McKinleyville Community Services District

McKinleyville, California

Annual Financial Report
For the Fiscal Year Ended
June 30, 2023

Board of Directors as of June 30, 2023

Name	Title	Elected/ Appointed	Current Term
Gregory Orsini	President	Elected	12/2020 - 12/2024
Scott Binder	Vice President	Elected	12/2020 - 12/2024
David Couch	Director	Elected	12/2009 - 12/2026
Dennis Mayo	Director	Elected	09/2008 - 12/2026
James Biteman	Director	Elected	12/2022 - 12/2026

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, 2023

McKinleyville Community Services District
Annual Financial Report
For the Fiscal Year Ended June 30, 2023

Table of Contents

Financial Section

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An Accountancy Corporation

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Jeffrey Palmer

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Cypress, California 90630
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Independent Auditor's Report

Board of Directors
McKinleyville Community Services District
McKinleyville, California

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the McKinleyville Community Services District (District), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the District, as of June 30, 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8 and the required supplementary information on pages 59 through 67 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Independent Auditor's Report, continued

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2024**January 10, 2024**, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

C.J. Brown & Company, CPAs

C.J. Brown & Company, CPAs
Cypress, California
January 10, 2024
January 10, 2024

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, 2023. 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 2023, the District's net position increased by 12.17% or $4,321,871 to $39,821,776 as a result of ongoing operations.
- In 2023, the District's total revenues increased 18.61% or $2,039,711 to $13,001,012.
- In 2023, the District's total expenses decreased by 6.16% or $570,126 to $8,679,141.

Using This Financial Report

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

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

Government-wide Financial Statements

Statement of Net Position and Statement of Activities

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

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

Fund Financial Statements

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

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

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 21 through 58.

Government-wide Financial Analysis

Statement of Net Position

The following table is a summary of the statement of net position at June 30, 2023.

Condensed Statements of Net Position

	Governmental Activities		Business-Type Activities		Total District	
	2023	**2022**	**2023**	**2022**	**2023**	**2022**
Assets:						
Current assets	$ 561,488	879,048	31,485,959	32,986,667	32,047,447	33,865,715
Capital assets	4,780,797	4,786,246	41,960,396	39,398,265	46,741,193	44,184,511
Total assets	5,342,285	5,665,294	73,446,355	72,384,932	78,788,640	78,050,226
Deferred outflows of resources	1,300,033	1,001,873	2,056,687	2,276,664	3,356,720	3,278,537
Liabilities:						
Current liabilities	303,579	346,255	2,309,728	2,253,326	2,613,307	2,599,581
Non-current liabilities	3,362,991	3,972,023	30,803,552	32,144,835	34,166,543	36,116,858
Total liabilities	3,666,570	4,318,278	33,113,280	34,398,161	36,779,850	38,716,439
Deferred inflows of resources	2,147,045	1,690,399	3,396,689	5,422,020	5,543,734	7,112,419
Net position:						
Net investment in capital assets	4,056,025	3,962,707	14,691,193	11,635,935	18,747,218	15,598,642
Restricted	172,905	224,235	9,798,452	9,946,787	9,971,357	10,171,022
Unrestricted	(3,400,227)	(3,528,452)	14,503,428	13,258,693	11,103,201	9,730,241
Total net position	$ 828,703	658,490	38,993,073	34,841,415	39,821,776	35,499,905

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 $39,821,776 as of June 30, 2023. The District's total net position is made-up of three components: (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position.

Statement of Activities

The following table is a summary of the statement of activities.

Condensed Statements of Activities

	Governmental Activities		Business-Type Activities		Total District	
	2023	2022	2023	2022	2023	2022
Revenues:						
Program revenues:						
Charges for services	$ 725,969	552,111	8,361,814	8,140,798	9,087,783	8,692,909
Operating grants and contributions	216,265	14,773	-	-	216,265	14,773
Capital grants and contributions	-	-	2,423,705	1,567,835	2,423,705	1,567,835
Total program revenues	942,234	566,884	10,785,519	9,708,633	11,727,753	10,275,517
General revenues:						
Property taxes	744,930	729,263	-	-	744,930	729,263
Voter approved taxes	228,096	216,405	-	-	228,096	216,405
Investment earnings	(78,195)	(50,303)	350,061	(238,030)	271,866	(288,333)
Gain on disposal of capital assets	-	7,501	8,466	400	8,466	7,901
Other income	19,901	20,548	-	-	19,901	20,548
Total general revenues	914,732	923,414	358,527	(237,630)	1,273,259	685,784
Total revenues	1,856,966	1,490,298	11,144,046	9,471,003	13,001,012	10,961,301
Expenses:						
General (Parks & Recreation)	1,443,639	1,447,221	-	-	1,443,639	1,447,221
Measure B	135,393	202,702	-	-	135,393	202,702
Streetlighting	107,721	103,066	-	-	107,721	103,066
Water	-	-	2,845,050	3,539,726	2,845,050	3,539,726
Wastewater	-	-	4,147,338	3,956,552	4,147,338	3,956,552
Total expenses	1,686,753	1,752,989	6,992,388	7,496,278	8,679,141	9,249,267
Changes in net position	170,213	(262,691)	4,151,658	1,974,725	4,321,871	1,712,034
Net position, beginning of year	658,490	921,181	34,841,415	32,866,690	35,499,905	33,787,871
Net position, end of year	$ 828,703	658,490	38,993,073	34,841,415	39,821,776	35,499,905

Compared to the prior year, net position of the District increased by 12.17% or $4,321,871 to $39,821,776 as a result of ongoing operations.

Total revenues increased 18.61% or $2,039,711 to $13,001,012, due primarily to increases of $855,870 in capital grants and contributions, $560,199 in investment earnings, $394,874 in charges for services, and $201,492 in operating grants and contributions.

Total expenses decreased by 6.16% or $570,126 to $8,679,141, due primarily to decreases of $694,676 in water fund expenses and $67,309 in Measure B expenses, offset by an increase of $190,786 in wastewater fund expenses.

Government-wide Financial Analysis, continued

Changes in fund balance – Governmental fund

The following table is a summary of the changes in fund balance for the governmental fund for the year ended June 30, 2023.

Condensed Changes in Fund Balance − Governmental Funds

		General (Parks and Recreation)	Measure B	Streetlighting	Total Governmental Activities
Fund balance, beginning of year	$	1,174,629	(611,690)	118,002	680,941
Changes in fund balance		(248,770)	(47,795)	24,391	(272,174)
Fund balance, end of year	$	925,859	(659,485)	142,393	408,767

In 2023, total fund balance decreased by 39.97% or $272,174 to $408,767. The General (Parks and Recreation) fund decreased by 21.18% or $248,770 to $925,859; the Measure B fund decreased by 7.81% or $47,795 to a deficit fund balance of $659,485; and the Street Lighting fund increased by 20.67% or $24,391 to $142,393.

Capital Asset Administration

Capital Assets

		Governmental Activities		Business-Type Activities		Total District	
		2023	2022	2023	2022	2023	2022
Capital assets:							
Non-depreciable assets	$	2,229,102	2,026,000	12,453,234	9,789,364	14,682,336	11,815,364
Depreciable assets		7,257,422	7,243,272	58,774,460	57,037,342	66,031,882	64,280,614
Total capital assets		9,486,524	9,269,272	71,227,694	66,826,706	80,714,218	76,095,978
Accumulated depreciation		(4,705,727)	(4,483,026)	(29,267,298)	(27,428,441)	(33,973,025)	(31,911,467)
Total capital assets, net	$	4,780,797	4,786,246	41,960,396	39,398,265	46,741,193	44,184,511

At the end of fiscal year 2023, the District's investment in capital assets amounted to $46,741,193 (net of accumulated depreciation). This investment in capital assets includes land, buildings, building improvements, furnishings and equipment, collection and distribution systems, tanks, wells, water transmission and distribution systems, and construction-in-process. See note 4 for further discussion.

Long-Term Debt Administration

Long-Term Debt

		Governmental Activities		Business-Type Activities		Total District	
		2023	2022	2023	2022	2023	2022
Long-term debt:							
Long-term debt	$	724,772	823,539	27,269,203	27,827,330	27,993,975	28,650,869
Total long-term debt:	$	724,772	823,539	27,269,203	27,827,330	27,993,975	28,650,869

Long-term debt decreased 2.29% or $656,894 to $27,993,975 in 2023, primarily due to principal payments of $1,038,232, offset by issuance of debt of $381,338. See note 6 for further discussion.

Conditions Affecting Current Financial Position

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

Requests for Information

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

Basic Financial Statements

McKinleyville Community Services District
Statement of Net Position
June 30, 2023

		Governmental Activities	Business-Type Activities	Totals
Current assets:				
Cash and cash equivalents (notes 2 & 3)	$	137,901	20,224,060	20,361,961
Cash and cash equivalents – restricted (notes 2 & 3)		172,905	9,798,452	9,971,357
Accounts receivable		9,186	886,722	895,908
Accrued interest receivable		26,117	57,139	83,256
Prepaid expense		103,122	167,502	270,624
Grant receivables		112,257	249,993	362,250
Materials and supplies inventory		-	102,091	102,091
Total current assets		561,488	31,485,959	32,047,447
Non-current assets:				
Capital assets – not being depreciated (note 4)		2,229,102	12,453,234	14,682,336
Capital assets – being depreciated (note 4)		2,551,695	29,507,162	32,058,857
Total non-current assets		4,780,797	41,960,396	46,741,193
Total assets		5,342,285	73,446,355	78,788,640
Deferred outflows of resources:				
Deferred OPEB outflows (note 7)		855,046	1,352,705	2,207,751
Deferred pension outflows (note 8)		444,987	703,982	1,148,969
Total deferred outflows of resources	$	1,300,033	2,056,687	3,356,720

Continued on next page

See accompanying notes to the basic financial statements

McKinleyville Community Services District
Statement of Net Position, continued
June 30, 2023

		Governmental Activities	Business-Type Activities	Totals
Current liabilities:				
Accounts payable and accrued expenses	$	26,632	791,060	817,692
Accrued interest on long-term debt		4,340	295,692	300,032
Accrued salaries and related payables		116,389	1,191	117,580
Customer deposits		9,700	137,752	147,452
Unearned revenue		-	51,642	51,642
Long-term liabilities – due within one year:				
Compensated absences (note 5)		44,214	154,252	198,466
Certificate of participation (note 6)		-	160,000	160,000
Capital lease payable (note 6)		102,304	-	102,304
Notes payable (note 6)		-	718,139	718,139
Total current liabilities		303,579	2,309,728	2,613,307
Non-current liabilities:				
Long-term liabilities – due in more than one year:				
Compensated absences (note 5)		28,144	121,427	149,571
Certificate of participation (note 6)		-	8,447,807	8,447,807
Capital lease payable (note 6)		622,468	-	622,468
Notes payable (note 6)		-	17,943,257	17,943,257
Net other post-employment benefits liability (note 7)		1,652,945	2,615,007	4,267,952
Net pension liability (note 8)		1,059,434	1,676,054	2,735,488
Total non-current liabilities		3,362,991	30,803,552	34,166,543
Total liabilities		3,666,570	33,113,280	36,779,850
Deferred inflows of resources:				
Deferred OPEB inflows (note 7)		2,070,555	3,275,678	5,346,233
Deferred pension inflows (note 8)		76,490	121,011	197,501
Total deferred inflows of resources		2,147,045	3,396,689	5,543,734
Net position: (note 10)				
Net investment in capital assets		4,056,025	14,691,193	18,747,218
Restricted		172,905	9,798,452	9,971,357
Unrestricted		(3,400,227)	14,503,428	11,103,201
Total net position	$	828,703	38,993,073	39,821,776

See accompanying notes to the basic financial statements

McKinleyville Community Services District
Statement of Activities
For the Fiscal Year Ended June 30, 2023

		Program Revenues			Net (Expense) Revenue and Changes in Net Position		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Business-Type Activities**	**Total**
Governmental activities:							
General (Parks & Recreation)	$ 1,443,639	611,815	216,265	-	(615,559)	-	(615,559)
Measure B	135,393	-	-	-	(135,393)	-	(135,393)
Street Lighting	107,721	114,154	-	-	6,433	-	6,433
Total governmental activities	1,686,753	725,969	216,265	-	(744,519)	-	(744,519)
Business-Type activities:							
Water	2,845,050	4,130,017	-	832,450	-	2,117,417	2,117,417
Wastewater	4,147,338	4,231,797	-	1,591,255	-	1,675,714	1,675,714
Total business-type activities	6,992,388	8,361,814	-	2,423,705	-	3,793,131	3,793,131
Total	$ 8,679,141	9,087,783	216,265	2,423,705	(744,519)	3,793,131	3,048,612
General revenues:							
Property taxes					$ 744,930	-	744,930
Special assessments					228,096	-	228,096
Investment earnings					(78,195)	350,061	271,866
Gain on disposal of capital assets					-	8,466	8,466
Other income					19,901	-	19,901
Total general revenues					914,732	358,527	1,273,259
Changes in net position					170,213	4,151,658	4,321,871
Net position, beginning of year					658,490	34,841,415	35,499,905
Net position, end of year					$ 828,703	38,993,073	39,821,776

See accompanying notes to the basic financial statements

McKinleyville Community Services District
Balance Sheet of Governmental Funds
June 30, 2023

		General (Parks and Recreation)	Measure B	Street Lighting	Total Governmental Fund
Assets:					
Cash and investments	$	6,257	-	131,644	137,901
Cash and investments – restricted		172,905	-	-	172,905
Accounts receivable		4,600	-	4,586	9,186
Interest receivable		20,378	5,739	-	26,117
Grant receivables		112,257			112,257
Prepaid expenses		93,652	2,377	7,093	103,122
Due from other funds (note 9)		663,305	(663,305)	-	-
Total assets	$	1,073,354	(655,189)	143,323	561,488
Liabilities:					
Accounts payable	$	21,406	4,296	930	26,632
Accrued wages and related payables		116,389	-	-	116,389
Deposits		9,700	-	-	9,700
Total liabilities		147,495	4,296	930	152,721
Fund balance: (note 11)					
Nonspendable		93,652	2,377	7,093	103,122
Restricted		172,905	-	-	172,905
Assigned		72,358	-	135,300	207,658
Unassigned		586,944	(661,862)	-	(74,918)
Total fund balance		925,859	(659,485)	142,393	408,767
Total liabilities and fund balance	$	1,073,354	(655,189)	143,323	561,488

Continued on next page

See accompanying notes to the financial statements

McKinleyville Community Services District
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2023

Reconciliation:

Total Fund Balance of Governmental Fund	$	408,767
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental fund balance sheet. However, the statement of net position includes those capital assets. In the current period, these amounts were as follows:		
Capital assets – not being depreciated		2,229,102
Capital assets – being depreciated		2,551,695
Deferred outflows(inflows) of resources are not financial resources(uses) and, therefore, are not reported in the governmental fund balance sheet. However, they are reported in the statement of net position as follows:		
Deferred OPEB outflows		855,046
Deferred OPEB inflows		(2,070,555)
Deferred pension outflows		444,987
Deferred pension inflows		(76,490)
Long-term liabilities applicable to the District are not due and payable in the current period and, accordingly, are not reported as governmental fund liabilities. All liabilities, both current and long-term, are reported in the statement of net position as follows:		
Accrued interest on long-term debt		(4,340)
Compensated absences		(72,358)
Long-term debt		(724,772)
Net other post-employment benefit liability		(1,652,945)
Net pension liability		(1,059,434)
Net Position of Governmental Activities	$	828,703

See accompanying notes to the basic financial statements

McKinleyville Community Services District
Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds
For the Year Ended June 30, 2023

	General (Parks and Recreation)	Measure B	Street Lighting	Total Governmental Fund
Revenues				
Property taxes	$ 744,930	-	-	744,930
Special assessments	-	228,096	-	228,096
Charges for services and facilities	611,815	-	114,154	725,969
Operating grants and contributions	216,265	-	-	216,265
Other income	2,453	-	17,448	19,901
Investment returns	(83,825)	5,630	-	(78,195)
Total revenues	1,491,638	233,726	131,602	1,856,966
Expenditures				
General government (Parks & Recreation)	1,529,906	-	-	1,529,906
Measure B	-	156,698	-	156,698
Streetlighting	-	-	100,461	100,461
Capital outlay	210,502	-	6,750	217,252
Debt service:				
Principal	-	98,767	-	98,767
Interest	-	26,056	-	26,056
Total expenditures	1,740,408	281,521	107,211	2,129,140
Excess of revenues over expenditures expenditures	(248,770)	(47,795)	24,391	(272,174)
Net change in fund balance	(248,770)	(47,795)	24,391	(272,174)
Fund balance, beginning of year	1,174,629	(611,690)	118,002	680,941
Fund Balance, end of year	$ 925,859	(659,485)	142,393	408,767

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 Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2023

Reconciliation:

Net Change in Fund Balance of Total Governmental Fund	$	(272,174)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental fund reports capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense as follows:		
Capital outlay expense		217,252
Depreciation expense		(222,701)
The repayment of principal of long-term debt consumes current financial resources and, therefore, is reported as debt service principal payments in the governmental fund. However, these payments have no impact on net position and, therefore, are not reported in the statement of activities as follows:		
Debt service principal		98,767
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenses in governmental fund as follows:		
Net change in accrued interest expense on long-term debt		872
Net change in compensated absences for the current period		6,331
Net change in the other post-employment benefit liability for the current period		398,796
Net change in the net pension liability for the current period		(56,930)
Changes in Net Position of Governmental Activities	$	170,213

See accompanying notes to the basic financial statements

McKinleyville Community Services District
Statement of Net Position – Enterprise Funds
June 30, 2023

		Water	Wastewater	2023
Current assets:				
Cash and investments	$	7,938,952	12,285,108	20,224,060
Cash and investments – restricted		5,118,131	4,680,321	9,798,452
Accounts receivable		379,977	506,745	886,722
Accrued interest receivable		36,155	20,984	57,139
Grant receivable		184,281	65,712	249,993
Prepaid expenses		80,402	87,100	167,502
Inventory		77,885	24,206	102,091
Total current assets		13,815,783	17,670,176	31,485,959
Non-current assets:				
Capital assets – not being depreciated		3,311,242	9,141,992	12,453,234
Capital assets – being depreciated		7,471,944	22,035,218	29,507,162
Total non-current assets		10,783,186	31,177,210	41,960,396
Total assets		24,598,969	48,847,386	73,446,355
Deferred outflows of resources:				
Deferred OPEB outflows		613,150	739,555	1,352,705
Deferred pension outflows		319,099	384,883	703,982
Total deferred outflows of resources	$	932,249	1,124,438	2,056,687

Continued on next page

See accompanying notes to the basic financial statements

McKinleyville Community Services District
Statement of Net Position – Enterprise Funds, continued
June 30, 2023

		Water	Wastewater	2023
Current liabilities:				
Accounts payable	$	656,212	134,848	791,060
Accrued interest payable		71,143	224,549	295,692
Accrued payroll and payroll liabilities		801	390	1,191
Customer deposits		122,497	15,255	137,752
Unearned revenue		25,821	25,821	51,642
Long-term liabilities – due within one year:				
Compensated absences		76,398	77,854	154,252
Certificate of participation		85,000	75,000	160,000
Notes payable		178,920	539,219	718,139
Total current liabilities		1,216,792	1,092,936	2,309,728
Non-current liabilities:				
Long-term liabilities – due within one year:				
Compensated absences		59,338	62,089	121,427
Certificate of participation		4,665,520	3,782,287	8,447,807
Notes payable		1,598,066	16,345,191	17,943,257
Net other post-employment benefit liability		1,185,323	1,429,684	2,615,007
Net pension liability		759,717	916,337	1,676,054
Total non-current liabilities		8,267,964	22,535,588	30,803,552
Total liabilities		9,484,756	23,628,524	33,113,280
Deferred inflows of resources:				
Deferred OPEB inflows		1,484,790	1,790,888	3,275,678
Deferred pension inflows		54,852	66,159	121,011
Total deferred inflows of resources		1,539,642	1,857,047	3,396,689
Net position:				
Net investment in capital assets		4,255,680	10,435,513	14,691,193
Restricted		5,118,131	4,680,321	9,798,452
Unrestricted		5,133,009	9,370,419	14,503,428
Total net position	$	14,506,820	24,486,253	38,993,073

See accompanying notes to the basic financial statements

McKinleyville Community Services District
Statement of Revenues, Expenses, and Changes in Fund Net Position – Enterprise Funds
For the Fiscal Year Ended June 30, 2023

		Water	Wastewater	2023
Operating revenues:				
Water revenue	$	4,007,971	-	4,007,971
Sewer revenue		-	4,096,582	4,096,582
Other service charges		122,046	135,215	257,261
Total operating revenues		4,130,017	4,231,797	8,361,814
Operating expenses:				
Water purchase		1,230,774	-	1,230,774
Salaries and related expenses		610,632	736,518	1,347,150
Employee benefits, net GASB 68 and 75		(125,939)	825,389	699,450
Services and supplies		76	886	962
Professional services		52,439	55,480	107,919
Utilities		80,145	194,417	274,562
Insurance expense		52,870	57,714	110,584
Other operating expense		323,293	427,114	750,407
Total operating expenses		2,224,290	2,297,518	4,521,808
Operating income before depreciation		1,905,727	1,934,279	3,840,006
Depreciation expense		(418,842)	(1,528,860)	(1,947,702)
Operating income		1,486,885	405,419	1,892,304
Non-operating revenues(expenses):				
Investment earning		161,819	188,242	350,061
Gain on sale of assets		4,235	4,231	8,466
Interest expense		(201,918)	(320,960)	(522,878)
Total non-operating expenses, net		(35,864)	(128,487)	(164,351)
Net income before capital contributions		1,451,021	276,932	1,727,953
Capital contributions:				
Capacity fees		148,457	237,562	386,019
Contributed capital assets		683,993	1,353,693	2,037,686
Total capital contributions		832,450	1,591,255	2,423,705
Changes in net position		2,283,471	1,868,187	4,151,658
Net position, beginning of year		12,223,349	22,618,066	34,841,415
Net position, end of year	$	14,506,820	24,486,253	38,993,073

See accompanying notes to the basic financial statements

McKinleyville Community Services District
Statement of Cash Flows – Enterprise Funds
For the Fiscal Year Ended June 30, 2023

		2023
Cash flows from operating activities:		
Cash receipts from customers	$	8,491,699
Cash paid to employees		(1,331,335)
Cash paid to vendors and suppliers		(5,676,825)
Net cash provided by operating activities		1,483,539
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets		(4,510,467)
Proceeds from the sale of capital assets		9,100
Proceeds from capital contributions		2,376,144
Proceeds from loan issuance		381,338
Principal payments on long-term debt		(939,465)
Interest payments on long-term debt		(537,779)
Net cash used in capital and related financing activities		(3,221,129)
Cash flows from investing activities:		
Interest earnings		384,104
Net cash provided by investing activities		384,104
Net decrease in cash and cash equivalents		(1,353,486)
Cash and cash equivalents, beginning of year		31,375,998
Cash and cash equivalents, end of year	$	30,022,512
Reconciliation of cash and cash equivalents to statement of net position:		
Cash and investments	$	20,224,060
Cash and investments – restricted		9,798,452
Total cash and cash equivalents	$	30,022,512

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, 2023

		2023
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	1,892,304
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense		1,947,702
Change in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:		
(Increase)decrease in assets and deferred ouflows:		
Accounts receivable		107,234
Prepaid expenses		37,845
Inventory		15,661
Deferred OPEB outflows		599,708
Deferred pension outflows		(379,731)
Increase(decrease) in liabilities and deferred inflows:		
Accounts payable		63,242
Accrued payroll and payroll liabilities		1,029
Customer deposits		7,065
Unearned revenue		15,586
Compensated absences		15,815
Net other post-employment benefit liability		(1,649,176)
Net pension liability		834,586
Deferred OPEB inflows		(1,188,258)
Deferred pension inflows		(837,073)
Total adjustments		(408,765)
Net cash provided by operating activities	$	1,483,539

See accompanying notes to the basic financial statements

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

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

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

B. Basis of Accounting and Measurement Focus

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

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

Government-wide Financial Statements

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

Fund Financial Statements

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

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

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

B. Basis of Accounting and Measurement Focus, continued

Fund Financial Statements, continued

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

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

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

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

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

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

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

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

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

B. Basis of Accounting and Measurement Focus, continued

Fund Financial Statements, continued

The funds of the financial reporting entity are described below:

Governmental Funds

General (Parks & Recreation) – This fund is used for all parks and recreation activities within the District; and accounts for and reports all financial resources not accounted for and reported in another fund.
Measure B – This fund is a special revenue fund used to account for the assessments collected and used in accordance with Measure B.
Street Lighting – This fund is used to account for all street lighting activities within the District.

Enterprise Funds

Water – This fund accounts for the water transmission and distribution operations of the District.
Wastewater – This fund is used for the wastewater service operations of the District.

C. Financial Reporting

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

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

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.

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.

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

C. Financial Reporting, continued

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.

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.

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

C. Financial Reporting, continued

Governmental Accounting Standards Board Statement No. 96

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

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

Governmental Accounting Standards Board Statement No. 97

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

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

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

D. Financial Statement Elements

1. Use of Estimates

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

2. Cash and Cash Equivalents

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

For purposes of the statement of cash flows, cash and cash equivalents have been defined as demand deposits, money market mutual funds, and external cash management pools (local agency investment fund).

3. Investments

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

- State of California Local Agency Investment Fund (LAIF)
- California Cooperative Liquid Assets Securities System Fund (CLASS)
- 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.

4. Fair Value Measurements

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

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

5. Restricted Assets

Restricted assets are financial resources generated for a specific purpose such as capital projects or debt service. These assets are for the benefit of a specified purpose and, as such, are legally or contractually restricted by an external third-party agreement.

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

D. Financial Statement Elements, continued

6. Accounts Receivable

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

7. Property Taxes and Assessments

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

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

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

8. Materials and Supplies Inventory

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

9. Prepaids

Certain payments to vendors reflect costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

10. 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

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

D. Financial Statement Elements, continued

10. Capital Assets, continued

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

11. Deferred Outflows of Resources

The statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net assets applicable to future periods and, therefore, will *not* be recognized as an outflow of resources (expenditure) until that time. The District has the following items that qualify for reporting in this category:

Post-Employment Benefits Other Than Pensions (OPEB)

- Deferred outflow which is equal to the employer contributions made after the measurement date of the net pension asset. This amount will be amortized-in-full against the net post-employment liability in the next fiscal year.
- Deferred outflow for the net change in assumptions which will be amortized over a closed period equal to the expected average remaining service lives of all employees that are provided with post-employment benefits.
- Deferred outflow for the net difference in projected and actual earnings on investments of the pension plan fiduciary net position. This amount is amortized over a 5 year period.

Pensions

- Deferred outflow which is equal to the employer contributions made after the measurement date of the net pension asset. This amount will be amortized-in-full against the net pension asset in the next fiscal year.
- Deferred outflow for the net difference between the actual and expected experience which will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plan.
- Deferred outflow for the net change in assumptions which will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plan.
- Deferred outflow for the net difference in projected and actual earnings on investments of the pension plan fiduciary net position. This amount is amortized over a 5 year period.

12. 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.

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

D. Financial Statement Elements, continued

13. Pension

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

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

Valuation date:	June 30, 2021
Measurement date:	June 30, 2022
Measurement period:	July 1, 2021 to June 30, 2022

14. Deferred Inflows of Resources

The statement of net position will sometimes report a separate section for deferred inflows of resources. This financial statement element, *deferred inflows of resources,* represents an acquisition of net assets applicable to future periods and, therefore, will *not* be recognized as an inflow of resources (revenue) until that time. The District had the following items that qualify for reporting in this category.

Post-Employment Benefits Other Than Pensions (OPEB)

- Deferred inflow for the net differences between the actual and expected experience which will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with post-employment benefits.

Pensions

- Deferred inflow for the net adjustment due to differences in the changes in proportions of the net pension liability which will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plan.
- Deferred inflow for the net difference in actual and proportionate share of employer contribution, which will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plan.

15. Net Position

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

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

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

D. Financial Statement Elements, continued

15. Net Position, continued

- **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.

During the fiscal year ended June 30, 2023, the District shows a negative unrestricted net position balance in the Districts' governmental funds of $3,400,226 due to current year operating costs exceeding operating revenue. The District intends to reduce the negative unrestricted net position through increases in Measure B assessments, collection of general revenue, and charges for services revenue between its general fund across all funds in future periods.

16. Fund Balance

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

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

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.

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

D. Financial Statement Elements, continued

16. Fund Balance, continued

Fund Balance Policy

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

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

(2) Cash and Cash Equivalents

Cash and cash equivalents as of June 30, 2023 are classified as follows:

		Governmental Activities	Business-Type Activities	Totals
Cash and cash equivalents	$	137,901	20,224,060	20,361,961
Cash and cash equivalents – restricted		172,905	9,798,452	9,971,357
Total	$	310,806	30,022,512	30,333,318

Cash and equivalents as of June 30, 2023 consisted of the following:

		Unrestricted	Restricted	Total
Cash				
Cash	$	1,255	-	1,255
Deposits held with financial instititions		6,384,038	8,516,272	14,900,310
Total cash		6,385,293	8,516,272	14,901,565
Cash equivalents				
Deposits with Humboldt County Treasurer		5,904,621	1,455,085	7,359,706
Deposits held with California Local Agency Investment Fund (LAIF)		141,604	-	141,604
Deposits held with California Cooperative Liquid Assets Securities System (CLASS)		7,930,443	-	7,930,443
Total cash equivalents		13,976,668	1,455,085	15,431,753
Total	$	20,361,961	9,971,357	30,333,318

(2) Cash and Cash Equivalents, continued

Authorized Deposits and Investments

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

State of California Local Agency Fund (LAIF)

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

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

The pool portfolio is invested in a manner that meets the maturity, quality, diversification, and liquidity requirements set forth by GASB 79 for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost. LAIF does not have any legally binding guarantees of share values. LAIF does not impose liquidity fees or redemption gates on participant withdrawals.

Investment in the California Cooperative Liquid Assets Securities System

The District is a participant in the California Cooperative Liquid Assets Securities System (CLASS). California CLASS is a Joint Powers Authority investment pool that provides public agencies the opportunity to invest funds on a cooperative basis in rated pools that are managed in accordance with state law with the primary objectives of offering Participants safety, daily and next-day liquidity, and optimized returns.

California CLASS is managed as stable value NAV pool but does not meet all of the specific criteria outlined in GASB 79 Paragraph 4, therefore, California CLASS Participant's should report their investments in the pool at fair value.

Humboldt County Treasurer's Pool

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

Custodial Credit Risk

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

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

(2) Cash and Cash Equivalents, continued

Custodial Credit Risk, continued

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.

The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. Of the District's bank balances, up to $250,000 is federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

Interest Rate Risk

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

Interest Rate Risk, continued

As of June 30, 2023, the District's authorized deposits had the following average maturities:

			Average Months Maturity		
Cash Equivalents		**Total**	**12 Months or Less**	**13 to 24 Months**	**25 Months or More**
California CLASS	$	7,930,443	7,930,443	-	-
California Local Agency Investment Fund		141,604	141,604	-	-
Humboldt County Treasurer		7,359,706	-	-	7,359,706
Total	$	15,431,753	8,072,047	-	7,359,706

(2) Cash and Cash Equivalents, continued

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, 2023 for each investment type.

Cash Equivalents	Total	Rating at Year End
California CLASS	$ 7,930,443	Not Rated
California Local Agency Investment Fund	141,604	Not Rated
Humboldt County Treasurer	7,359,706	Not Rated
Total	$ 15,431,753	

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, 2023 were allocated as follows:

	Amount	Allocation
Cash	$ 1,255	0.00 %
Deposits held with financial instititions	14,900,310	49.12
Deposits with Humboldt County Treasurer	7,359,706	24.26
Deposits held with California Local Agency Investment Fund (LAIF)	141,604	0.47
Deposits held with California CLASS	7,930,443	26.14
Total	$ 30,333,318	100.00 %

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

(3) Investments at Fair Value Hierarchy

Investments measured at fair value on a recurring basis, based on their fair value hierarchy at June 30, 2023 are as follows:

Cash Equivalents	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Pooled investment fund:				
Humboldt County Treasurer's Fund	$ 7,359,706	-	7,359,706	-
Total pooled investment fund	7,359,706	-	7,359,706	-
Other pooled funds measured at net asset value				
California CLASS	7,930,443			
California Local Agency Investment Fund	141,604			
	8,072,047			
	$ 15,431,753			

(4) Capital Assets

Governmental Activities:

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

	Balance 2022	Additions/ Transfers In	Deletions/ Transfers Out	Balance 2023
Non-depreciable assets:				
Land	$ 1,769,744	-	-	1,769,744
Construction in progress	256,256	203,102	-	459,358
Total non-depreciable assets	2,026,000	203,102	-	2,229,102
Depreciable assets:				
Buildings and improvements	4,901,928	-	-	4,901,928
Furniture and equipment	307,390	-	-	307,390
Park improvements	1,436,906	-	-	1,436,906
Vehicles	47,209	7,400	-	54,609
Streetlighting	549,839	6,750	-	556,589
Total depreciable assets	7,243,272	14,150	-	7,257,422
Accumulated depreciation				
Buildings and improvements	(2,531,175)	(174,090)	-	(2,705,265)
Furniture and equipment	(277,106)	(5,743)	-	(282,849)
Park improvements	(1,295,803)	(20,481)	-	(1,316,284)
Vehicles	(47,207)	(1,481)	-	(48,688)
Streetlighting	(331,735)	(20,906)	-	(352,641)
Total accumulated depreciation	(4,483,026)	(222,701)	-	(4,705,727)
Total depreciable assets, net	2,760,246	(208,551)	-	2,551,695
Total capital assets, net	$ 4,786,246			4,780,797

(4) Capital Assets, continued

Business-type Activities:

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

	Balance 2022	Additions/ Transfers In	Deletions/ Transfers Out	Balance 2023
Non-depreciable assets:				
Land	$ 4,628,869	246,048	-	4,874,917
Construction in progress	5,160,495	4,471,172	(2,053,350)	7,578,317
Total non-depreciable assets	9,789,364	4,717,220	(2,053,350)	12,453,234
Depreciable assets:				
Buildings and improvements	815,338	-	-	815,338
Water infrastructure	15,125,141	833,949	-	15,959,090
Wastewater infrastructure	38,569,419	972,356	-	39,541,775
Tools and equipment	1,268,307	-	(23,813)	1,244,494
Vehicles	1,259,137	40,292	(85,666)	1,213,763
Total depreciable assets	57,037,342	1,846,597	(109,479)	58,774,460
Accumulated depreciation				
Buildings and improvements	(377,534)	(27,944)	-	(405,478)
Water infrastructure	(8,358,009)	(371,256)	-	(8,729,265)
Wastewater infrastructure	(16,821,605)	(1,424,014)	-	(18,245,619)
Tools and equipment	(1,147,398)	(29,880)	23,179	(1,154,099)
Vehicles	(723,895)	(94,608)	85,666	(732,837)
Total accumulated depreciation	(27,428,441)	(1,947,702)	108,845	(29,267,298)
Total depreciable assets, net	29,608,901	(101,105)	(634)	29,507,162
Total capital assets, net	$ 39,398,265			41,960,396

Depreciation expense was charged to various functions for the year ended June 30, 2023 as follows:

Governmental activities:	
General (Parks and Recreation)	$ 201,795
Streetlighting	20,906
Total governmental activities	222,701
Business-type activities	
Water Fund	418,842
Wastewater Fund	1,528,860
Total business-type activities	1,947,702
	$ 2,170,403

(5) Compensated Absences

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

Governmental Activities

	Balance 2022	Earned	Taken	Balance 2023	Due within one year	Due in more than one year
$	78,689	53,770	(60,101)	72,358	44,214	28,144

Business-type Activities

	Balance 2022	Earned	Taken	Balance 2023	Due within one year	Due in more than one year
$	259,864	138,807	(122,992)	275,679	154,252	121,427

(6) Long-term Debt

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

	Balance 2022	Additions	Payments	Balance 2023	Current Portion	Long-Term Portion
Governmental Activities:						
Capital lease payable						
PPFCC Lease (Umpqua Loan)	$ 823,539	-	(98,767)	724,772	102,304	622,468
Total capital lease payable	823,539	-	(98,767)	724,772	102,304	622,468
Total governmental activities	823,539	-	(98,767)	724,772	102,304	622,468
Business-type Activities						
Notes payable						
Water fund						
ARRA Loan	54,652	-	(11,934)	42,718	11,936	30,782
Davis-Grunsky Act Loan	1,369,455	-	(111,726)	1,257,729	114,094	1,143,635
I-Bank Loan	527,705	-	(51,166)	476,539	52,890	423,649
Total Water fund	1,951,812	-	(174,826)	1,776,986	178,920	1,598,066
Wastewater fund						
State Revolving Fund Loan #3	14,012,515	-	(438,832)	13,573,683	446,019	13,127,664
State Revolving Fund Microgrid Loan	1,685,789	381,338	-	2,067,127	-	2,067,127
Pialorsi Property Loan	1,335,000	-	(91,400)	1,243,600	93,200	1,150,400
Total Wastewater fund	17,033,304	381,338	(530,232)	16,884,410	539,219	16,345,191
Total notes payable	18,985,116	381,338	(705,058)	18,661,396	718,139	17,943,257
Bond payable						
Wastewater fund						
USDA Revenue Bonds	65,000	-	(65,000)	-	-	-
Total bond payable	65,000	-	(65,000)	-	-	-
Certificate of participation						
Water fund						
Revenue Series 2021A	4,335,000	-	(65,000)	4,270,000	85,000	4,185,000
Premium	497,090	-	(16,570)	480,520	-	480,520
Total Water fund	4,832,090	-	(81,570)	4,750,520	85,000	4,665,520
Wastewater fund						
Revenue Series 2021B	3,560,000	-	(75,000)	3,485,000	75,000	3,410,000
Premium	385,124	-	(12,837)	372,287	-	372,287
Total Wastewater fund	3,945,124	-	(87,837)	3,857,287	75,000	3,782,287
Total certificate of participation	8,777,214	-	(169,407)	8,607,807	160,000	8,447,807
Total business-type activities	27,827,330	381,338	(939,465)	27,269,203	878,139	26,391,064
Total long-term debt	$ 28,650,869	381,338	(1,038,232)	27,993,975	980,443	27,013,532

(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
2024	$	102,304	25,150	127,454
2025		105,968	21,486	127,454
2026		109,764	17,691	127,455
2027		113,696	13,759	127,455
2028		117,768	9,688	127,456
2028-2030		175,272	6,572	181,844
Total		724,772	94,346	819,118
Current		(102,304)		
Non-current	$	622,468		

ARRA Loan

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

Future debt service on the loan is as follows:

Year		Principal	Interest	Total
2024	$	11,936	396	12,332
2025		12,057	275	12,332
2026		12,179	153	12,332
2027		6,546	31	6,577
Total		42,718	855	43,573
Current		(11,936)		
Non-current	$	30,782		

(6) Long-term Debt, continued

Davis-Grunsky Act Loan

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

Future debt service on the loan is as follows:

Year		Principal	Interest	Total
2024		114,094	27,185	141,279
2025		116,520	24,758	141,278
2026		119,007	22,271	141,278
2027		121,557	19,722	141,279
2028		124,170	17,109	141,279
2029-2033		662,381	44,003	706,384
Total		1,257,729	155,048	1,412,777
Current		(114,094)		
Non-current	$	1,143,635		

I-Bank Loan

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

Future debt service on the loan is as follows:

Year		Principal	Interest	Total
2024	$	52,890	15,168	68,058
2025		54,673	13,356	68,029
2026		56,515	11,482	67,997
2027		58,420	5,265	63,685
2028		60,388	8,561	68,949
2029-2031		193,653	13,196	206,849
Total		476,539	67,028	543,567
Current		(52,890)		
Non-current	$	423,649		

(6) Long-term Debt, continued

State Revolving Fund Loans No. 3

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

Future debt service on the loan is as follows:

Year		Principal	Interest/Fee	Total
2024	$	446,019	217,013	663,032
2025		453,149	209,883	663,032
2026		460,394	202,638	663,032
2027		467,754	195,278	663,032
2028		475,231	187,801	663,032
2029-2033		2,492,310	822,851	3,315,161
2034-2038		2,697,713	617,447	3,315,160
2039-2043		2,920,548	394,613	3,315,161
2044-2048		3,160,565	153,372	3,313,937
Total		13,573,683	3,000,896	16,574,579
Current		(446,019)		
Non-current	$	13,127,664		

State Revolving Fund Microgrid Loan

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

(6) Long-term Debt, continued

Pialorsi Property Loan

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

Future debt service on the loan is as follows:

Year	Principal	Interest	Total
2024	$ 93,200	23,188	116,388
2025	95,000	21,408	116,408
2026	96,800	19,595	116,395
2027	98,700	17,747	116,447
2028	100,500	15,863	116,363
2029-2033	532,100	49,791	581,891
2034-2035	227,300	5,424	232,724
Total	1,243,600	153,016	1,396,616
Current	(93,200)		
Non-current	$ 1,150,400		

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. At June 30, 2023, the bonds were paid-in-full.

(6) Long-term Debt, continued

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

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

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

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

Year	Principal	Interest	Total
2024	$ 85,000	148,800	233,800
2025	90,000	145,300	235,300
2026	95,000	141,600	236,600
2027	100,000	157,700	257,700
2028	100,000	133,700	233,700
2029-2033	575,000	603,000	1,178,000
2034-2038	685,000	495,519	1,180,519
2039-2043	765,000	411,419	1,176,419
2044-2048	905,000	267,500	1,172,500
2049-2052	870,000	71,200	941,200
Total	4,270,000	2,575,738	6,845,738
Current	(85,000)		
Premium	480,520		
Non-current	$ 4,665,520		

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

(6) Long-term Debt, continued

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

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

Year		Principal	Interest	Total
2024	$	75,000	115,900	190,900
2025		80,000	113,575	193,575
2026		80,000	111,175	191,175
2027		85,000	108,806	193,806
2028		85,000	106,363	191,363
2029-2033		465,000	487,313	952,313
2034-2038		555,000	402,263	957,263
2039-2043		615,000	334,281	949,281
2044-2048		735,000	218,100	953,100
2049-2052		710,000	58,400	768,400
Total		3,485,000	2,056,176	5,541,176
Current		(75,000)		
Premium		372,287		
Non-current	$	3,782,287		

(7) Other Post Employment Benefit Plan

Plan Description

The District administers a single-employer defined-benefit post-employment healthcare plan. Benefits vary by hire date. Dependents are eligible to enroll, and benefits continue to surviving spouses. There are no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB 75 to pay related benefits. The District's Board has the authority to establish and amend the benefit terms and financing requirements of the Plan. The District participates in the California Employers' Retiree Benefit Trust (CERBT), a Prefunding Plan trust fund intended to perform an essential government function within the meaning of Section 115 of the Internal Revenue Code. Copies of CalPERS CERBT audited financial report may be obtained from their executive Office: 400 P Street, Sacramento, CA 95814.

Benefits Provided

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

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

(7) Other Post-Employment Benefit Plan, continued

Employees Covered by Benefit Terms

At June 30, 2022 (the census date), the following employees were covered by the benefit terms:

	2023
Inactive employees or beneficiaries currently receiving benefit payments	8
Active employees	24
Total plan membership	32

Contributions

The contribution requirements of plan members and the District are established and may be amended by the District, District's Board of Directors, and/or the employee associations. The District pays 100% of its share of the cost of health insurance for retirees under any group plan offered by the District's Health Program, subject to certain restrictions as determined by the District. Currently, contributions are not required from plan members. The District has established a trust for the purpose of holding funds that have been irrevocably contributed by the District toward funding of its OPEB obligation. This trust is being administered by the California Employers' Retiree Benefit Trust (CERBT). Annually, the Board of Directors determines the amount that the District will fund the trust.

As of the fiscal year ended June 30, the contributions paid on behalf of the District were as follows:

	2023
Contributions – employer	$ 154,317

In fiscal year 2023, the District contributed $2,675,783 for the purpose of funding its CERBT trust account. This funding contribution is reported as part of the District's plan fiduciary position.

Actuarial Assumptions and Other Inputs

The District's net OPEB liability in the June 30, 2021 actuarial valuation, which was measured as of June 30, 2023 was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Discount rate	4.10%
Inflation	2.30%
Salary increases	2.80% wage inflation plus seniority, merit, and promotion salary increases based on CalPERS Experience Study and Review of Actuarial Assumptions published in November 2021
Healthcare cost trend rates	Based on 2021 Getzen model that reflects actual premium increases from 2021 to 2022, followed by 5.50% (non-Medicare)/5.30%(Medicare), gradually decreasing to an ultimate rate of 4.04% in 2075
Mortality rates*	Based on CalPERS tables

(7) Other Post-Employment Benefit Plan, continued

Actuarial Assumptions and Other Inputs, continued

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

Discount Rate

The discount rate used to measure the net OPEB liability has been updated from 3.69% as of June 30, 2022, to 4.10% as of June 30, 2023, based on changes in the municipal bond index, which caused a decrease in the liability. The District's OPEB Plan is a funded plan; therefore, the discount rate was set to the rate of Fidelity General Obligation AA 20-year bonds, as of the valuation date.

Changes is the Net OPEB Liability

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

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at June 30, 2022	$ 6,942,623	-	6,942,623
Changes for the year:			
Service cost	408,820	-	408,820
Interest	268,056	-	268,056
Differences between expected and actual experience	(164,934)	-	(164,934)
Changes in assumptions or other inputs	(447,802)	-	(447,802)
Employer contributions	-	2,675,783	(2,675,783)
Net investment income	-	54,577	(54,577)
Benefit payments	(134,581)	(134,581)	-
Implicit rate subsidy fulfilled	(41,102)	(41,102)	-
Trust administrative expenses	-	(549)	549
Net change	(111,543)	2,554,128	(2,665,671)
Balance at June 30, 2023	$ 6,831,080	2,554,128	4,276,952

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

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.10%) or 1-percentage-point higher (5.10 %) than the current discount rate (4.10%):

	Discount Rate 1% Lower	Valuation Discount Rate	Discount Rate 1% Higher
District's net OPEB liability	$ 5,445,989	4,276,952	3,338,629

(7) Other Post-Employment Benefit Plan, continued

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

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a healthcare cost trend rates that is 1-percentage-point lower (4.50% non-Medicare/4.30% Medicare decreasing to 3.04%) or 1-percentage-point higher (6.50% non-Medicare/6.30% Medicare decreasing to 5.04%) than the current healthcare cost trend rates (5.50% non-Medicare/5.30% Medicare decreasing to 4.04%):

	Trend 1% Lower	Valuation Trend	Trend 1% Higher
Total OPEB liability	$ 3,025,500	4,276,952	5,932,833

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

For the year ended June 30, 2023, the District recognized OPEB expense of $226,340. At June 30, 2023, the District reported deferred outflows of resources and deferred inflows of resources related OPEB as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	(5,346,233)
Changes of assumptions or other inputs	2,047,714	-
Net difference between projected and actual earnings on investments	5,720	-
OPEB contributions subsequent to measurement date	154,317	-
Total	$ 2,207,751	(5,346,233)

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

Fiscal Year Ending June 30,	Deferred Net Outflows(Inflows) of Resources
2024	$ (413,120)
2025	(413,120)
2026	(413,120)
2027	(403,150)
2028	(402,096)
Thereafter	(1,248,193)

Schedules of Changes in the District's Net OPEB Liability and Related Ratios

Schedules of Other Post-Employment Benefits Plan Contributions

See pages 63 through 65 for the Required Supplementary Schedules.

(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 Q Street, Sacramento, California 95811.

Benefits Provided

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

On September 12, 2012, the California Governor signed the California Public Employees' Pension Reform Act of 2013 (PEPRA) into law and took effect January 1, 2013. The new legislation closed the District's CalPERS 2.0% at 55 Risk Pool Retirement Plan to new employee entrants effective December 31, 2012. All employees hired after January 1, 2013, are eligible for the District's CalPERS 2.0% at 62 Retirement Plan under PEPRA.

The Plan's provision and benefits in effect at June 30, 2023, are summarized as follows:

	Classic	PEPRA
Hire Date	Prior to December 31, 2012	On or after January 1, 2013
Benefit formula	2% @ 55	2% @ 62
Benefit vesting schedule	5 years	5 years
Benefit payments	Monthly for life	Monthly for life
Retirement age	50-55	52-62
Monthly benefits, as a percentage of eligible compensation	1.43% to 2.42%	1.00% to 2.50%
Required employee contribution rates	6.92%	6.75%
Required employer contribution rates	10.32%	7.47%

Contributions

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

(8) Defined Benefit Pension Plan, continued

Contributions, continued

For the fiscal year ended June 30, 2023, the contributions to the were as follows:

		2023
Contributions – employer	$	349,450
Contributions – employee (paid by employer)		
Total employer paid contributions	$	349,450

Net Pension Liability

As of the fiscal year ended June 30, 2023, the District reported net pension liability for its proportionate share of the net pension liability of the Plan as follows:

		2023
Proportionate share of net pension liability	$	2,735,488

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, 2023, the net pension liability of the Plan is measured as of June 30, 2022 (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, 2021 (the valuation date), rolled forward to June 30, 2022, 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, 2022, was as follows:

	Proportionate Share	
Proportion – June 30, 2021	0.02544	%
Increase in proportion	(0.00176)	
Proportion – June 30, 2022	0.02368	%

(8) Defined Benefit Pension Plan, continued

Deferred Pension Outflows (Inflows) of Resources

For the year ended June 30, 2023, the District recognized pension expense of $602,835. As of the fiscal year ended June 30, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

Description		Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$	349,450	-
Difference between actual and expected experience		18,142	-
Change in assumptions		280,308	-
Net differences between projected and actual earnings on plan investments		501,069	-
Change in employer's proportion		-	(107,290)
Differences between employer's contributions and proportionate share of contributions		-	(90,211)
Total	$	1,148,969	(197,501)

As of June 30, 2023, the District reported $349,450 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, 2023, will be recognized as a reduction of the net pension liability for the year ended June 30, 2024.

As of June 30, 2023, other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized as pension expense as follows:

Fiscal Year Ending June 30,		Deferred Net Outflows(Inflows) of Resources
2024	$	755,317
2025		647,850
2026		289,063
2027		2,362,448

(8) Defined Benefit Pension Plan, continued

Actuarial Assumptions

The total pension liabilities in the June 30, 2021, actuarial valuation were determined using the following actuarial assumptions and methods:

Valuation date	June 30, 2021
Measurement date	June 30, 2022
Actuarial cost method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial assumptions	
Discount rate	6.90%
Inflation	2.30%
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 2.30% until PPPA floor on purchasing power applies; 2.30% thereafter

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

Discount Rate

The discount rate used to measure the total pension liability as of June 30, 2022, for the PERF C was 6.90%. This discount rate is not adjusted for administrative expenses.

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

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

(8) Defined Benefit Pension Plan, continued

Discount Rate

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

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

Asset Class	Target Allocation	Real Return Years 1-10
Global Equity - Cap-weighted	30.00 %	4.45 %
Global Equity Non-Cap-weighted	12.00	3.84
Private Equity	13.00	7.28
Treasury	5.00	0.27
Mortgage-backed Securities	5.00	0.50
Investment Grade Corporates	10.00	1.56
High Yeild	5.00	2.27
Emerging Market Debt	5.00	2.48
Private Debt	5.00	3.57
Real Assets	15.00	3.21
Leverage	-5.00	(0.59)
Total	100.00 %	

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

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

At June 30, 2023, the discount rate comparison was as follows:

	Discount Rate - 1% 5.90%	Current Discount Rate 6.90%	Discount Rate + 1% 7.90%
District's net pension liability	$ 4,170,299	2,735,488	1,554,995

(8) Defined Benefit Pension Plan, 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 66 and 67 for the Required Supplementary Information.

(9) Internal Transfers

Inter-fund Operational Transfers

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

As of June 30, 2023, inter-fund receivables/payables between the District's funds were as follows:

Receivable From	Payable To		Amount
Measure B	General (Parks & Recreation)	$	663,305
Payable to General Fund		$	663,305

(10) Net Position

Net investment in capital assets is calculated as follows:

		Governmental Activities	Business-type Activities	2023
Net investment in capital assets:				
Capital assets – not being depreciated	$	2,229,102	12,453,234	14,682,336
Capital assets – being depreciated		2,551,695	29,507,162	32,058,857
Long-term debt – current portion		(102,304)	(878,139)	(980,443)
Long-term debt – long-term portion		(622,468)	(26,391,064)	(27,013,532)
Total net investment in capital assets	$	4,056,025	14,691,193	18,747,218

Restricted net position is calculated as follows:

		Governmental Activities	Business-type Activities	2023
Restricted:				
Debt service	$	-	9,798,451	9,798,451
Teen and community center		7,958	-	7,958
Park & Recreation capital projects - Coastal		6,745	-	6,745
Park & Recreation capital projects - Inland		158,203	-	158,203
Total restricted	$	172,906	9,798,451	9,971,357

(10) Net Position, continued

Unrestricted net position is calculated as follows:

		Governmental Activities	Business-type Activities	2023
Unrestricted:	$			
Reserved		207,658	275,679	483,337
Unreserved		(3,607,885)	14,227,750	10,619,865
Total unrestricted	$	(3,400,227)	14,503,429	11,103,202

(11) Fund Balance

Fund balance is presented in the following categories: non-spendable, restricted, committed, assigned, and unassigned (See Note 1.D.16 for a description of these categories). Fund balance and their funding composition at June 30, 2023, are as follows:

		2023
Nonspendable:		
Prepaid expenses	$	103,122
Restricted:		
Teen and community center		7,957
Park & Recreation capital projects – Coastal		6,745
Park & Recreation capital projects - Inland		158,203
Total restricted		172,905
Assigned:		
Compensated absences		72,358
Street lighting		135,300
Total assigned		207,658
Unassigned:		
General (Parks and Recreation)		
Operating fund		338,815
Repair and replacement fund		3,200
Catastrophe		95,725
Other post-employment benefits		149,204
Measure B		(661,862)
Total unassigned		(74,918)
Total fund balance	$	408,767

(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, 2023, the District participated in the liability and property programs of the SDRMA as follows:

- Property with insurance limits of $1 billion for property and catastrophic loss; $100 million for boiler and machinery; $10 million for flood; and $2 million for pollution and cyber. The coverage is subject to a deductible of up to $500,000.
- Mobile equipment with insurance limits up to $1 billion, subject to a deductible of $1,000.
- General liability with insurance limits of $5 million for bodily injury, property damage, employment benefits, employee/public officials' errors and omission, and employment practices liability; $1 million for employee/public officials' dishonesty (crime); and $500,000 for public officials personal. The coverage is subject to a deductible of up to $1,000.
- Auto liability with insurance limits of $5 million for auto bodily injury, auto property damage, non-owned auto bodily injury, and non-owned auto property damage; and $1 million for uninsured motorist. The coverage is subject to a deductible of up to $1,000.
- Auto physical damage with insurance limits of $100,000 for comprehensive and collision; and $1 billion for high dollar vehicles.
- Workers compensation insurance with statutory limits per occurrence and employer's liability coverage up to $5 million.

Settled claims have not exceeded any of the coverage amounts in the last three fiscal years. There were no reductions in insurance coverage in fiscal year 2023. 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, 2023.

(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. 99

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

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

Governmental Accounting Standards Board Statement No. 99, continued

The requirements of this Statement will enhance comparability in the application of accounting and financial reporting requirements and will improve the consistency of authoritative literature. Consistent authoritative literature enables governments and other stakeholders to locate and apply the correct accounting and financial reporting provisions, which improves the consistency with which such provisions are applied. The comparability of financial statements also will improve as a result of this Statement. Better consistency and comparability improve the usefulness of information for users of state and local government financial statements.

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

Governmental Accounting Standards Board Statement No. 100

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

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

The requirements of this Statement will improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. In turn, more understandable, reliable, relevant, consistent, and comparable information will be provided to financial statement users for making decisions or assessing accountability. In addition, the display and note disclosure requirements will result in more consistent, decision useful, understandable, and comprehensive information for users about accounting changes and error corrections.

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

Governmental Accounting Standards Board Statement No. 101

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

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

Governmental Accounting Standards Board Statement No. 101, continued

This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences.

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

(14) Commitments and Contingencies

Commitments

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

Grant Awards

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

Litigation

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

(15) Subsequent Event

Events occurring after June 30, 2023, have been evaluated for possible adjustment to the financial statements or disclosure as of January 10, 2024 January 10, 2024, which is the date the financial statements were available to be issued. The District is not aware of any further subsequent events that would require recognition or disclosure in the financial statements.

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Required Supplementary Information

McKinleyville Community Services District
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget to Actual – General (Parks and Recreation) Fund
For the Year Ended June 30, 2023

		Budgeted Amounts		Actual	Variance Positive
		Original	Final	Amounts	(Negative)
Revenues:					
Property taxes	$	712,575	751,141	744,930	(6,211)
Charge for services and facilities		449,630	598,358	611,815	13,457
Operating grants and contributions		1,652	868	216,265	215,397
Capital grants and contributions		1,487,952	192,633	-	(192,633)
Other income		35,940	9,078	2,453	(6,625)
Investment earnings		35,000	41,849	(83,825)	(125,674)
Total revenues		2,722,749	1,593,927	1,491,638	(102,289)
Expenditures:					
Salaries and employee benefits		937,508	1,118,695	1,192,080	(73,385)
Materials and services		257,920	279,404	337,826	(58,422)
Capital outlay		1,525,000	194,635	210,502	(15,867)
Total expenditures		2,720,428	1,592,734	1,740,408	(147,674)
Net change in fund balance		2,321	1,193	(248,770)	22,262
Fund balance, beginning of year		1,174,629	1,174,629	1,174,629	
Fund balance, end of year	$	1,176,950	1,175,822	925,859	

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, 2023

		Budgeted Amounts			Variance
		Original	Final	Actual Amounts	Positive (Negative)
Revenues:					
Special assessments	$	221,304	221,304	228,096	6,792
Investment earnings		6,000	10,491	5,630	(4,861)
Total revenues		227,304	231,795	233,726	1,931
Expenditures:					
Salaries and benefits		67,288	100,508	128,629	(28,121)
Materials and services		32,325	27,726	28,069	(343)
Debt service					
Principal		93,674	93,674	98,767	(5,093)
Interest		33,744	33,744	26,056	7,688
Total expenditures		227,031	255,652	281,521	(25,869)
Net change in fund balance		273	(23,857)	(47,795)	(23,938)
Fund balance, beginning of year		(611,690)	(611,690)	(611,690)	
Fund balance, end of year	$	(611,417)	(635,547)	(659,485)	

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, 2023

		Budgeted Amounts		Actual	Variance Positive
		Original	Final	Amounts	(Negative)
Revenues:					
Charge for services and facilities	$	105,930	11,215	114,154	102,939
Other income		18,500	17,379	17,448	69
Investment earnings		50	57	-	(57)
Total revenues		124,480	28,651	131,602	102,951
Expenditures:					
Salaries and payroll expenses		53,729	50,233	61,233	(11,000)
Materials and services		36,790	39,100	39,228	(128)
Capital outlay		47,000	1,725	6,750	(5,025)
Total expenditures		137,519	91,058	107,211	(16,153)
Net change in fund balance		(13,039)	(62,407)	24,391	86,798
Fund balance, beginning of year		118,002	118,002	118,002	
Fund balance, end of year	$	104,963	55,595	142,393	

McKinleyville Community Service District
Notes to the Required Supplementary Information
June 30, 2023

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 Net OPEB Liability and Related Ratios
For the Fiscal Year Ended June 30, 2023
Last Ten Years*

Other Post-Employment Benefits Payable

		2023	2022	2021	2020	2019	2018
Total OPEB liability							
Service cost	$	408,820	618,445	526,898	482,408	493,346	478,977
Interest		268,056	202,404	221,939	320,814	288,256	253,523
Difference between expected and actual experience		(164,934)	(4,584,910)	11,520	(2,563,217)	-	-
Change of assumptions or other inputs		(447,802)	870,713	794,185	2,063,476	(102,116)	-
Benefit payments		(134,581)	(140,756)	(108,641)	(102,866)	(102,866)	(96,421)
Implicit rate subsidy fulfilled		(41,102)	(33,358)	(43,940)	(47,609)	(35,201)	(28,201)
Net change in total OPEB liability		(111,543)	(3,067,462)	1,401,961	153,006	541,419	607,878
Total OPEB liability – beginning		6,942,623	10,010,085	8,608,124	8,455,118	7,913,699	7,305,821
Total OPEB liability – ending	$	6,831,080	6,942,623	10,010,085	8,608,124	8,455,118	7,913,699
Plan fiduciary net position							
Contributions – employer		2,675,783	174,114	152,581	150,476	138,067	124,622
Net investment income		54,577	-	-	-	-	-
Benefits payments		(175,683)	(174,114)	(152,581)	(150,476)	(138,067)	(124,622)
Administrative expense		(549)	-	-	-	-	-
Net change in plan fiduciary net position		2,554,128	-	-	-	-	-
Plan fiduciary net position – beginning		-	-	-	-	-	-
Plan fiduciary net position – ending		2,554,128	-	-	-	-	-
Net OPEB liability	$	4,276,952	6,942,623	10,010,085	8,608,124	8,455,118	7,913,699
Covered-employee payroll	$	1,836,084	1,548,839	1,389,995	1,362,167	1,511,378	1,470,927
Total OPEB liability as a percentage of covered-employee payroll		232.94%	448.25%	720.15%	631.94%	559.43%	538.01%

Continued on next page.

Notes to Schedule

Change in Benefit Terms

There were no changes to benefit terms.

Change of Assumptions

In fiscal year 2023, the discount rate changed from 3.69% to 4.10%. In fiscal year 2022, the discount rate changed from 1.92% to 3.69%. In fiscal year 2021, the discount rate changed from 2.45% to 1.92%. In fiscal year 2020, the discount rate changed from 3.62% to 2.45%. Other changes in assumption are as follows:

Assumptions	2023	2022	2019	2018
Aging/Morbidity factor	Based on CalPERS Experience Study and Review of Actuarial Assumptions published November 2021	Based on CalPERS Experience Study and Review of Actuarial Assumptions published November 2021	Based on actual CalPERS HMO and PPO population data.	Based on a Society of Actuaries study.
Participant contributions	No changes noted	No changes noted	Based on service at retirement and employee group.	Based on hire date.
Salary increases	2.80%	2.80%	2.750%	3.000%
Marital status	Percentage of active employees assumed to elect spousal coverage have increased from 85% to 100%.	Percentage of active employees assumed to elect spousal coverage have increased from 85% to 100%.	Current retirees: actual spouse coverage is used. Future retirees: 85% assumed to be married.	Current retirees: actual spouse coverage is used. Future retirees: none noted.

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

McKinleyville Community Service District
Schedules of Other Post Employment Benefits Plan Contributions
For the Fiscal Year Ended June 30, 2023
Last Ten Years*

Description		2023	2022	2021	2020	2019	2018
Actuarial determined contribution	$	-	-	-	-	-	-
Contributions in relation to the actuarially determined contribution		-	-	-	-	-	-
Contribution deficiency(excess)	$	-	-	-	-	-	-
District's covered payroll	$	1,836,084	1,548,839	1,389,995	1,362,167	1,511,378	1,470,927
Contribution's as a percentage of covered payroll		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Notes to Schedule

The Schedule of OPEB Plan Contributions is a required supplemental schedule for funded OPEB plans. The District's funding began in fiscal year 2023 and will report contribution data in the table above, beginning fiscal year 2024.

* 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, continued
As of June 30, 2023
Last Ten Years*

Description		6/30/2022	6/30/2021	6/30/2020	6/30/2019	6/30/2018	6/30/2017	6/30/2016	6/30/2015	6/30/2014
District's proportion of the net pension liability(asset)		0.02368%	0.02544%	0.02113%	0.02051%	0.01969%	0.01948%	0.01878%	0.01728%	0.01805%
District's proportionate share of the net pension liability(asset)	$	2,735,488	1,375,759	2,299,309	2,101,815	1,897,638	1,931,634	1,625,303	1,186,322	1,123,351
District's covered payroll	$	1,462,609	1,615,780	1,430,283	1,404,807	1,390,558	1,313,591	1,260,867	1,214,824	1,084,395
District's proportionate share of the net pension liability(asset)as a percentage of its covered payroll		187.03%	85.15%	160.76%	149.62%	136.47%	147.05%	128.90%	97.65%	103.59%
Plan's fiduciary net position as a percentage of the total pension liability		74.01%	85.17%	74.40%	75.26%	75.26%	73.31%	74.06%	78.40%	83.21%

Notes to schedule:
There were no changes in benefits.

Changes in assumptions:
From fiscal year June 30, 2015 to June 30, 2016:
GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for adminsitrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses.
The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.
From fiscal year June 30, 2016 to June 30, 2017:
There were no changes in assumptions.
From fiscal year June 30, 2017 to June 30, 2018:
The discount rate was reduced from 7.65% to 7.15%
From fiscal year June 30, 2018 to June 30, 2019:
The inflation rate was reduced from 2.75% to 2.50%
From fiscal year June 30, 2019 to June 30, 2020:
There were no changes in assumptions.
From fiscal year June 30, 2020 to June 30, 2021:
There were no changes in assumptions.
From fiscal year June 30, 2021 to June 30, 2022:
There were no changes in assumptions.
From fiscal year June 30, 2022 to June 30, 2023:
The discount rate was reduced from 7.15% to 6.90%
The inflation rate was reduced from 2.50% to 2.30%

* 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, 2023
Last Ten Years*

Description	6/30/2023	6/30/2022	6/30/2021	6/30/2020	6/30/2019	6/30/2018	6/30/2017	6/30/2016	6/30/2015
Actuarially determined contribution	$ 349,450	312,417	281,677	251,463	212,575	187,417	162,865	155,352	126,683
Contributions in relation to the actuarially determined contribution	(349,450)	(312,417)	(281,677)	(251,463)	(212,575)	(187,417)	(163,266)	(155,352)	(126,683)
Contribution deficiency (excess)	$ -	-	-	-	-	-	(401)	-	-
District's covered payroll	$ 1,636,566	1,462,609	1,615,780	1,430,283	1,404,807	1,390,558	1,313,591	1,260,867	1,214,824
Contribution's as a percentage of covered-payroll	21.35%	21.36%	17.43%	17.58%	15.13%	13.48%	12.40%	12.32%	10.43%

Notes to schedule:

Valuation date	6/30/2021	6/30/2020	6/30/2019	6/30/2018	6/30/2017	6/30/2016	6/30/2015	6/30/2014	6/30/2013
Methods and assumptions used to determine contribution rates:									
Actuarial cost method	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age
Amortization method	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Asset valuation method	Market Value	Market Value	Market Value	Market Value	Market Value	Market Value	Market Value	Market Value	15 year Smoothed Market Method
Inflation	2.30%	2.50%	2.50%	2.50%	2.75%	2.75%	2.75%	2.75%	2.75%
Salary increases	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Investment rate of return	6.90% (3)	7.15% (3)	7.00% (3)	7.25% (3)	7.375% (3)	7.50% (3)	7.50% (3)	7.50% (3)	7.50% (3)
Retirment age	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)
Mortality	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)

(1) Level of percentage payroll, closed.
(2) Depending on age, service, and type of employment.
(3) Net of pension plan investment expense, including inflation.
(4) 50 for all plans with exception of 52 for Miscellaneous 2% @ 62
(5) Mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study. adopted by the CalPERS Board.

* 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, 2023, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 10, 2024.

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.

C.J. Brown & Company, CPAs

C.J. Brown & Company, CPAs
Cypress, California
January 10, 2024
January 10, 2024