



**McKinleyville Community Services District
McKinleyville, California**

**Annual Financial Report
For the Fiscal Year Ended
June 30, 2020**



Board of Directors as of June 30, 2020

Name	Title	Elected/ Appointed	Current Term
Mary Burke	President	Elected	03/2017 - 12/2020
Dennis Mayo	Vice President	Elected	09/2008 - 12/2022
Shel Barsanti	Director	Appointed	03/2019 - 12/2020
David Couch	Director	Elected	09/2009 - 12/2022
John Corbett	Director	Elected	10/2002 - 12/2020

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, 2020

**McKinleyville Community Services District
Annual Financial Report
For the Fiscal Year Ended June 30, 2020**

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Financial Section

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Independent Auditor's Report

Board of Directors
McKinleyville Community Services District
McKinleyville, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the McKinleyville Community Services District (District) as of and for the year ended June 30, 2020, 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, 2020, 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 61 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2021, 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 62 and 63.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
February 3, 2021

**McKinleyville Community Services District
Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2020**

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, 2020. 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 2020, the District’s net position increased by 8.10% or \$2,326,257 to \$31,053,550 as a result of ongoing operations.
- In 2020, the District’s total revenues increased 1.04% or \$111,386 to \$10,800,937.
- In 2020, the District’s total expenses increased by 6.14% or \$490,568 to \$8,474,680.

Using This Financial Report

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

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

Government-wide Financial Statements

Statement of Net Position and Statement of Activities

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

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

**McKinleyville Community Services District
Management's Discussion and Analysis, continued
For the Fiscal Year Ended June 30, 2020**

Fund Financial Statements

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

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

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

Notes to the Basic Financial Statements

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

Government-wide Financial Analysis

Statement of Net Position

The following table is a summary of the statement of net position at June 30, 2020.

	Condensed Statements of Net Position					
	Governmental Activities		Business-Type Activities		Total District	
	2020	2019	2020	2019	2020	2019
Assets:						
Current assets	\$ 989,646	865,820	20,669,686	17,116,538	21,659,332	17,982,358
Capital assets	5,116,259	5,307,781	36,374,174	35,770,816	41,490,433	41,078,597
Total assets	<u>6,105,905</u>	<u>6,173,601</u>	<u>57,043,860</u>	<u>52,887,354</u>	<u>63,149,765</u>	<u>59,060,955</u>
Deferred outflows of resources	<u>746,245</u>	<u>129,991</u>	<u>1,562,572</u>	<u>303,312</u>	<u>2,308,817</u>	<u>433,303</u>
Liabilities:						
Current liabilities	333,165	337,816	1,643,335	1,368,270	1,976,500	1,706,086
Non-current liabilities	4,472,627	4,432,812	25,535,057	24,508,364	30,007,684	28,941,176
Total liabilities	<u>4,805,792</u>	<u>4,770,628</u>	<u>27,178,392</u>	<u>25,876,634</u>	<u>31,984,184</u>	<u>30,647,262</u>
Deferred inflows of resources	<u>800,125</u>	<u>40,520</u>	<u>1,620,723</u>	<u>79,183</u>	<u>2,420,848</u>	<u>119,703</u>
Net position:						
Net investment in capital assets	4,105,315	4,198,103	17,481,830	17,723,760	21,587,145	21,921,863
Restricted	197,530	187,401	1,735,159	1,741,925	1,932,689	1,929,326
Unrestricted	<u>(3,056,612)</u>	<u>(2,893,060)</u>	<u>10,590,328</u>	<u>7,769,164</u>	<u>7,533,716</u>	<u>4,876,104</u>
Total net position	<u>\$ 1,246,233</u>	<u>1,492,444</u>	<u>29,807,317</u>	<u>27,234,849</u>	<u>31,053,550</u>	<u>28,727,293</u>

**McKinleyville Community Services District
Management's Discussion and Analysis, continued
For the Fiscal Year Ended June 30, 2020**

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 \$31,053,550 as of June 30, 2020. 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, 2020.

	Condensed Statements of Activities					
	Governmental Activities		Business-Type Activities		Total District	
	2020	2019	2020	2019	2020	2019
Revenues:						
Program revenues:						
Charge for services	\$ 487,233	584,855	7,561,946	7,237,865	8,049,179	7,822,720
Operating grants and contributions	40,148	43,828	273,205	3,335	313,353	47,163
Capital grants and contributions	23,980	245,968	971,808	1,293,110	995,788	1,539,078
Total program revenues	551,361	874,651	8,806,959	8,534,310	9,358,320	9,408,961
General revenues:						
Property taxes	677,798	615,380	-	-	677,798	615,380
Voter approved taxes	212,622	210,254	-	-	212,622	210,254
Investment earnings	95,418	79,355	405,116	314,519	500,534	393,874
Gain on disposal of capital assets	-	-	7,901	13,816	7,901	13,816
Other income	43,762	47,266	-	-	43,762	47,266
Total general revenues	1,029,600	952,255	413,017	328,335	1,442,617	1,280,590
Total revenues	1,580,961	1,826,906	9,219,976	8,862,645	10,800,937	10,689,551
Expenses:						
General (Parks & Recreation)	1,580,958	1,637,702	-	-	1,580,958	1,637,702
Measure B	141,509	135,556	-	-	141,509	135,556
Streetlighting	104,705	92,022	-	-	104,705	92,022
Water	-	-	3,162,794	2,888,293	3,162,794	2,888,293
Wastewater	-	-	3,484,714	3,230,539	3,484,714	3,230,539
Total expenses	1,827,172	1,865,280	6,647,508	6,118,832	8,474,680	7,984,112
Changes in net position	(246,211)	(38,374)	2,572,468	2,743,813	2,326,257	2,705,439
Net position, beginning of year	1,492,444	1,530,818	27,234,849	24,491,036	28,727,293	26,021,854
Net position, end of year	\$ 1,246,233	1,492,444	29,807,317	27,234,849	31,053,550	28,727,293

Compared to the prior year, net position of the District increased by 8.10% or \$2,326,257 to \$31,053,550 as a result of ongoing operations.

Total revenues increased 1.04% or \$111,386 to \$10,800,937, due primarily to increases of \$266,190 in operating grants and contributions, \$226,459 in charge for services, \$106,660 in investment earnings, and \$62,418 in property tax; which were offset by a decrease of \$543,290 capital grants and contributions.

Total expenses increased by 6.14% or \$490,568 to \$8,474,680, due primarily to increases of \$274,501 in water fund expenses and \$254,175 in wastewater fund expenses; which were offset by a decrease of \$56,744 in General (Parks & Recreation) expenses.

**McKinleyville Community Services District
Management's Discussion and Analysis, continued
For the Fiscal Year Ended June 30, 2020**

Government-wide Financial Analysis, continued

Changes in fund balance – Governmental fund

The following table is a summary of the changes in fund balance for all governmental funds for the year ended June 30, 2020.

Condensed Changes in Fund Balance – Governmental Funds

	General (Parks and Recreation)	Measure B	Streetlighting	Total Governmental Activities
Fund balance, beginning of year	\$ 1,245,711	(580,554)	19,231	684,388
Changes in fund balance	<u>83,942</u>	<u>5,772</u>	<u>29,866</u>	<u>119,580</u>
Fund balance, end of year	<u>\$ 1,329,653</u>	<u>(574,782)</u>	<u>49,097</u>	<u>803,968</u>

In 2020, total fund balance increased by 17.47% or \$119,580 to \$803,968. The General (Parks and Recreation) fund increased by 6.74% or \$83,942 to \$1,329,653; the Measure B fund increased by 0.99% or \$5,772 to a deficit fund balance of \$574,782; and the Street Lighting fund increased by 155.30% or \$29,866 to \$49,097.

Capital Asset Administration

	Capital Assets					
	Governmental Activities		Business-Type Activities		Total District	
	2020	2019	2020	2019	2020	2019
Capital assets:						
Non-depreciable assets	\$ 1,996,189	1,960,164	5,395,478	3,910,689	7,391,667	5,870,853
Depreciable assets	<u>7,169,727</u>	<u>7,165,727</u>	<u>54,900,187</u>	<u>54,129,725</u>	<u>62,069,914</u>	<u>61,295,452</u>
Total capital assets	9,165,916	9,125,891	60,295,665	58,040,414	69,461,581	67,166,305
Accumulated depreciation	<u>(4,049,657)</u>	<u>(3,818,110)</u>	<u>(23,921,491)</u>	<u>(22,269,598)</u>	<u>(27,971,148)</u>	<u>(26,087,708)</u>
Total capital assets, net	<u>\$ 5,116,259</u>	<u>5,307,781</u>	<u>36,374,174</u>	<u>35,770,816</u>	<u>41,490,433</u>	<u>41,078,597</u>

At the end of fiscal year 2020, the District's investment in capital assets amounted to \$41,490,433 (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, 2020**

Long-Term Debt Administration

	Long-Term Debt					
	Governmental Activities		Business-Type Activities		Total District	
	2020	2019	2020	2019	2020	2019
Long-term debt:						
Long-term debt	\$ 1,010,944	1,109,678	18,892,344	18,047,056	19,903,288	19,156,734
Total long-term debt:	<u>\$ 1,010,944</u>	<u>1,109,678</u>	<u>18,892,344</u>	<u>18,047,056</u>	<u>19,903,288</u>	<u>19,156,734</u>

Long-term debt increased 3.90% or \$746,554 to \$19,903,288 in 2020, primarily due to additional note payable funds received from JPMorgan Chase Bank, NA for the purpose of financing the acquisition of property to expand the District's ability to recycle reclaimed wastewater. See note 6 for further discussion.

Conditions Affecting Current Financial Position

The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings. 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, 2020

	<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)	\$ 720,845	16,899,080	17,619,925
Cash and cash equivalents – restricted (notes 2 & 3)	197,530	2,398,191	2,595,721
Accounts receivable	5,627	834,659	840,286
Accrued interest receivable	4,403	13,181	17,584
Prepaid expense	61,241	104,136	165,377
Grant receivable	-	326,354	326,354
Materials and supplies inventory	-	94,085	94,085
Total current assets	<u>989,646</u>	<u>20,669,686</u>	<u>21,659,332</u>
Non-current assets:			
Capital assets – not being depreciated (note 4)	1,996,189	5,395,478	7,391,667
Capital assets – being depreciated (note 4)	3,120,070	30,978,696	34,098,766
Total non-current assets	<u>5,116,259</u>	<u>36,374,174</u>	<u>41,490,433</u>
Total assets	<u>6,105,905</u>	<u>57,043,860</u>	<u>63,149,765</u>
Deferred outflows of resources:			
Deferred OPEB outflows (note 7)	610,738	1,246,390	1,857,128
Deferred pension outflows (note 8)	135,507	316,182	451,689
Total deferred outflows of resources	<u>\$ 746,245</u>	<u>1,562,572</u>	<u>2,308,817</u>

Continued on next page

See accompanying notes to the basic financial statements

McKinleyville Community Services District
Statement of Net Position, continued
June 30, 2020

	Governmental Activities	Business-Type Activities	Totals
Current liabilities:			
Accounts payable and accrued expenses	\$ 74,734	366,981	441,715
Accrued interest on long-term debt	6,033	238,834	244,867
Accrued salaries and related payables	103,444	-	103,444
Customer deposits	7,500	118,242	125,742
Unearned revenue	-	33,382	33,382
Long-term liabilities – due within one year:			
Compensated absences (note 5)	49,400	130,212	179,612
Bond payable (note 6)	-	80,000	80,000
Capital lease payable (note 6)	92,054	-	92,054
Notes payable (note 6)	-	675,684	675,684
Total current liabilities	333,165	1,643,335	1,976,500
Non-current liabilities:			
Long-term liabilities – due in more than one year:			
Compensated absences (note 5)	65,612	176,583	242,195
Bond payable (note 6)	-	145,000	145,000
Capital lease payable (note 6)	918,890	-	918,890
Notes payable (note 6)	-	17,991,660	17,991,660
Other post employment benefits (note 7)	2,830,881	5,777,243	8,608,124
Net pension liabilities (note 8)	657,244	1,444,571	2,101,815
Total non-current liabilities	4,472,627	25,535,057	30,007,684
Total liabilities	4,805,792	27,178,392	31,984,184
Deferred inflows of resources:			
Deferred OPEB inflows (note 7)	786,754	1,597,349	2,384,103
Deferred pension inflows (note 8)	13,371	23,374	36,745
Total deferred inflows of resources	800,125	1,620,723	2,420,848
Net position: (note 10)			
Net investment in capital assets	4,105,315	17,481,830	21,587,145
Restricted	197,530	1,735,159	1,932,689
Unrestricted	(3,056,612)	10,590,328	7,533,716
Total net position	\$ 1,246,233	29,807,317	31,053,550

See accompanying notes to the basic financial statements

McKinleyville Community Services District
Statement of Activities
For the Fiscal Year Ended June 30, 2020

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charge for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
General (Parks & Recreation)	\$ 1,580,958	389,341	40,116	23,980	(1,127,521)	-	(1,127,521)
Measure B	141,509	-	-	-	(141,509)	-	(141,509)
Street Lighting	104,705	97,892	32	-	(6,781)	-	(6,781)
Total governmental activities	1,827,172	487,233	40,148	23,980	(1,275,811)	-	(1,275,811)
Business-Type activities:							
Water	3,162,794	3,787,070	89,989	331,850	-	1,046,115	1,046,115
Wastewater	3,484,714	3,774,876	183,216	639,958	-	1,113,336	1,113,336
Total business-type activities	6,647,508	7,561,946	273,205	971,808	-	2,159,451	2,159,451
Total	\$ 8,474,680	8,049,179	313,353	995,788	(1,275,811)	2,159,451	883,640
General revenues:							
					\$ 677,798	-	677,798
					212,622	-	212,622
					95,418	405,116	500,534
					-	7,901	7,901
					43,762	-	43,762
					1,029,600	413,017	1,442,617
					(246,211)	2,572,468	2,326,257
					1,492,444	27,234,849	28,727,293
					\$ 1,246,233	29,807,317	31,053,550

See accompanying notes to the basic financial statements

McKinleyville Community Services District
Balance Sheet of Governmental Fund
June 30, 2020

	<u>General (Parks and Recreation)</u>	<u>Measure B</u>	<u>Street Lighting</u>	<u>Total Governmental Fund</u>
Assets:				
Cash and investments	\$ 720,845	-	-	720,845
Cash and investments – restricted	197,530	-	-	197,530
Accounts receivable	2,591	-	3,036	5,627
Interest receivable	3,465	938	-	4,403
Prepaid expenses	56,034	-	5,207	61,241
Due from other funds (note 9)	534,296	(575,663)	41,367	-
Total assets	<u>\$ 1,514,761</u>	<u>(574,725)</u>	<u>49,610</u>	<u>989,646</u>
Liabilities:				
Accounts payable	\$ 74,164	57	513	74,734
Accrued wages and related payables	103,444	-	-	103,444
Deposits	7,500	-	-	7,500
Total liabilities	<u>185,108</u>	<u>57</u>	<u>513</u>	<u>185,678</u>
Fund balance: (note 11)				
Restricted	197,530	-	-	197,530
Assigned	115,012	-	49,097	164,109
Unassigned	1,017,111	(574,782)	-	442,329
Total fund balance	<u>1,329,653</u>	<u>(574,782)</u>	<u>49,097</u>	<u>803,968</u>
Total liabilities and fund balance	<u>\$ 1,514,761</u>	<u>(574,725)</u>	<u>49,610</u>	<u>989,646</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, 2020

Reconciliation:

Total Fund Balance of Governmental Fund	\$	803,968
<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		1,996,189
Capital assets – being depreciated		3,120,070
<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		610,738
Deferred OPEB inflows		(786,754)
Deferred pension outflows		135,507
Deferred pension inflows		(13,371)
<p>Long-term liabilities applicable to the District are not due and payable in the current period and, accordingly, are not reported as governmental fund liabilities. All liabilities, both current and long-term, are reported in the statement of net position as follows:</p>		
Accrued interest on long-term debt		(6,033)
Compensated absences		(115,012)
Long-term debt		(1,010,944)
Other post employment benefit obligation		(2,830,881)
Net pension liability		(657,244)
Net pension liability		<u>(657,244)</u>
Net Position of Governmental Activities	\$	<u><u>1,246,233</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, 2020

	<u>General (Parks and Recreation)</u>	<u>Measure B</u>	<u>Street Lighting</u>	<u>Total Governmental Fund</u>
Revenues				
Property taxes	\$ 677,798	-	-	677,798
Special assessments	-	212,622	-	212,622
Charge for services and facilities	389,341	-	97,892	487,233
Operating grants and contributions	40,116	-	32	40,148
Capital grants and contributions	23,980	-	-	23,980
Other income	25,092	-	18,670	43,762
Investment earnings	93,215	2,203	-	95,418
Total revenues	<u>1,249,542</u>	<u>214,825</u>	<u>116,594</u>	<u>1,580,961</u>
Expenditures				
General government (Parks & Recreation)	1,129,575	-	-	1,129,575
Measure B	-	81,912	-	81,912
Streetlighting	-	-	72,866	72,866
Debt service:				
Principal	-	88,872	9,862	98,734
Interest	-	38,269	-	38,269
Capital outlay	36,025	-	4,000	40,025
Total expenditures	<u>1,165,600</u>	<u>209,053</u>	<u>86,728</u>	<u>1,461,381</u>
Net change in fund balance	83,942	5,772	29,866	119,580
Fund balance, beginning of year	<u>1,245,711</u>	<u>(580,554)</u>	<u>19,231</u>	<u>684,388</u>
Fund Balance, end of year	<u>\$ 1,329,653</u>	<u>(574,782)</u>	<u>49,097</u>	<u>803,968</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, 2020

Reconciliation:

Net Change in Fund Balance of Total Governmental Fund	\$	119,580
<p>Amounts reported for governmental activities in the statement of activities are different because:</p> <p>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		40,025
Depreciation expense		(231,547)
<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		98,734
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenses in governmental funds as follows:</p>		
Net change in accrued interest expense on long-term debt		784
Net change in compensated absences for the current period		(16,272)
Net change in other post employment benefits for the current period		(196,745)
Net change in pension obligations for the current period		(60,770)
		(246,211)
Changes in Net Position of Governmental Activities	\$	(246,211)

See accompanying notes to the basic financial statements

McKinleyville Community Services District
Statement of Net Position – Enterprise Fund
June 30, 2020

	Water	Waste water	2020
Current assets:			
Cash and investments	\$ 6,054,989	10,844,091	16,899,080
Cash and investments – restricted	1,563,040	835,151	2,398,191
Accounts receivable	408,288	426,371	834,659
Accrued interest receivable	5,689	7,492	13,181
Grant receivable	89,669	236,685	326,354
Prepaid expenses	52,068	52,068	104,136
Inventory	69,742	24,343	94,085
Total current assets	8,243,485	12,426,201	20,669,686
Non-current assets:			
Capital assets – not being depreciated	609,026	4,786,452	5,395,478
Capital assets – being depreciated	7,687,185	23,291,511	30,978,696
Total non-current assets	8,296,211	28,077,963	36,374,174
Total assets	16,539,696	40,504,164	57,043,860
Deferred outflows of resources:			
Deferred OPEB outflows	621,893	624,497	1,246,390
Deferred pension outflows	149,057	167,125	316,182
Total deferred outflows of resources	\$ 770,950	791,622	1,562,572

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, 2020

	<u>Water</u>	<u>Waste water</u>	<u>2020</u>
Current liabilities:			
Accounts payable	\$ 169,894	197,087	366,981
Accrued interest payable	8,777	230,057	238,834
Customer deposits	116,742	1,500	118,242
Unearned revenue	16,691	16,691	33,382
Long-term liabilities – due within one year:			
Compensated absences	65,597	64,615	130,212
Bond payable	-	80,000	80,000
Notes payable	166,689	508,995	675,684
Total current liabilities	<u>544,390</u>	<u>1,098,945</u>	<u>1,643,335</u>
Non-current liabilities:			
Long-term liabilities – due within one year:			
Compensated absences	87,784	88,799	176,583
Bond payable	-	145,000	145,000
Notes payable	2,122,600	15,869,060	17,991,660
Other post employment benefits	2,882,588	2,894,655	5,777,243
Net pension liabilities	689,587	754,984	1,444,571
Total non-current liabilities	<u>5,782,559</u>	<u>19,752,498</u>	<u>25,535,057</u>
Total liabilities	<u>6,326,949</u>	<u>20,851,443</u>	<u>27,178,392</u>
Deferred inflows of resources:			
Deferred OPEB inflows	786,754	810,595	1,597,349
Deferred pension inflows	11,330	12,044	23,374
Total deferred inflows of resources	<u>798,084</u>	<u>822,639</u>	<u>1,620,723</u>
Net position:			
Net investment in capital assets	6,006,922	11,474,908	17,481,830
Restricted	1,563,040	172,119	1,735,159
Unrestricted	2,615,651	7,974,677	10,590,328
Total net position	<u>\$ 10,185,613</u>	<u>19,621,704</u>	<u>29,807,317</u>

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, 2020

	Water	Wastewater	2020
Operating revenues:			
Water revenue	\$ 3,660,510	-	3,660,510
Sewer revenue	-	3,686,262	3,686,262
Other service charges	126,560	88,614	215,174
Operating grant	89,989	183,216	273,205
Total operating revenues	3,877,059	3,958,092	7,835,151
Operating expenses:			
Water purchase	1,094,722	-	1,094,722
Salaries and related expenses	509,490	569,025	1,078,515
Employee benefits	624,094	746,866	1,370,960
Services and supplies	463	2,502	2,965
Professional services	29,796	30,475	60,271
Utilities	58,679	186,957	245,636
Insurance expense	38,866	38,859	77,725
Other operating expense	293,446	325,840	619,286
Total operating expenses	2,649,556	1,900,524	4,550,080
Operating income before depreciation	1,227,503	2,057,568	3,285,071
Depreciation expense	(455,902)	(1,211,865)	(1,667,767)
Operating income	771,601	845,703	1,617,304
Non-operating revenues(expenses):			
Investment earning	161,455	243,661	405,116
Gain on sale of assets	3,925	3,976	7,901
Debt issuance expense	-	(58,500)	(58,500)
Interest expense	(57,336)	(313,825)	(371,161)
Total non-operating revenues(expenses), net	108,044	(124,688)	(16,644)
Net income before capital contributions	879,645	721,015	1,600,660
Capital contributions:			
Capacity fees	253,460	322,372	575,832
Contributed capital assets	78,390	317,586	395,976
Total capital contributions	331,850	639,958	971,808
Changes in net position	1,211,495	1,360,973	2,572,468
Net position, beginning of year	8,974,118	18,260,731	27,234,849
Net position, end of year	\$ 10,185,613	19,621,704	29,807,317

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, 2020**

	2020
Cash flows from operating activities:	
Cash receipts from customers	\$ 7,783,965
Cash paid to employees	(1,046,061)
Cash paid to vendors and suppliers	(2,848,077)
Net cash provided by operating activities	3,889,827
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(2,271,125)
Proceeds from the sale of capital assets	7,901
Proceeds from capital contributions	976,355
Proceeds from loan issuance	1,508,500
Principal payments on long-term debt	(663,212)
Bond issuance cost	(58,500)
Interest payments on long-term debt	(313,925)
Net cash used in capital and related financing activities	(814,006)
Cash flows from investing activities:	
Interest earnings	407,101
Net cash provided by investing activities	407,101
Net increase in cash and cash equivalents	3,482,922
Cash and cash equivalents, beginning of year	15,814,349
Cash and cash equivalents, end of year	\$ 19,297,271
Reconciliation of cash and cash equivalents to statement of net position:	
Cash and investments	\$ 16,899,080
Cash and investments – restricted	2,398,191
Total cash and cash equivalents	\$ 19,297,271

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, 2020

	2020
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 1,617,304
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	1,667,767
Change in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:	
(Increase)decrease in assets and deferred outflows:	
Accounts receivable	(56,460)
Prepaid expenses	(26,878)
Inventory	6,580
Deferred OPEB outflows	(1,246,390)
Deferred pension outflows	(12,870)
Increase(decrease) in liabilities and deferred inflows:	
Accounts payable	118,487
Customer deposits	(420)
Unearned revenue	5,694
Compensated absences	32,454
Other post employment benefits	102,689
Net pension liabilities	140,330
Deferred OPEB inflows	1,537,275
Deferred pension inflows	4,265
Total adjustments	2,272,523
Net cash provided by operating activities	\$ 3,889,827

See accompanying notes to the basic financial statements

McKinleyville Community Services District
Notes to the Basic Financial Statements
June 30, 2020

(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, 2020

(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 purchases of water, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Management, administration, and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories, such as interest income and interest expense, are reported as non-operating revenues and expenses.

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

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

- a) Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of that individual governmental or proprietary fund are at least 10 percent of the corresponding total for all funds of that category or type;
- b) Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental fund or proprietary fund are at least 5 percent of the 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, 2020

(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 pronouncement in the current year:

In May 2020, the GASB issued Statement No. 95 – *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

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.

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2020

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

D. Financial Statement Elements

2. Uncertainty

The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings. 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.

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.

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2020

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

D. Financial Statement Elements, continued

7. Property Taxes and Assessments

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

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

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

8. Materials and Supplies Inventory

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

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

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2020

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

D. Financial Statement Elements, continued

10. Deferred Outflows of Resources

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

11. Compensated Absences

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

12. Pension

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

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

- Valuation Date: June 30, 2018
- Measurement Date: June 30, 2019
- Measurement Period: July 1, 2018 to June 30, 2019

13. Deferred Inflows of Resources

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

14. Net Position

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

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

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2020

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

D. Financial Statement Elements, continued

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

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2020

(2) Cash and Cash Equivalents

Cash and cash equivalents as of June 30, 2020 are classified as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
Cash and cash equivalents	\$ 720,845	16,899,080	17,619,925
Cash and cash equivalents – restricted	<u>197,530</u>	<u>2,398,191</u>	<u>2,595,721</u>
Total	<u>\$ 918,375</u>	<u>19,297,271</u>	<u>20,215,646</u>

Cash and cash equivalents as of June 30, 2020 consisted of the following:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash			
Cash	\$ 1,240	-	1,240
Deposits held with financial institutions	<u>3,998,585</u>	<u>180,076</u>	<u>4,178,661</u>
Total cash	<u>3,999,825</u>	<u>180,076</u>	<u>4,179,901</u>
Cash equivalents			
Deposits with Humboldt County Treasurer	3,841,892	1,472,520	5,314,412
Deposits held with California Local Agency Investment Fund (LAIF)	137,637	-	137,637
Deposit with CalTRUST	<u>9,640,571</u>	<u>943,125</u>	<u>10,583,696</u>
Total cash equivalents	<u>13,620,100</u>	<u>2,415,645</u>	<u>16,035,745</u>
Total	<u>\$ 17,619,925</u>	<u>2,595,721</u>	<u>20,215,646</u>

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.

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2020

(2) Cash and Cash Equivalents, continued

State of California Local Agency Fund (LAIF), continued

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

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

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

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

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

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2020

(2) Cash and Cash Equivalents, continued

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.

As of June 30, 2020 the District's authorized deposits had the following maturities:

<u>Cash Equivalents</u>	<u>Total</u>	<u>Average Months Maturity</u>		
		<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25 Months or More</u>
CalTRUST Funds	\$ 10,583,696	307,710	-	10,275,986
California Local Agency Investment Fund	137,637	137,637	-	-
Humboldt County Treasurer	5,314,412	-	-	5,314,412
Total	<u>\$ 16,035,745</u>	<u>445,347</u>	<u>-</u>	<u>15,590,398</u>

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of June 30, 2020 for each investment type.

<u>Cash Equivalents</u>	<u>Total</u>	<u>Rating at Year End</u>
Cal Trust – Short Term Fund	\$ 307,710	AAf
Cal Trust – Medium Term Fund	10,275,986	A+f
California Local Agency Investment Fund	137,637	Not Rated
Humboldt County Treasurer	5,314,412	Not Rated
Total	<u>\$ 16,035,745</u>	

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2020

(2) Cash and Cash Equivalents, continued

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, 2020 were allocated as follows:

	Amount
Cash	\$ 1,240
Deposits held with financial institutions	4,178,661
Deposits with Humboldt County Treasurer	5,314,412
Deposits held with California Local Agency Investment Fund (LAIF)	137,637
Deposit with CalTrust	10,583,696
Total	\$ 20,215,646

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

(3) Investments at Fair Value Hierarchy

Investments measured at fair value on a recurring basis, based on their fair value hierarchy at June 30, 2020 are as follows:

Cash Equivalents	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Pooled investment fund:				
Humboldt County Treasurer's Fund	\$ 5,314,412	-	5,314,412	-
CalTrust Medium-Term Fund	10,275,986	-	10,275,986	-
Total pooled investment fund	15,590,398	-	15,590,398	-
Other pooled funds measured at net asset value				
CalTrust Short-Term Fund	307,710			
California Local Agency Investment Fund	137,637			
	445,347			
	\$ 16,035,745			

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2020

(4) Capital Assets

Governmental Activities:

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

	<u>Balance 2019</u>	<u>Additions/ Transfers In</u>	<u>Deletions/ Transfers Out</u>	<u>Balance 2020</u>
Non-depreciable assets:				
Land	\$ 1,769,744	-	-	1,769,744
Construction in progress	190,420	36,025	-	226,445
Total non-depreciable assets	<u>1,960,164</u>	<u>36,025</u>	<u>-</u>	<u>1,996,189</u>
Depreciable assets:				
Buildings and improvements	4,875,745	-	-	4,875,745
Furniture and equipment	288,658	-	-	288,658
Park improvements	1,404,378	-	-	1,404,378
Vehicles	62,109	-	-	62,109
Streetlighting	534,837	4,000	-	538,837
Total depreciable assets	<u>7,165,727</u>	<u>4,000</u>	<u>-</u>	<u>7,169,727</u>
Accumulated depreciation				
Buildings and improvements	(2,013,549)	(170,993)	-	(2,184,542)
Furniture and equipment	(257,643)	(6,531)	-	(264,174)
Park improvements	(1,227,318)	(27,765)	-	(1,255,083)
Vehicles	(49,175)	(6,010)	-	(55,185)
Streetlighting	(270,425)	(20,248)	-	(290,673)
Total accumulated depreciation	<u>(3,818,110)</u>	<u>(231,547)</u>	<u>-</u>	<u>(4,049,657)</u>
Total depreciable assets, net	<u>3,347,617</u>	<u>(227,547)</u>	<u>-</u>	<u>3,120,070</u>
Total capital assets, net	<u>\$ 5,307,781</u>			<u>5,116,259</u>

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2020

(4) Capital Assets, continued

Business-type Activities:

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

	<u>Balance 2019</u>	<u>Additions/ Transfers In</u>	<u>Deletions/ Transfers Out</u>	<u>Balance 2020</u>
Non-depreciable assets:				
Land	\$ 3,410,931	1,100,870	-	4,511,801
Construction in progress	<u>499,758</u>	<u>642,610</u>	<u>(258,691)</u>	<u>883,677</u>
Total non-depreciable assets	<u>3,910,689</u>	<u>1,743,480</u>	<u>(258,691)</u>	<u>5,395,478</u>
Depreciable assets:				
Buildings and improvements	494,562	265,000	-	759,562
Water infrastructure	14,952,423	97,999	-	15,050,422
Wastewater infrastructure	36,480,525	224,115	-	36,704,640
Tools and equipment	1,153,268	45,794	-	1,199,062
Vehicles	<u>1,048,947</u>	<u>153,428</u>	<u>(15,874)</u>	<u>1,186,501</u>
Total depreciable assets	<u>54,129,725</u>	<u>786,336</u>	<u>(15,874)</u>	<u>54,900,187</u>
Accumulated depreciation				
Buildings and improvements	(289,784)	(21,949)	-	(311,733)
Water infrastructure	(7,309,645)	(364,604)	-	(7,674,249)
Wastewater infrastructure	(13,104,665)	(1,153,142)	-	(14,257,807)
Tools and equipment	(1,065,439)	(22,635)	-	(1,088,074)
Vehicles	<u>(500,065)</u>	<u>(105,437)</u>	<u>15,874</u>	<u>(589,628)</u>
Total accumulated depreciation	<u>(22,269,598)</u>	<u>(1,667,767)</u>	<u>15,874</u>	<u>(23,921,491)</u>
Total depreciable assets, net	<u>31,860,127</u>	<u>(881,431)</u>	<u>-</u>	<u>30,978,696</u>
Total capital assets, net	<u>\$ 35,770,816</u>			<u>36,374,174</u>

Depreciation expense was charged to various functions for the year ended June 30, 2020 as follows:

Governmental activities:	
General (Parks and Recreation)	\$ 211,299
Streetlighting	<u>20,248</u>
Total governmental activities	<u>231,547</u>
Business-type activities	
Water Fund	455,902
Wastewater Fund	<u>1,211,865</u>
Total business-type activities	<u>1,667,767</u>
	<u>\$ 1,899,314</u>

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2020

(5) Compensated Absences

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

Governmental Activities

	<u>Balance 2019</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance 2020</u>	<u>Due within one year</u>	<u>Due in more than one year</u>
\$	98,740	49,592	(33,320)	115,012	49,400	65,612

Business-type Activities

	<u>Balance 2019</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance 2020</u>	<u>Due within one year</u>	<u>Due in more than one year</u>
\$	274,341	98,585	(66,131)	306,795	130,212	176,583

(6) Long-term Debt

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

	<u>Balance 2019</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 2020</u>	<u>Current Portion</u>	<u>Long-Term Portion</u>
<i>Governmental Activities:</i>						
Capital lease payable						
PPFCC Lease (Umpqua Loan)	\$ 1,099,816	-	(88,872)	1,010,944	92,054	918,890
Total capital lease payable	1,099,816	-	(88,872)	1,010,944	92,054	918,890
Note payable						
PG&E Loan	9,862	-	(9,862)	-	-	-
Total note payable	9,862	-	(9,862)	-	-	-
Total governmental activities	1,109,678	-	(98,734)	1,010,944	92,054	918,890
<i>Business-type Activities</i>						
Notes payable						
Water fund						
ARRA Loan	89,746	-	(11,580)	78,166	11,641	66,525
Davis-Grunsky Act Loan	1,691,001	-	(104,965)	1,586,036	107,164	1,478,872
I-Bank Loan	671,410	-	(46,323)	625,087	47,884	577,203
Total Water fund	2,452,157	-	(162,868)	2,289,289	166,689	2,122,600
Wastewater fund						
State Revolving Fund Loan #3	15,289,899	-	(420,344)	14,869,555	425,295	14,444,260
Pialorsi Property Loan	-	1,508,500	-	1,508,500	83,700	1,424,800
Total Wastewater fund	15,289,899	1,508,500	(420,344)	16,378,055	508,995	15,869,060
Total notes payable	17,742,056	1,508,500	(583,212)	18,667,344	675,684	17,991,660
Bond payable						
Wastewater fund						
USDA Revenue Bonds	305,000	-	(80,000)	225,000	80,000	145,000
Total bond payable	305,000	-	(80,000)	225,000	80,000	145,000
Total business-type activities	18,047,056	1,508,500	(663,212)	18,892,344	755,684	18,136,660
Total long-term debt	\$ 19,156,734	1,508,500	(761,946)	19,903,288	847,738	19,055,550

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2020

(6) Long-term Debt, continued

Public Property Financing Corporation of California Lease

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

Future lease payments are as follows:

Year	Principal	Interest	Total
2021	\$ 92,054	35,398	127,452
2022	95,351	32,101	127,452
2023	98,767	28,687	127,454
2024	102,304	25,150	127,454
2025	105,968	21,486	127,454
2026-2030	516,500	47,710	564,210
Total	1,010,944	190,532	1,201,476
Current	(92,054)		
Non-current	\$ 918,890		

PG&E Loan

In 2014, the District entered into a loan agreement with the Pacific Gas and Electric Company (PG&E) to finance improvements to the District's streetlights. The loan amount totaled \$98,181 and bears no interest. In January 2015, the loan amount was reduced to \$96,013 resulting from a change in net project costs to be financed and monthly principal payments increased from \$1,423 to \$1,655. As June 30, 2020, the loan was paid in full.

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.

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2020

(6) Long-term Debt, continued

ARRA Loan, continued

Future debt service on the loan is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 11,641	749	12,390
2022	11,757	633	12,390
2023	11,875	515	12,390
2024	11,994	396	12,390
2025	12,115	275	12,390
2026-2027	<u>18,784</u>	<u>184</u>	<u>18,968</u>
Total	78,166	<u>2,752</u>	<u>80,918</u>
Current	<u>(11,641)</u>		
Non-current	\$ <u>66,525</u>		

Davis-Grunsky Act Loan

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

Future debt service on the loan is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 107,164	34,115	141,279
2022	109,417	31,861	141,278
2023	111,726	29,552	141,278
2024	114,094	27,185	141,279
2025	116,520	24,758	141,278
2026-2030	621,174	85,217	706,391
2031-2033	<u>405,941</u>	<u>17,888</u>	<u>423,829</u>
Total	1,586,036	<u>250,576</u>	<u>1,836,612</u>
Current	<u>(107,164)</u>		
Non-current	\$ <u>1,478,872</u>		

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2020

(6) Long-term Debt, continued

I-Bank Loan

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

Future debt service on the loan is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 47,884	22,134	70,018
2022	49,498	20,350	69,848
2023	51,166	18,505	69,671
2024	52,890	15,866	68,756
2025	111,188	11,482	122,670
2026-2030	245,759	25,899	271,658
2031	66,702	1,124	67,826
Total	625,087	<u>115,360</u>	<u>740,447</u>
Current	<u>(47,884)</u>		
Non-current	\$ <u>577,203</u>		

USDA Revenue Bonds

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

Future debt service is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 80,000	9,250	89,250
2022	80,000	5,250	85,250
2023	65,000	1,625	66,625
Total	225,000	<u>16,125</u>	<u>241,125</u>
Current	<u>(80,000)</u>		
Non-current	\$ <u>145,000</u>		

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2020

(6) Long-term Debt, continued

State Revolving Fund Loans No. 3

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

Future debt service on the loan is as follows:

Year	Principal	Interest	Total
2021	\$ 425,295	237,737	663,032
2022	432,094	230,938	663,032
2023	439,001	224,031	663,032
2024	446,019	217,013	663,032
2025	453,149	209,883	663,032
2026-2030	2,376,754	938,406	3,315,160
2031-2035	2,572,397	742,763	3,315,160
2036-2040	2,784,731	530,430	3,315,161
2041-2045	3,014,753	300,408	3,315,161
2046-2048	1,925,362	61,994	1,987,356
Total	14,869,555	3,693,603	18,563,158
Current	(425,295)		
Non-current	\$ 14,444,260		

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.

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2020

(6) Long-term Debt, continued

Pialorsi Property Loan, continued

Future debt service on the loan is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 83,700	26,853	110,553
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
2026-2030	502,800	79,137	581,937
2031-2035	<u>552,600</u>	<u>29,283</u>	<u>581,883</u>
Total	1,508,500	<u>231,448</u>	<u>1,739,948</u>
Current	<u>(83,700)</u>		
Non-current	<u>\$ 1,424,800</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.

Benefits Provided

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

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

Employees Covered by Benefit Terms

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

	<u>2020</u>
Inactive employees or beneficiaries currently receiving benefit payments	11
Active employees	<u>24</u>
Total plan membership	<u>35</u>

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2020

(7) Other Post-Employment Benefits Payable, continued

Contributions

The District pays benefits as they come due. For the year ended June 30, 2020, the District contributed \$150,475 which includes implicit subsidy credit.

Net OPEB Liability

The District's total OPEB liability was valued as of June 30, 2019 and was used to calculate the net OPEB liability measured as of June 30, 2020.

Actuarial Assumptions and Other Inputs

The total OPEB liability as of June 30, 2020 (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	2.45%
Inflation	2.50%
Salary increases	2.75%; Additional merit-based increases based on CalPERS merit salary increase tables
Healthcare cost trend rates	7.00% Trending down to 3.84% over 55 years. Applies to 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 2.45%. The District's OPEB Plan is an unfunded plan; therefore, the discount rate was set to the rate of tax-exempt, high-quality 20-year municipal bonds, as of the valuation date.

Changes in the Total OPEB Liability

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

	<u>2020</u>
Balance at June 30, 2019	\$ 8,455,118
Changes for the year:	
Service cost	482,408
Interest	320,814
Differences between expected and actual experience	(2,563,217)
Changes in assumptions or other inputs	2,063,476
Benefit payments	(102,866)
Implicit rate subsidy fulfilled	<u>(47,609)</u>
Net change	<u>153,006</u>
Balance at June 30, 2020	<u>\$ 8,608,124</u>

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2020

(7) Other Post-Employment Benefits Payable, continued

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 (1.45%) or 1-percentage-point higher (3.45%) than the current discount rate (2.45%):

	Discount Rate	Valuation	Discount Rate
	1% Lower	Discount Rate	1% Higher
Total OPEB liability	\$ 9,971,314	8,608,124	7,143,303

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 (6.00% decreasing to 2.84%) or 1-percentage-point higher (8.00% decreasing to 4.84%) than the current healthcare cost trend rates (7.00% decreasing to 3.84%):

	Trend 1%	Valuation	Trend 1%
	Lower	Trend	Higher
Total OPEB liability	\$ 6,837,238	8,608,124	10,472,494

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

For the year ended June 30, 2020, the District recognized an OPEB expense of \$740,794. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related OPEB as follows:

	Deferred	Deferred
	Outflows of	Inflows of
	Resources	Resources
Difference between expected and actual experience	\$ -	(2,306,895)
Changes of assumptions or other inputs	1,857,128	(77,208)
Total	\$ 1,857,128	(2,384,103)

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	Deferred Net
Ending	Outflows(Inflows)
June 30,	of Resources
2021	\$ (62,428)
2022	(62,428)
2023	(62,428)
2024	(62,428)
2025	(62,428)
Thereafter	(214,835)

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2020

(8) Defined Benefit Pension Plan

Plan Description

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

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: The Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. 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 Plans' provision and benefits in effect at June 30, 2020, 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	57
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	9.680%	6.985%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by an actuary and shall be effective on July 1, following notice of a change in the rate. Funding contribution for the Plan are determined annually on an actuarial basis as of June 30, by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the 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, 2020

(8) Defined Benefit Pension Plan, continued

Contributions, continued

For the fiscal year ended June 30, 2020, the contributions recognized as part of pension expense for the Plan were as follows:

	2020
Contributions – employer	\$ 212,575

Net Pension Liability

As of the fiscal year ended June 30, 2020, the District reported net pension liability for its proportionate share of the net pension liability of the Plan as follows:

	2020
Proportionate share of net pension liability	\$ 2,101,815

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, 2020, the net pension liability of the Plan is measured as of June 30, 2019 (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, 2018 (the valuation date), rolled forward to June 30, 2019, 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, 2019, was as follows:

	Proportionate Share
Proportion – June 30, 2018	0.01969 %
Increase in proportion	0.00082
Proportion – June 30, 2019	0.02051 %

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2020

(8) Defined Benefit Pension Plan, continued

Deferred Pension Outflows (Inflows) of Resources

For the year ended June 30, 2020, the District recognized pension expense of \$443,959. As of the fiscal year ended June 30, 2020, 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	\$ 251,463	-
Difference between actual and expected experience	134,669	-
Change in assumptions	64,695	-
Net differences between projected and actual earnings on plan investments	-	(36,745)
Adjustment due to changes in proportions and difference in employer contributions	<u>862</u>	<u>-</u>
Total	<u>\$ 451,689</u>	<u>(36,745)</u>

As of June 30, 2020, the District reported \$251,463 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, 2020, will be recognized as a reduction of the net pension liability for the year ended June 30, 2021.

As of June 30, 2020, 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>
2021	\$ 147,905
2022	(13,171)
2023	21,323
2024	7,424

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2020

(8) Defined Benefit Pension Plan, continued

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

Valuation date	June 30, 2019
Measurement date	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 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.

On December 21, 2016, the Board lowered the discount rate for the PERF C for funding purposes from 7.50% to 7.00% percent using a three-year phase-in beginning with the June 30, 2016 actuarial valuations.

On December 19, 2017, the Board of Administration adopted new actuarial assumptions based on the recommendations in the December 2017 CalPERS Experience Study and Review of Actuarial Assumptions. This study reviewed the retirement rates, termination rates, mortality rates, rates of salary increases, and inflation assumption. These new assumptions are incorporated into the June 30, 2017 actuarial valuations.

Discount Rate

The discount rate used to measure the total pension liability as of June 30, 2020 and 2019, for the PERF C was 7.15%. This discount rate is not adjusted for administrative expenses.

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

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2020

(8) Defined Benefit Pension Plan, continued

Discount Rate, continued

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

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

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

Asset Class	Assumed Asset Allocation	Real Return Years 1-10	Real Return Years 11+
Global equity	50.00 %	4.80 %	5.98 %
Fixed income	28.00	1.00	2.62
Inflation assets	0.00	0.77	1.81
Private equity	8.00	6.30	7.23
Real assets	13.00	3.75	4.93
Liquidity	1.00	0.00	(0.92)
	<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, 2020, 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>3,243,065</u>	<u>2,101,815</u>	<u>1,159,793</u>

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2020

(8) Defined Benefit Pension Plans, continued

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 61 for the Required Supplementary Information.

(9) Internal Transfers

Inter-fund Operational Transfers

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

As of June 30, 2020, inter-fund receivables/payables between the District's funds were as follows:

Receivable From	Payable To	Amount
	General	
Measure B	(Parks & Recreation)	\$ 575,663
	General	
Street Lighting	(Parks & Recreation)	(41,367)
	Payable to General Fund	\$ <u>534,296</u>

(10) Net Position

Net investment in capital assets is calculated as follows:

	Governmental Activities	Business-type Activities	2020
Net investment in capital assets:			
Capital assets – not being depreciated	\$ 1,996,189	5,395,478	7,391,667
Capital assets – being depreciated	3,120,070	30,978,696	34,098,766
Long-term debt – current portion	(92,054)	(755,684)	(847,738)
Long-term debt – long-term portion	(918,890)	(18,136,660)	(19,055,550)
Total net investment in capital assets	\$ <u>4,105,315</u>	<u>17,481,830</u>	<u>21,587,145</u>

Restricted net position is calculated as follows:

	Governmental Activities	Business-type Activities	2020
Restricted:			
Capacity fees	\$ -	943,125	943,125
Debt service	-	792,034	792,034
Teen and community center	7,957	-	7,957
Park & Recreation capital projects - Coastal	51,624	-	51,624
Park & Recreation capital projects - Inland	137,949	-	137,949
Total restricted	\$ <u>197,530</u>	<u>1,735,159</u>	<u>1,932,689</u>

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2020

(10) Net Position, continued

Unrestricted net position is calculated as follows:

	Governmental Activities	Business-type Activities	2020
Unrestricted:	\$		
Assigned	164,109	306,795	470,904
Unassigned	(3,220,721)	10,283,533	7,062,812
Total unrestricted	\$ (3,056,612)	10,590,328	7,533,716

(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, 2020, are as follows:

	2020
Restricted:	
Teen and community center	\$ 7,957
Park & Recreation capital projects - Coastal	51,624
Park & Recreation capital projects - Inland	137,949
Total restricted	197,530
Assigned:	
Compensated absences	115,012
Street lighting	49,097
Total assigned	164,109
Unassigned:	
General (Parks and Recreation)	
Operating fund	650,317
Repair and replacement fund	7,500
Catastrophe	102,325
Other postemployment benefits	256,969
Measure B	(574,782)
Total unassigned	442,329
Total fund balance	\$ 803,968

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2020

(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, 2020, 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 fiscal year. There were no reductions in insurance coverage in fiscal year 2020. 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, 2020.

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

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

Governmental Accounting Standards Board Statement No. 84

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

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

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2020

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

Governmental Accounting Standards Board Statement No. 84, continued

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

The requirements of this Statement were effective for reporting periods beginning after December 15, 2018; 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. 87

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

The requirements of this Statement 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.

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2020

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

Governmental Accounting Standards Board Statement No. 90

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

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

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

The requirements of this Statement were effective for reporting periods beginning after December 15, 2018; however, in light of the COVID-19 pandemic, the effective date has been postponed by one year. Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

Governmental Accounting Standards Board Statement No. 91

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

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

McKinleyville Community Services District
Notes to the Basic Financial Statements, continued
June 30, 2020

(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, 2020

(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, 2020

(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, 2020

(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, 2020, have been evaluated for possible adjustment to the financial statements or disclosure as of February 3, 2021, which is the date the financial statements were available to be issued. The District is not aware of any further subsequent events that would require recognition or disclosure in the financial statements.

Required Supplementary Information

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McKinleyville Community Services District
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget to Actual – General (Parks and Recreation) Fund
For the Year Ended June 30, 2020

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property taxes	\$ 631,898	631,898	677,798	45,900
Charge for services and facilities	568,316	568,316	389,341	(178,975)
Operating grants and contributions	-	-	40,116	40,116
Capital grants and contributions	78,000	78,000	23,980	(54,020)
Other income	17,682	17,682	25,092	7,410
Investment earnings	27,000	27,000	93,215	66,215
Total revenues	<u>1,322,896</u>	<u>1,322,896</u>	<u>1,249,542</u>	<u>(73,354)</u>
Expenditures:				
Salaries and employee benefits	976,317	976,317	912,232	64,085
Materials and services	249,317	249,317	217,343	31,974
Capital outlay	75,000	75,000	36,025	38,975
Total expenditures	<u>1,300,634</u>	<u>1,300,634</u>	<u>1,165,600</u>	<u>135,034</u>
Net change in fund balance	22,262	22,262	83,942	<u>22,262</u>
Fund balance, beginning of year	<u>1,245,711</u>	<u>1,245,711</u>	<u>1,245,711</u>	
Fund balance, end of year	<u>\$ 1,267,973</u>	<u>1,267,973</u>	<u>1,329,653</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, 2020

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Special assessments	\$ 212,512	212,512	212,622	110
Investment earnings	-	-	2,203	2,203
Total revenues	<u>212,512</u>	<u>212,512</u>	<u>214,825</u>	<u>2,313</u>
Expenditures:				
Salaries and benefits	61,424	61,424	62,731	(1,307)
Materials and services	20,600	20,600	19,181	1,419
Debt service				
Principal	89,100	89,100	88,872	228
Interest	41,000	41,000	38,269	2,731
Total expenditures	<u>212,124</u>	<u>212,124</u>	<u>209,053</u>	<u>3,071</u>
Net change in fund balance	388	388	5,772	<u>5,384</u>
Fund balance, beginning of year	<u>(580,554)</u>	<u>(580,554)</u>	<u>(580,554)</u>	
Fund balance, end of year	<u>\$ (580,166)</u>	<u>(580,166)</u>	<u>(574,782)</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, 2020

	<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	\$ 93,695	93,695	97,892	4,197
Operating grants and contributions	-	-	32	(32)
Other income	<u>18,500</u>	<u>18,500</u>	<u>18,670</u>	<u>170</u>
Total revenues	<u>112,195</u>	<u>112,195</u>	<u>116,594</u>	<u>4,335</u>
Expenditures:				
Salaries and payroll expenses	45,275	45,275	39,667	5,608
Materials and services	34,704	34,704	33,199	1,505
Debt service				
Principal	19,865	19,865	9,862	10,003
Capital outlay	<u>2,000</u>	<u>2,000</u>	<u>4,000</u>	<u>(2,000)</u>
Total expenditures	<u>101,844</u>	<u>101,844</u>	<u>86,728</u>	<u>15,116</u>
Net change in fund balance	10,351	10,351	29,866	<u>19,451</u>
Fund balance, beginning of year	<u>19,231</u>	<u>19,231</u>	<u>19,231</u>	
Fund balance, end of year	<u>\$ 29,582</u>	<u>29,582</u>	<u>49,097</u>	

McKinleyville Community Service District
Notes to the Required Supplementary Information
June 30, 2020

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, 2020
Last Ten Years*

Other Post-Employment Benefits Payable

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB liability			
Service cost	\$ 482,408	493,346	478,977
Interest	320,814	288,256	253,523
Difference between expected and actual experience	(2,563,217)	-	-
Change of assumptions or other inputs	2,063,476	(102,116)	-
Benefit payments	(102,866)	(102,866)	(96,421)
Implicit rate subsidy fulfilled	<u>(47,609)</u>	<u>(35,201)</u>	<u>(28,201)</u>
Net change in total OPEB liability	153,006	541,419	607,878
Total OPEB liability – beginning	<u>8,455,118</u>	<u>7,913,699</u>	<u>7,305,821</u>
Total OPEB liability – ending	<u>\$ 8,608,124</u>	<u>8,455,118</u>	<u>7,913,699</u>
Covered-employee payroll	<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>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 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, 2020
Last Ten Years*

Defined Benefit Plan

Description	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)	0.02051%	0.01969%	0.01948%	0.01878%	0.01728%	0.01805%
District's proportionate share of the net pension liability(asset)	\$ 2,101,815	1,897,638	1,931,634	1,625,303	1,186,322	1,123,351
District's covered payroll	\$ 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	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	75.26%	75.26%	73.31%	74.06%	78.40%	83.21%

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

Changes in Benefit Terms

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

Change of Assumptions

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

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

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

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

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

McKinleyville Community Service District
Schedules of Pension Plan Contributions
As of June 30, 2020
Last Ten Years*

Defined Benefit Plan

<u>Description</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	\$ 251,463	212,575	187,417	162,865	155,352	126,683
Contributions in relation to the actuarially determined contribution	<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>(401)</u>	<u>-</u>	<u>-</u>
District's covered payroll	\$ <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>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.

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Report on Internal Controls and Compliance

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
McKinleyville Community Services District
McKinleyville, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the McKinleyville Community Services District (District), which comprise the statement of net position as of June 30, 2020, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 3, 2021.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

Purpose of this Report

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

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
February 3, 2021