville Community Services District
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget to Actual – General (Parks and Recreation) Fund
For the Year Ended June 30, 2021

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property taxes	\$ 633,841	633,841	671,671	37,830
Charge for services and facilities	358,575	358,575	303,030	(55,545)
Operating grants and contributions	1,300	1,300	5,326	4,026
Capital grants and contributions	39,000	39,000	10,040	(28,960)
Other income	16,912	16,912	32,274	15,362
Gain on sale of capital assets	-	-	4,601	4,601
Investment earnings	45,000	45,000	34,280	(10,720)
Total revenues	<u>1,094,628</u>	<u>1,094,628</u>	<u>1,061,222</u>	<u>(33,406)</u>
Expenditures:				
Salaries and employee benefits	808,462	808,462	903,580	(95,118)
Materials and services	242,047	242,047	210,745	31,302
Capital outlay	39,000	39,000	64,140	(25,140)
Total expenditures	<u>1,089,509</u>	<u>1,089,509</u>	<u>1,178,465</u>	<u>(88,956)</u>
Net change in fund balance	5,119	5,119	(117,243)	<u>22,262</u>
Fund balance, beginning of year	<u>1,329,653</u>	<u>1,329,653</u>	<u>1,329,653</u>	
Fund balance, end of year	<u>\$ 1,334,772</u>	<u>1,334,772</u>	<u>1,212,410</u>	

McKinleyville Community Services District
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget to Actual – Measure B Fund
For the Year Ended June 30, 2021

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Special assessments	\$ 221,132	221,132	217,031	(4,101)
Investment earnings	3,200	3,200	5,474	2,274
Total revenues	<u>224,332</u>	<u>224,332</u>	<u>222,505</u>	<u>(1,827)</u>
Expenditures:				
Salaries and benefits	70,409	70,409	61,366	9,043
Materials and services	25,500	25,500	14,874	10,626
Debt service				
Principal	92,054	92,054	92,054	-
Interest	35,398	35,398	35,086	312
Total expenditures	<u>223,361</u>	<u>223,361</u>	<u>203,380</u>	<u>19,981</u>
Net change in fund balance	971	971	19,125	<u>18,154</u>
Fund balance, beginning of year	<u>(574,782)</u>	<u>(574,782)</u>	<u>(574,782)</u>	
Fund balance, end of year	<u>\$ (573,811)</u>	<u>(573,811)</u>	<u>(555,657)</u>	

McKinleyville Community Services District
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget to Actual – Street Lighting Fund
For the Year Ended June 30, 2021

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Charge for services and facilities	\$ 98,268	98,268	100,455	2,187
Other income	18,500	18,500	18,930	430
Investment earnings	50	50	-	(50)
Total revenues	<u>116,818</u>	<u>116,818</u>	<u>119,385</u>	<u>2,567</u>
Expenditures:				
Salaries and payroll expenses	47,952	47,952	51,424	(3,472)
Materials and services	40,874	40,874	34,410	6,464
Capital outlay	2,000	2,000	4,000	(2,000)
Total expenditures	<u>90,826</u>	<u>90,826</u>	<u>89,834</u>	<u>992</u>
Net change in fund balance	25,992	25,992	29,551	<u>3,559</u>
Fund balance, beginning of year	<u>49,097</u>	<u>49,097</u>	<u>49,097</u>	
Fund balance, end of year	<u>\$ 75,089</u>	<u>75,089</u>	<u>78,648</u>	

McKinleyville Community Service District
Notes to the Required Supplementary Information
June 30, 2021

Basis of Budgeting

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

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

McKinleyville Community Service District
Schedules of Changes in District's Total OPEB Liability and Related Ratios
For the Fiscal Year Ended June 30, 2021
Last Ten Years*

Other Post-Employment Benefits Payable

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

Note to Schedule

Change in Benefit Terms

There were no changes to benefit terms for the measurement period ended June 30, 2018.

Change of Assumptions

In fiscal year 2021, the discount rate changed from 2.45% to 1.92%.

In fiscal year 2020, the discount rate changed from 3.62% to 2.45%.

In fiscal year 2019, changes in actuarial assumptions are as follows:

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

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

McKinleyville Community Service District
Schedules of the District's Proportionate Share of the Net Pension Liability
As of June 30, 2021
Last Ten Years*

Defined Benefit Plan

Description	6/30/2021	6/30/2020	6/30/2019	6/30/2018	6/30/2017	6/30/2016	6/30/2015
District's proportion of the net pension liability(asset)	0.02113%	0.02051%	0.01969%	0.01948%	0.01878%	0.01728%	0.01805%
District's proportionate share of the net pension liability(asset)	\$ 2,299,309	2,101,815	1,897,638	1,931,634	1,625,303	1,186,322	1,123,351
District's covered payroll	\$ 1,474,010	1,461,535	1,390,558	1,313,591	1,260,867	1,253,808	1,175,186
District's proportionate share of the net pension liability(asset)as a percentage of its covered payroll	155.99%	143.81%	136.47%	147.05%	128.90%	94.62%	95.59%
Plan's fiduciary net position as a percentage of the total pension liability	75.10%	75.26%	75.26%	73.31%	74.06%	78.40%	83.21%

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

Changes in Benefit Terms

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

Changes of Assumptions

The CalPERS Board of Administration adopted a new amortization policy effective with the June 30, 2019, actuarial valuation. The new policy shortens the period over which actuarial gains and losses are amortized from 30 years to 20 years with the payments computed as a level dollar amount. In addition, the new policy does not utilize a five-year ramp-up and ramp-down on UAL bases attributable to assumption changes and non-investment gains/losses. The new policy also does not utilize a five-year ramp-down on investment

gains/losses. These changes will apply only to new UAL bases established on or after June 30, 2019. In fiscal year 2020, no changes have occurred to the actuarial assumptions in relation to financial reporting.

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

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

McKinleyville Community Service District
Schedules of the District's Proportionate Share of the Net Pension Liability
As of June 30, 2021
Last Ten Years*

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

Changes of Assumptions, continued

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

In fiscal year 2017, the financial reporting discount rate for the PERF C was lowered from 7.65% to 7.15%. In December 2016, the CalPERS Board approved lowering the funding discount rate used in the PERF C from 7.50% to 7.00%, which is to be phased in over a three-year period (7.50% to 7.375%, 7.375% to 7.25%, and 7.25% to

7.00%) beginning with the June 30, 2016, valuation reports. The funding discount rate includes a 15 basis-point reduction for administrative expenses, and the remaining decrease is consistent with the change in the financial reporting discount rate.

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

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

McKinleyville Community Service District
Schedules of Pension Plan Contributions
As of June 30, 2021
Last Ten Years*

Defined Benefit Plan

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

Notes to the Schedules of Pension Plan Contributions

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

< Page Intentionally Left Blank >

Report on Internal Controls and Compliance

< Page Intentionally Left Blank >



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

Fedak & Brown LLP

Certified Public Accountants

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, 2021, 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 5, 2022.

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.

A handwritten signature in black ink that reads "Fedak & Brown LLP". The signature is written in a cursive, slightly slanted style.

Fedak & Brown LLP
Cypress, California
January 5, 2022