

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
BASIC FINANCIAL STATEMENTS
AND
REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2016

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
McKinleyville Community Services District
McKinleyville, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of McKinleyville Community Services District (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the McKinleyville Community Services District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each

major fund, and the aggregate remaining fund information of McKinleyville Community Services District, as of June 30, 2016, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9; the budgetary comparison information on pages 50 through 52; and the schedules of the District's proportionate share of the net pension liability, pension contributions, and funding progress – other post employment benefits on pages 53 through 55 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2016, on our consideration of McKinleyville Community Services District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering McKinleyville Community Services District's internal control over financial reporting and compliance.

Hunter, Hunter & Hunt

December 21, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2016**

Management offers to the readers of the McKinleyville Community Services District's (the District) basic financial statements this narrative overview and analysis of the District's financial activities for the year ended June 30, 2016. This discussion and analysis should be read in conjunction with the accompanying basic financial statements and the notes thereto.

Overview of the Basic Financial Statements

The District's basic financial statements and required supplementary information consist of the following:

- Government-Wide Financial Statements (accrual basis of accounting):
 - 1) Statement of Net Position
 - 2) Statement of Activities

- Governmental Fund Financial Statements (modified accrual basis of accounting):
 - 1) Balance Sheet
 - 2) Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position
 - 3) Statement of Revenues, Expenditures, and Changes in Fund Balances
 - 4) Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

- Proprietary Fund Financial Statements (accrual basis of accounting):
 - 1) Statement of Net Position
 - 2) Statement of Revenues, Expenses, and Changes in Fund Net Position
 - 3) Statement of Cash Flows

- Notes to Basic Financial Statements

- Required Supplementary Information:
 - 1) Budgetary Comparison Schedule – General Fund (Parks & Recreation)
 - 2) Budgetary Comparison Schedule – Measure B Fund
 - 3) Budgetary Comparison Schedule – Streetlighting Fund
 - 4) Schedule of the District's Proportionate Share of the Net Pension Liability
 - 5) Schedule of Pension Contributions
 - 6) Schedule of Funding Progress – Other Post Employment Benefits

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances. The statement of net position presents the District's financial position at a point in time, June 30, and includes information on all of the District's assets, liabilities, and deferred outflows and inflows with the difference between the total of recorded assets and deferred outflows and the total of liabilities and deferred inflows reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or declining. The statement of activities presents information showing how the District's net position changed during the most recent fiscal year.

The statement of net position and the statement of activities divide District operations into two types of activities:

- **Governmental Activities** – Included are the District's parks, recreation programs, open space zones and streetlight zones. This also accounts for management of the District's buildings at Pierson Park (Azalea Hall, activity center, library, law enforcement facility, Teen and Community Center), Hiller Park (sports fields, playgrounds, dog park, etc.), Larissa Park, trails and open spaces. These activities are funded by property taxes, the Measure B Assessments (for recreational facility development and maintenance), zone assessments, grants, donations, and user fees.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2016**

- **Business-Type Activities** – These are activities in which the District charges fees to customers to cover the cost of services it provides. The District's water and wastewater systems are reported herein.

The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements report the District's operations in more detail than the government-wide financial statements by providing information about the District's most significant funds which include: (1) General Fund, including parks and recreation, (2) Measure B Fund, (3) Streetlighting Fund, (4) Water Fund, and (5) Wastewater Fund. Additionally, the proprietary fund financial statements provide cash flow information for the District's Water and Wastewater Funds. The District's fund financial statements encompass two fund types as follows:

- **Governmental Funds** - Governmental funds are used to account for 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 the balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating the District's near-term financing requirements.
- **Proprietary Funds** - Proprietary funds provide the same type of information as the business-type activities in the government-wide financial statements, only in more detail.

Financial Highlights

- Total current assets increased by approximately \$830,000 or 15.0% in comparison to the prior year while capital assets and other non-current assets increased by approximately \$4,233,000 or 15.0%.
- Pension related deferred outflows increased by approximately \$27,000 or 19.0%.
- Current liabilities increased by approximately \$1,298,000 or 115.0% in comparison to the prior year while long-term liabilities increased by approximately \$1,136,000 or 16.0%.
- Pension related deferred inflows decreased by \$61,000 or 16.0%.
- Overall, the District's net position increased by approximately \$2,718,000 or 11.0% as a result of this year's operations.
- Total program revenues increased by approximately \$592,000 or 8.0% over the prior year while program expenses increased by approximately \$347,000 or 6.0%.
- The District's general revenues increased by approximately \$75,000 over the prior year or 12.0%.

Government-Wide Financial Statement Analysis

The discussion and analysis of the District's overall financial position and results of operations will focus on the following condensed statement of net position (Tables 1 and 2) and condensed statement of revenues, expenses, and changes in net position (Tables 3 and 4) for both governmental and business-type activities.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2016**

**Table 1 - Condensed Statement of Net Position
(Governmental Activities)**

	Fiscal Year Ended June 30,		Change
	2016	2015	
Assets and Deferred Outflows			
Current	\$ 783,994	\$ 1,063,106	\$ (279,112)
Non-Current			
Net Capital Assets	5,505,200	3,419,248	2,085,952
Other	210,167	1,614,434	(1,404,267)
Deferred Outflows	49,174	45,920	3,254
Total Assets and Deferred Outflows	6,548,535	6,142,708	405,827
Liabilities and Deferred Inflows			
Current	555,152	295,788	259,364
Non-Current	2,124,737	2,101,531	23,206
Deferred Inflows	107,222	126,235	(19,013)
Total Liabilities and Deferred Inflows	2,787,111	2,523,554	263,557
Net Position			
Net Investment in Capital Assets	4,082,920	3,329,857	753,063
Restricted	201,367	206,234	(4,867)
Unrestricted	(522,863)	83,063	(605,926)
Total Net Position	\$ 3,761,424	\$ 3,619,154	\$ 142,270

**Table 2 - Condensed Statement of Net Position
(Business-Type Activities)**

	Fiscal Year Ended June 30,		Change
	2016	2015	
Assets and Deferred Outflows			
Current	\$ 5,575,617	\$ 4,465,694	\$ 1,109,923
Non-Current			
Net Capital Assets	23,769,715	20,720,068	3,049,647
Other	2,576,679	2,075,364	501,315
Deferred Outflows	117,197	93,234	23,963
Total Assets and Deferred Outflows	32,039,208	27,354,360	4,684,848
Liabilities and Deferred Inflows			
Current	1,872,859	834,219	1,038,640
Non-Current	6,127,305	5,014,895	1,112,410
Deferred Inflows	214,082	256,297	(42,215)
Total Liabilities and Deferred Inflows	8,214,246	6,105,411	2,108,835
Net Position			
Net Investment in Capital Assets	19,034,021	16,827,946	2,206,075
Restricted	2,468,112	1,974,548	493,564
Unrestricted	2,322,829	2,446,455	(123,626)
Total Net Position	\$23,824,962	\$21,248,949	\$ 2,576,013

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2016**

As can be seen from Table 1 on the previous page (Condensed Statement of Net Position – Governmental Activities), the following can be noted when comparing the current year to the prior year:

- Non-capital assets decreased by \$1,683,379 or 62.9%;
- Net capital assets increased by \$2,085,952 or 61.0%;
- Pension related deferred outflows increased by \$3,254 or 7.1%;
- Total liabilities increased by \$282,570 or 11.8%;
- Pension related deferred inflows decreased by \$19,013 or 15.1%;
- Net investment in capital assets increased by \$753,063 or 22.6%;
- Restricted net position decreased by \$4,867 or 2.4%;
- Unrestricted net position decreased by \$605,926 or 729.5%.

As can be seen from Table 2 on the previous page (Condensed Statement of Net Position – Business-Type Activities), the following can be noted when comparing the current year to the prior year:

- Non-capital assets increased by \$1,611,238 or 24.6%;
- Net capital assets increased by \$3,049,647 or 14.7%;
- Pension related deferred outflows increased by \$23,963 or 25.7%;
- Total liabilities increased by \$2,151,050 or 36.8%;
- Pension related deferred inflows decreased by \$42,215 or 16.5%;
- Net investment in capital assets increased by \$2,206,075 or 13.1%;
- Restricted net position increased by \$493,564 or 25.0%;
- Unrestricted net position decreased by \$123,626 or 5.1%.

As can be seen from Table 3 below (Condensed Statement of Revenues, Expenses, and Changes in Net Position – Governmental Activities), the following can be noted when comparing the current year to the prior year:

- Total revenues increased by \$264,613 or 18.9%;
- Total expenses decreased by \$5,054 or 0.3%;
- Net position increased by \$142,270 or 3.9%.

Table 3 - Condensed Statement of Revenues, Expenses, and Changes in Net Position (Governmental Activities)

	Fiscal Year Ended June 30,		Change
	2016	2015	
Revenues			
Program			
Charges for Services and Facilities	\$ 821,514	\$ 772,727	\$ 48,787
Operating Grants and Contributions	79,051	20,083	58,968
Capital Grants and Contributions	128,357	25,000	103,357
General			
Property Taxes	547,214	523,969	23,245
Other Income	60,468	49,842	10,626
Gain (Loss) on Sale of Asset	3,020	-	3,020
Unrestricted Investment Earnings	27,482	10,872	16,610
Total Revenues	1,667,106	1,402,493	264,613
Expenses			
Recreation, Parks, Open Space, Facilities, and Other Activities	1,435,762	1,443,086	(7,324)
Streetlighting	89,074	86,804	2,270
Total Expenses	1,524,836	1,529,890	(5,054)
Change in Net Position	142,270	(127,397)	269,667
Net Position - Beginning of Year	3,619,154	3,746,551	(127,397)
Net Position - End of Year	\$ 3,761,424	\$ 3,619,154	\$ 142,270

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2016**

As can be seen from Table 4 below (Condensed Statement of Revenues, Expenses, and Changes in Net Position – Business-Type Activities), the following can be noted when comparing the current year to the prior year:

- Total revenues increased by \$402,917 or 6.2%;
- Total expenses increased by \$351,971 or 8.8%;
- Net position increased by \$2,576,013 or 12.1%.

**Table 4 - Condensed Statement of Revenues, Expenses, and Changes in Net Position
(Business-Type Activities)**

	Fiscal Year Ended June 30,		Change
	2016	2015	
Revenues			
Program			
Charges for Services - Water	\$ 3,101,968	\$ 2,974,203	\$ 127,765
Charges for Services - Wastewater	2,603,600	2,143,217	460,383
Capital Grants and Contributions - Water	520,533	1,123,276	(602,743)
Capital Grants and Contributions - Wastewater	649,599	254,027	395,572
General			
Gain (Loss) on Sale of Asset	17,170	8,500	8,670
Unrestricted Investment Earnings	49,276	36,006	13,270
Total Revenues	<u>6,942,146</u>	<u>6,539,229</u>	<u>402,917</u>
Expenses			
Water	2,446,132	2,259,154	186,978
Wastewater	1,920,001	1,755,008	164,993
Total Expenses	<u>4,366,133</u>	<u>4,014,162</u>	<u>351,971</u>
Change in Net Position	2,576,013	2,525,067	50,946
Net Position - Beginning of Year	<u>21,248,949</u>	<u>18,723,882</u>	<u>2,525,067</u>
Net Position - End of Year	<u>\$ 23,824,962</u>	<u>\$ 21,248,949</u>	<u>\$ 2,576,013</u>

Fund Financial Statement Analysis

Governmental Funds

Detailed information about the District's governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances can be found on pages 12 and 14, respectively, of the District's basic financial statements. The following can be noted when comparing the current governmental fund financial statements to the prior year:

- Total assets (excluding the change in the due to/due from among governmental funds) decreased by \$458,492 or 17.1% primarily due to a decrease in cash used to liquate obligations related to the Teen and Community Center Project;
- Total liabilities (excluding the change in the due to/due from among governmental funds) increased by \$1,467,371 or 926.7% primarily due to the short-term borrowings from the Water and Wastewater Funds used to fund the Teen and Community Center Project;
- Total fund balance decreased by \$1,925,863 or 76.4% primarily due to capital expenditures related to the Teen and Community Center;
- Total revenues increased by \$245,939 or 17.5% primarily due to one-time capital grant funds and an increase in charges for services and facilities in the General Fund;
- Total expenditures increased by \$2,078,375 or 138.2% primarily due to an increase in capital outlays related to the Teen and Community Center;
- Total other financing sources decreased by \$1,463,741 or 99.8% primarily due to the receipt of debt proceeds related to the Teen and Community Center Project in FY 2014-15.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2016**

Proprietary Funds

Detailed information about the District's proprietary funds statement of net position and statement of revenues, expenditures, and changes in net position can be found on pages 16 and 17, respectively, of the District's basic financial statements. The following can be noted when comparing the current proprietary fund financial statements to the prior year:

- Total Water Fund assets increased by \$1,093,615 or 10.0% primarily due to increases in cash and short-term loans to the governmental funds;
- Total Wastewater Fund assets increased by \$3,567,270 or 21.8% primarily due to increases in short-term loans to the governmental funds and net capital assets;
- Water Fund deferred outflows increased by \$12,302 or 27.6% due to pension related activities;
- Wastewater Fund deferred outflows increased by \$11,661 or 23.9% due to pension related activities;
- Total Water Fund liabilities decreased by \$85,476 or 2.1% primarily due to a decrease in accounts payable, an increase in the OPEB and pension liabilities, and the principal repayment on debt;
- Total Wastewater Fund liabilities increased by \$2,236,526 or 128.4% primarily due to an increase in accounts payable and debt related to capital projects, an increase in the OPEB and pension liabilities, and the principal repayment on debt ;
- Water Fund deferred inflows decreased by \$19,994 or 16.3% due to pension related activities;
- Wastewater Fund deferred inflows decreased by \$22,221 or 16.6% due to pension related activities;
- Total Water Fund net position increased by \$1,211,387 or 18.0%;
- Total Wastewater Fund net position increased by \$1,364,626 or 9.4%;
- Total Water Fund operating revenues increased by \$127,765 or 4.3% as the phased water rate increases were implemented;
- Total Wastewater Fund operating revenues increased by \$460,383 or 21.5% as the phased wastewater rate increases were implemented;
- Total Water Fund operating expenses increased by \$190,357 or 8.7% primarily due to increased personnel and purchased water costs. All other costs remained relatively stable;
- Total Wastewater Fund operating expenses increased by \$171,087 or 10.0% primarily due to an increase in personal costs, contracted service, and utilities. All other costs remained relatively stable;
- Water Fund non-operating revenues and expenses experienced no significant changes;
- Wastewater Fund non-operating revenues and expenses experienced no significant changes;
- Water Fund capital contributions decreased by \$609,298 or 54.5% primarily due to less contributed infrastructure in fiscal year 2015-16;
- Wastewater Fund capital contributions increased by \$391,239 or 154.0% primarily due increased contributed infrastructure in fiscal year 2015-16.

General Fund Budgetary Highlights

General Fund actual revenues were higher than budgetary estimates by approximately \$234,000 primarily due to higher than anticipated other revenues (contributions and grants, reimbursements from the State of CA) and property taxes which were somewhat offset by lower than anticipated program and Quimby developer fees. General Fund actual operating expenditures were lower than budgetary estimates by approximately \$14,000 primarily due to lower salaries and benefits while capital expenditures were higher than budgeted by approximately \$102,000 due to grant funded capital expenditures.

Capital Assets

As of June 30, 2016, the District's investment in capital assets (net of accumulated depreciation) for its governmental and business-type activities equaled \$5,505,200 and \$23,769,715, respectively. Detailed information about the components of capital assets is included in Note 3 to the basic financial statements. Net capital assets increased by \$2,085,952 (61.0%) for governmental activities as capital asset acquisitions exceeded depreciation. Similarly, net capital assets increased by \$3,049,647 (14.7%) for business-type activities as capital asset acquisitions exceeded depreciation.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2016**

Debt

As of June 30, 2016, the District's debt for its governmental and business-type activities totaled \$1,422,280 and \$4,735,695, respectively. Governmental activities experienced a net decrease in its debt balance from the prior year equal to \$99,812 as a result of principal repayment with no new debt. Business-type activities experienced a net increase in its debt balance from the prior year equal to \$843,573 primarily as a result of draws on the State Water Board's Revolving Fund to finance construction of the new Wastewater Management Facility. Detailed information about the components of debt is included in Note 4 to the basic financial statements.

Currently Known Facts, Decisions, or Conditions of Future Significance

- The District continues to plan for the replacement and upgrade of its water and wastewater infrastructure as outlined in its Capital Improvement Plan.
- The District has entered the construction phase of the Wastewater Management Facility upgrade. This upgrade is required by the State of California so that the District will be able to meet future State water quality standards and continue to serve the greater population of McKinleyville. As noted above, the project has drawn on the loan provided by the State Water Board Revolving Fund. The upgraded facility's increased operating costs and debt service will affect both the District's financial position and results of operations in the future.
- The Streetlights Fund LED Project has continued to reduce energy costs, with the result that past years' deficit in the Streetlights Fund is being gradually reduced. This should continue unless PG&E implements a significant increase in the LED rate schedule.
- Despite reduced water use mandated by the Governor's Office in response to the drought, the District expects further increases in its water and wastewater revenues as it continues to implement phased water and wastewater rate increases per the most recent Board approved rate studies.
- Purchased water costs are expected to continue to increase as the District's wholesale water supplier, Humboldt Bay Municipal Water District, continues to raise rates.
- The Affordable Care Act has brought significant rate increases to many health insurance policies. The District's insurance rates are expected to rise 12% during the next fiscal year.
- CalPERS pension costs were less than budgeted during fiscal year 2015-16. This was partly due to CalPERS removal of the unfunded liability portion of the rate and replacing it with a single lump sum payment. Thus, rates did not rise as much as expected. The additional invoice for the current year's portion of the amortized unfunded liability was paid in full and posted to a balance sheet account designated to track payments and Board-approved set-asides for the District's unfunded pension liability. As the number of positions under the PEPRA plan increases, the District will see some reduction in PERS costs. The percentage increase for classic employees will not be as significant next year due to reported better-than-anticipated investment performance. CalPERS still forecasts pension costs to increase significantly over the next three years as it seeks to achieve fully funded status statewide. CalPERS' new cost model still expects to adjust employer costs upwards to offset fluctuations in the stock market. This is anticipated to have a materially adverse effect on the District's financial position and result of operations, but the level of affect each year will not be known until CalPERS provides information for that year.
- In accordance with Generally Accepted Accounting Principles (GAAP), loan proceeds for the Teen and Community Center Project were recognized in fiscal year 2014-15, even though construction expenditures did not begin until fiscal year 2015-16. This will materially affect the Measure B Fund in both fiscal years. Now that construction is nearly complete, the portion of Measure B that is allocated for capital projects in subsequent years will be used for repayment of the construction loan.

Contacting the District

This financial report is designed to provide the District's customers, creditors and the public with a general overview of the District's finances and to demonstrate the District's accountability for the funds it receives. Additional information about the District is available at www.mckinleyvillecsd.com. Questions concerning any of the information provided in this report should be sent to the District Finance Director at ctrask@mckinleyvillecsd.com or to the following: McKinleyville Community Services District Finance Director, PO Box 2037, McKinleyville, CA 95519.

BASIC FINANCIAL STATEMENTS

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
STATEMENT OF NET POSITION
June 30, 2016

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
ASSETS			
Current Assets			
Cash and Investments	\$ 2,001,237	\$ 3,749,193	\$ 5,750,430
Accounts Receivable	5,584	490,095	495,679
Internal Balances	(1,224,887)	1,224,887	-
Interest Receivable	2,060	6,903	8,963
Inventory	-	104,539	104,539
Total Current Assets	<u>783,994</u>	<u>5,575,617</u>	<u>6,359,611</u>
Non-Current Assets			
Restricted Cash and Investments	210,167	2,576,679	2,786,846
Net Capital Assets	5,505,200	23,769,715	29,274,915
Total Non-Current Assets	<u>5,715,367</u>	<u>26,346,394</u>	<u>32,061,761</u>
Total Assets	<u>6,499,361</u>	<u>31,922,011</u>	<u>38,421,372</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension	49,174	117,197	166,371
LIABILITIES			
Current Liabilities			
Accounts Payable	86,421	105,876	192,297
Accrued Liabilities	103,332	-	103,332
Construction Claims Payable	-	1,085,685	1,085,685
Construction Retention Payable	202,275	114,136	316,411
Interest Payable	8,262	25,449	33,711
Unearned Revenues	-	24,408	24,408
Customer Deposits	8,800	108,567	117,367
Compensated Absenses, Due Within One Year	46,229	107,697	153,926
Bonds and Loans, Due Within One Year	99,833	301,041	400,874
Total Current Liabilities	<u>555,152</u>	<u>1,872,859</u>	<u>2,428,011</u>
Non-Current Liabilities			
Compensated Absenses, Due Beyond One Year	28,162	90,951	119,113
Revenue Bonds, Due Beyond One Year	-	445,000	445,000
Loans, Due Beyond One Year	1,322,447	3,989,654	5,312,101
Net Other Post Employment Benefit Obligation	384,501	805,005	1,189,506
Net Pension Liability	389,627	796,695	1,186,322
Total Non-Current Liabilities	<u>2,124,737</u>	<u>6,127,305</u>	<u>8,252,042</u>
Total Liabilities	<u>2,679,889</u>	<u>8,000,164</u>	<u>10,680,053</u>
DEFERRED INFLOWS OF RESOURCES			
Pension	107,222	214,082	321,304
NET POSITION			
Net Investment in Capital Assets	4,082,920	19,034,021	23,116,941
Restricted for:			
Capital Outlay	194,579	1,638,425	1,833,004
Debt Service	-	829,687	829,687
Teen and Community Center	6,788	-	6,788
Unrestricted	(522,863)	2,322,829	1,799,966
Total Net Position	<u>\$ 3,761,424</u>	<u>\$ 23,824,962</u>	<u>\$ 27,586,386</u>

See accompanying notes.

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2016

	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges For Services and Facilities	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Totals
Functions/Programs							
Governmental Activities							
Parks and Recreation Services	\$ 1,297,946	\$ 541,526	\$ 74,051	\$ 117,157	\$ (565,212)	\$ -	\$ (565,212)
Measure B	137,816	204,177	5,000	-	71,361	-	71,361
Streetlighting	89,074	75,811	-	11,200	(2,063)	-	(2,063)
Total Governmental Activities	<u>1,524,836</u>	<u>821,514</u>	<u>79,051</u>	<u>128,357</u>	<u>(495,914)</u>	<u>-</u>	<u>(495,914)</u>
Business-Type Activities							
Water	2,446,132	3,101,968	-	520,533	-	1,176,369	1,176,369
Wastewater	1,920,001	2,603,600	-	649,599	-	1,333,198	1,333,198
Total Business-Type Activities	<u>4,366,133</u>	<u>5,705,568</u>	<u>-</u>	<u>1,170,132</u>	<u>-</u>	<u>2,509,567</u>	<u>2,509,567</u>
Total	<u>\$ 5,890,969</u>	<u>\$ 6,527,082</u>	<u>\$ 79,051</u>	<u>\$ 1,298,489</u>	<u>(495,914)</u>	<u>2,509,567</u>	<u>2,013,653</u>
General Revenues							
Property Taxes					547,214	-	547,214
Other Income					60,468	-	60,468
Gain on Sale of Capital Assets					3,020	17,170	20,190
Unrestricted Investment Earnings					27,482	49,276	76,758
Total General Revenues					<u>638,184</u>	<u>66,446</u>	<u>704,630</u>
Change in Net Position					142,270	2,576,013	2,718,283
Net Position - Beginning of Year					3,619,154	21,248,949	24,868,103
Net Position - End of Year					<u>\$ 3,761,424</u>	<u>\$ 23,824,962</u>	<u>\$ 27,586,386</u>

See accompanying notes.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2016**

	General (Parks and Recreation)	Measure B	Streetlighting	Total Governmental Funds
ASSETS				
Cash and Investments	\$ 1,033,159	\$ 968,078	\$ -	\$ 2,001,237
Accounts Receivable	2,184	-	3,400	5,584
Due From Other Funds	39,175	-	-	39,175
Interest Receivable	2,060	-	-	2,060
Restricted Cash and Investments	210,167	-	-	210,167
Total Assets	\$ 1,286,745	\$ 968,078	\$ 3,400	\$ 2,258,223
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts Payable	\$ 79,385	\$ 6,595	\$ 441	\$ 86,421
Accrued Liabilities	103,332	-	-	103,332
Construction Retention Payable	-	202,275	-	202,275
Due To Other Funds	-	1,224,887	39,175	1,264,062
Customer Deposits	8,800	-	-	8,800
Total Liabilities	191,517	1,433,757	39,616	1,664,890
Fund Balance				
Restricted for:				
Capital Outlay	194,579	-	-	194,579
Teen and Community Center	6,788	-	-	6,788
Committed	893,861	-	-	893,861
Unassigned	-	(465,679)	(36,216)	(501,895)
Total Fund Balance	1,095,228	(465,679)	(36,216)	593,333
Total Liabilities and Fund Balance	\$ 1,286,745	\$ 968,078	\$ 3,400	\$ 2,258,223

See accompanying notes.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION
June 30, 2016**

Total Fund Balance - Governmental Funds (page 12) \$ 593,333

Amounts reported for governmental activities in the statement of net position (page 10) are different because:

Capital assets used in governmental activities are not current financial resources, and therefore are not reported in the governmental funds balance sheet but are reported in the governmental activities in the statement of net position. In the current period, these amounts were as follows:

Capital Assets	8,571,930
Accumulated Depreciation	(3,066,730)

Deferred outflows (inflows) of resources are not financial resources (uses), and therefore are not reported in governmental funds. These are as follows:

Deferred Outflows - Pension	49,174
Deferred Inflows - Pension	(107,222)

Long-term liabilities are not due and payable in the current period, and therefore are not reported in the governmental funds balance sheet but are reported in the governmental activities in the statement of net position. These liabilities include:

Compensated Absences	(74,391)
Other Postemployment Benefit Obligation	(384,501)
Loans Payable and Accrued Interest	(1,430,542)
Net Pension Liability	<u>(389,627)</u>

Net Position - Governmental Activities (page 10)	<u><u>\$ 3,761,424</u></u>
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See accompanying notes.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2016**

	General (Parks and Recreation)	Measure B	Streetlighting	Total Governmental Funds
REVENUES				
General Revenues				
Property Taxes	\$ 547,214	\$ -	\$ -	\$ 547,214
Special Assessments	-	204,177	-	204,177
Total General Revenues	547,214	204,177	-	751,391
Charges for Services and Facilities	541,526	-	75,811	617,337
Grants and Contributions	191,208	5,000	-	196,208
Other Income	42,364	741	17,363	60,468
Unrestricted Investment Earnings	14,376	13,106	-	27,482
Total Revenues	1,336,688	223,024	93,174	1,652,886
EXPENDITURES				
Current				
Recreation Programs, Parks, Open Space, Facilities, and Other Cultural Activities	1,010,579	87,863	69,647	1,168,089
Debt Service				
Principal	-	79,968	19,847	99,815
Interest	-	50,168	-	50,168
Capital Outlay	158,518	2,105,179	-	2,263,697
Total Expenditures	1,169,097	2,323,178	89,494	3,581,769
Excess (Deficiency) of Expenditures over Revenues	167,591	(2,100,154)	3,680	(1,928,883)
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Capital Asset	3,020	-	-	3,020
Total Other Financing Sources (Uses)	3,020	-	-	3,020
Net Change in Fund Balance	170,611	(2,100,154)	3,680	(1,925,863)
Fund Balance - Beginning of Year	924,617	1,634,475	(39,896)	2,519,196
Fund Balance - End of Year	\$ 1,095,228	\$ (465,679)	\$ (36,216)	\$ 593,333

See accompanying notes.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2016**

Net Change in Fund Balance - Governmental Funds (page 14)	\$ (1,925,863)
Contributions of capital assets do not provide current financial resources, and therefore are not reported in governmental funds.	11,200
Governmental funds report capital outlays as expenditures since they consume the current financial resources of governmental funds. Conversely, in the statement of activities, the cost of those assets is capitalized and expensed over the assets estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	2,074,750
The repayment of principal of long-term debt consumes current financial resources, and therefore is reported as debt service principal payments in the governmental funds. However, these payments have no impact on net position, and therefore are not reported in the statement of activities.	99,815
Some expenses reported in the statement of activities do not require the use of current financial resources, and therefore are not accrued as expenditures in governmental funds. In the current period, these expenses are as follows:	
Interest on Long-Term Debt	215
Compensated Absences	(13,230)
Other Postemployment Benefits	(107,962)
Pension Benefits	3,345
Change in Net Position - Governmental Activities (page 11)	\$ 142,270

See accompanying notes.

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2016

	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
ASSETS			
Current Assets			
Cash and Investments	\$ 2,052,821	\$ 1,696,372	\$ 3,749,193
Accounts Receivable	258,824	231,271	490,095
Due From Other Funds	350,312	874,575	1,224,887
Interest Receivable	4,171	2,732	6,903
Inventory	78,405	26,134	104,539
Total Current Assets	<u>2,744,533</u>	<u>2,831,084</u>	<u>5,575,617</u>
Non-Current Assets			
Restricted Cash and Investments	1,386,572	1,190,107	2,576,679
Net Capital Assets	7,878,633	15,891,082	23,769,715
Total Non-Current Assets	<u>9,265,205</u>	<u>17,081,189</u>	<u>26,346,394</u>
Total Assets	<u>12,009,738</u>	<u>19,912,273</u>	<u>31,922,011</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension	56,832	60,365	117,197
LIABILITIES			
Current Liabilities			
Accounts Payable	90,456	15,420	105,876
Construction Claims Payable	-	1,085,685	1,085,685
Construction Retention Payable	-	114,136	114,136
Interest Payable	11,255	14,194	25,449
Unearned Revenues	12,204	12,204	24,408
Customer Deposits	108,567	-	108,567
Compensated Absences, Due Within One Year	53,792	53,905	107,697
Bonds and Loans, Due Within One Year	151,867	149,174	301,041
Total Current Liabilities	<u>428,141</u>	<u>1,444,718</u>	<u>1,872,859</u>
Non-Current Liabilities			
Compensated Absences, Due Beyond One Year	45,423	45,528	90,951
Revenue Bonds, Due Beyond One Year	-	445,000	445,000
Loans, Due Beyond One Year	2,766,691	1,222,963	3,989,654
Net Other Post Employment Benefit Obligation	400,586	404,419	805,005
Net Pension Liability	380,293	416,402	796,695
Total Non-Current Liabilities	<u>3,592,993</u>	<u>2,534,312</u>	<u>6,127,305</u>
Total Liabilities	<u>4,021,134</u>	<u>3,979,030</u>	<u>8,000,164</u>
DEFERRED INFLOWS OF RESOURCES			
Pension	102,417	111,665	214,082
NET POSITION			
Net Investment in Capital Assets	4,960,075	14,073,946	19,034,021
Restricted for:			
Capital Outlay	615,793	1,022,632	1,638,425
Debt Service	662,212	167,475	829,687
Unrestricted	1,704,939	617,890	2,322,829
Total Net Position	<u>\$ 7,943,019</u>	<u>\$ 15,881,943</u>	<u>\$ 23,824,962</u>

See accompanying notes.

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2016

	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
Operating Revenues			
Sale of Water	\$ 2,953,489	\$ -	\$ 2,953,489
Sewer Charges	-	2,512,782	2,512,782
Other Revenues	148,479	90,818	239,297
Total Operating Revenues	<u>3,101,968</u>	<u>2,603,600</u>	<u>5,705,568</u>
Operating Expenses			
Personnel Services	908,707	974,929	1,883,636
Purchased Water	855,642	-	855,642
Contracted Services	43,196	47,889	91,085
Utilities	49,120	143,624	192,744
Insurance	25,779	25,778	51,557
Repairs, Supplies, and Other Expenses	147,184	229,771	376,955
Depreciation and Amortization	344,400	464,200	808,600
Total Operating Expenses	<u>2,374,028</u>	<u>1,886,191</u>	<u>4,260,219</u>
Operating Income (Loss)	<u>727,940</u>	<u>717,409</u>	<u>1,445,349</u>
Non-Operating Revenues (Expenses)			
Interest Expense	(72,104)	(33,810)	(105,914)
Unrestricted Investment Earnings	26,296	22,980	49,276
Gain on Sale of Capital Assets	8,722	8,448	17,170
State Grants	11,904	4,333	16,237
Total Non-Operating Revenues (Expenses)	<u>(25,182)</u>	<u>1,951</u>	<u>(23,231)</u>
Income (Loss) Before Capital Contributions and Transfers	<u>702,758</u>	<u>719,360</u>	<u>1,422,118</u>
Transfers and Capital Contributions			
Capital Contributions - Capacity Fees	175,404	307,966	483,370
Capital Contributions - Infrastructure	333,225	337,300	670,525
Total Transfers and Capital Contributions	<u>508,629</u>	<u>645,266</u>	<u>1,153,895</u>
Change in Net Position	1,211,387	1,364,626	2,576,013
Net Position - Beginning of Year	<u>6,731,632</u>	<u>14,517,317</u>	<u>21,248,949</u>
Net Position - End of Year	<u>\$ 7,943,019</u>	<u>\$ 15,881,943</u>	<u>\$ 23,824,962</u>

See accompanying notes.

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2016

	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
Cash Flows from Operating Activities			
Receipts from Customers and Users	\$ 3,114,321	\$ 2,599,408	\$ 5,713,729
Receipts from Interfund Services Provided	17,078	-	17,078
Payments to Suppliers of Goods and Services	(1,085,960)	(407,432)	(1,493,392)
Payments to Employees for Services	(813,312)	(877,848)	(1,691,160)
Payments for Interfund Services Used	-	(10,448)	(10,448)
Net Cash Provided by (Used for) Operating Activities	<u>1,232,127</u>	<u>1,303,680</u>	<u>2,535,807</u>
Cash Flows from Noncapital Financing Activities			
Advances to Other Funds	(350,312)	(874,575)	(1,224,887)
Net Cash Provided by (Used for) Noncapital Financing Activities	<u>(350,312)</u>	<u>(874,575)</u>	<u>(1,224,887)</u>
Cash Flows from Capital and Related Financing Activities			
Capital Contributions Received (Capacity Fees)	175,404	307,966	483,370
Capital Grants Received	96,875	4,333	101,208
Proceeds from the Sale of Capital Assets	8,722	8,448	17,170
Acquisition and Construction of Capital Assets	(298,328)	(1,868,140)	(2,166,468)
Proceeds from Long-Term Debt	-	1,168,549	1,168,549
Principal Payments on Long-Term Debt	(148,393)	(176,583)	(324,976)
Interest and Fees Paid on Long-Term Debt	(72,673)	(35,228)	(107,901)
Net Cash Provided by (Used for) in Capital Financing Activities	<u>(238,393)</u>	<u>(590,655)</u>	<u>(829,048)</u>
Cash Flows from Investing Activities			
Interest Received on Investments	26,637	23,768	50,405
Net Cash Provided by (Used for) by Investing Activities	<u>26,637</u>	<u>23,768</u>	<u>50,405</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>670,059</u>	<u>(137,782)</u>	<u>532,277</u>
Unrestricted Cash - Beginning of Year	1,568,735	2,149,496	3,718,231
Restricted Cash - Beginning of Year	1,200,599	874,765	2,075,364
Total Restricted and Unrestricted Cash and Cash Equivalents - Beginning of Year	<u>2,769,334</u>	<u>3,024,261</u>	<u>5,793,595</u>
Unrestricted Cash - End of Year	2,052,821	1,696,372	3,749,193
Restricted Cash - End of Year	1,386,572	1,190,107	2,576,679
Total Restricted and Unrestricted Cash and Cash Equivalents - End of Year	<u>\$ 3,439,393</u>	<u>\$ 2,886,479</u>	<u>\$ 6,325,872</u>
Reconciliation of Operating Income(Loss) to Net Cash Flows from Operating Activities			
Operating Income (Loss)	\$ 727,940	\$ 717,409	\$ 1,445,349
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows Provided (Used) by Operating Activities:			
Depreciation	344,400	464,200	808,600
(Increase) Decrease in Accounts Receivable	21,544	(4,328)	17,216
(Increase) Decrease in Inventory	(6,124)	(1,218)	(7,342)
(Increase) Decrease in Prepaids and Deposits	24,976	24,976	49,952
Increase (Decrease) in Accounts Payable	16,109	5,424	21,533
Increase (Decrease) in Unearned Revenues	136	136	272
Increase (Decrease) in Customer Deposits	7,751	-	7,751
Increase (Decrease) in Compensated Absences	6,876	6,876	13,752
Increase (Decrease) in Other Post Employment Benefit Obligations	99,994	100,858	200,852
Increase (Decrease) in Pension Related Liabilities and Deferred Outflows/Inflows of Resources	(11,475)	(10,653)	(22,128)
Net Cash Flows Provided by (Used for) Operating Activities	<u>\$ 1,232,127</u>	<u>\$ 1,303,680</u>	<u>\$ 2,535,807</u>
Noncash Capital and Related Financing Activities			
Contribution of Capital Assets	\$ 333,225	\$ 337,300	\$ 670,525
Capital Asset Acquisitions Related to Construction and Accounts Payable	3,178	1,199,821	1,202,999
Capitalized Interest	-	3,116	3,116

See accompanying notes.

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of McKinleyville Community Services District (the District) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

This summary of significant accounting policies of the District is presented to assist in understanding the financial statements. The financial statements and notes are representations of management, who is responsible for their integrity and objectivity. These accounting policies have been consistently applied in the preparation of the financial statements.

Reporting Entity

The McKinleyville Community Services District is an independent governmental unit organized under the Community Services District Law, pursuant to Title 6 Division 3 of the California Government Code Section 61000, et seq. The District is governed by an elected five-member Board of Directors which maintains the District's highest level of decision-making authority. There are several other governmental agencies that provide services within the District's boundaries, including the McKinleyville Union School District, Northern Humboldt Union High School District, and the County of Humboldt. These other entities have independently elected boards and the District has no oversight or financial responsibility for these entities. Accordingly, the financial information for these agencies is not included in the basic financial statements of the District.

Nature of Activities

The District operates a water and wastewater utility and provides streetlighting, open space maintenance, and recreational services to the unincorporated community of McKinleyville in the County of Humboldt, State of California. The governmental activities are funded by property taxes, assessments, grants, donations and user fees. The District charges fees to utility customers to cover the cost of the services it provides.

Basis of Presentation

Government-wide financial statements (the statement of net position and statement of activities) report information about the District as a whole and include all funds of the District. These statements distinguish between governmental activities, which normally are financed by taxes and other non-exchange revenues, and business-type activities, which are financed in whole or in part by fees charged to external parties for services.

The statement of activities demonstrates the degree to which the direct expenses of a given function or program is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or program. While the direct costs of providing services to the District's customers are charged directly to the function or segment benefited, joint costs of providing such services, or costs that are not identifiable with any specific function or program, are allocated to functions or programs based on Management's estimate of the benefits

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

received by each function or program. Program revenues include: (1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or program and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Taxes and other items not included among program revenues are reported instead as general revenues.

Fund financial statements provide information about the governmental and proprietary funds of the District. Each major fund is presented in a separate column of the appropriate fund-type (governmental, proprietary) financial statement.

The District reports the following major governmental funds:

The **General Fund** is used to account for the general operations of the District, including parks and recreation services, and all financial resources except those required to be in another fund.

The **Measure B Fund** is a special revenue fund used to account for the assessments collected and used in accordance with Measure B.

The **Streetlighting Fund** is a special revenue fund used to account for the fees collected and used to fund streetlighting services.

The District reports the following major proprietary funds:

The **Water Fund** is used to account for the water utility operations of the District.

The **Wastewater Fund** is used to account for the wastewater utility operations of the District.

Measurement Focus and Basis of Accounting

The **government-wide financial statements** are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements, in accordance with accounting principles generally accepted in the United States of America, as prescribed by the GASB. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred or asset used, regardless of the timing of related cash flows.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the District's water and wastewater functions and other functions of the District. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, as prescribed by the GASB. Revenues are recognized as soon as they are both measurable and available. Revenues are

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and wastewater utility funds are charges to customers for sales and services. In the current fiscal year, these amounts are reported net of discounts and allowances of \$17,682 and \$7,051 for the water and wastewater funds, respectively. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash, Cash Equivalents, and Investments

For purposes of the statement of cash flows, the proprietary funds consider cash and cash equivalents to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Additionally, cash deposited in external investment pools are considered to be cash equivalents as deposits and withdrawals may be made at any time without prior notice or penalty.

Under its investment policy, the District is authorized to invest in the State of California Local Agency Investment Fund (LAIF), obligations of the U.S. Treasury, bankers' acceptances, repurchase agreements, time deposits, savings and demand accounts, the Humboldt County Treasurer's Investment Fund, and CalTrust Investment Funds.

Investments are stated at fair value based on quoted or stated market value. Investments that are not traded on a market, such as external investment pools, are valued based on the stated fair value as represented by its fiscal agent. Changes in the fair value of investments is reported as investment income in the financial statements.

The use of certain cash balances are limited as follows: (1) to comply with financing agreements, (2) to offset new development related capital projects (capacity fees, Quimby fees), (3) to satisfy deposits held on behalf of District customers, or (4) to comply with donor restrictions.

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Receivables

Receivables at year-end consist of revenues earned but not yet received. Major receivable balances include accounts receivable from customers, interest receivable related to cash and investment earnings, and receivables from state grants. Management considers all receivables to be fully collectible. Accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations as a bad debt expense.

Interfund Transactions and Balances

Interfund transactions are reflected as either loans, services provided and used, reimbursements, or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation. They are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances". Advances between funds, as reported in the governmental fund financial statements, are offset by a nonspendable portion of fund balance to indicate that they are not available for appropriation and are not expendable available financial resources.

Due to/from other funds and internal balances resulted from interfund loans to eliminate cash deficits at June 30, 2016, for reporting purposes only.

Services provided and used, deemed to be at market or near market rates, are treated as revenues in the provider funds and expenditures or expenses in the user funds.

Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement.

Transfers are when one fund provides assets (such as cash, goods, or services) to another fund without the requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers. In proprietary funds, transfers are reported after non-operating revenues and expenses.

Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when used or consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
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Deferred Outflows/Inflows of Resources

Deferred Outflows of Resources represent the consumption of net position that is applicable to a future reporting period and will not be recognized as an outflow of resources (expenses or losses) until then. Similarly, Deferred Inflows of Resources represent the acquisition of net position that is applicable to a future reporting period and will not be recognized as an inflow of resources (revenues or gains) until then. In the government-wide and proprietary funds financial statements, the District has pension related items that qualify for reporting as deferred outflows/inflows of resources.

Capital Assets

Non-depreciable capital assets, which include land, rights of way, easements, water rights, and construction in progress, are reported in the applicable governmental or business-type activities column in the government-wide financial statements, as well as in the proprietary funds financial statements.

Depreciable capital assets, which include buildings and improvements, parking lots and other land improvements, tools and equipment, distribution and collection systems, and infrastructure are reported in the applicable governmental or business-type activities column in the government-wide financial statements, as well as in the proprietary funds financial statements. Capital assets are defined by the District as assets with a cost of more than \$5,000 and an estimated useful life in excess of one year. Major outlays for capital assets and improvements, including internal labor, are capitalized as assets are purchased, constructed, or improved. Contributed capital assets are recorded at their estimated acquisition value at the time of acquisition. Cost for routine maintenance and repairs are expensed as incurred. Interest incurred during the construction phase of business-type capital assets is added to the capitalized value of the asset constructed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings and Improvements	10-50	years
Water and Wastewater Systems	10-50	years
Other Infrastructure	10-50	years
Land Improvements	10-30	years
Machinery and Equipment	5-20	years
Vehicles	5-10	years

Unearned Revenues

Unearned revenues in the governmental fund financial statements arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues in the government-wide and proprietary funds financial statements arise when resources are received prior to the District's right of use (i.e. grant funds received in advance of qualifying expenditures or customer payments received in advance of services).

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
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Compensated Absences and Other Postemployment Benefit Obligations

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation pay and vested sick leave is accrued when incurred in the government-wide and proprietary fund financial statements. In the governmental fund financial statements, a liability for these amounts is reported only if they have matured, for example, as a result of employee resignations and retirements, otherwise, an expenditure is recognized in the applicable fund when the obligation is liquidated with current resources. Other post employment benefit obligations are reported as incurred in the government-wide and proprietary fund financial statements using the accrual basis of accounting. In the governmental fund financial statements, an expenditure is recognized in the applicable fund when the obligation is liquidated with current resources.

Pensions

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions and pension expense, information about the fiduciary net position of the District's California Public Employees Retirement System (CalPERS) Plan and additions to/deductions 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 currently due and payable in accordance with the benefit terms. Investments are reported at fair value. CalPERS audited financial statements are publically available reports that can be obtained at the CalPERS website.

Long-Term Obligations

In the government-wide and the proprietary funds financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary funds statement of net assets.

Net Position and Fund Balance

The difference between fund assets and liabilities is called "net position" in the government-wide and proprietary funds financial statements and it is called "fund balance" in the governmental funds financial statements.

In the government-wide and proprietary funds financial statements, net position is categorized as follows:

Net investment in capital assets represents capital assets, net of accumulated depreciation reduced by the outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net position includes amounts that can be spent only for specific purposes as stipulated by law, external resource providers, contract, or through enabling legislation.

Unrestricted net position is neither restricted nor invested in capital assets, net of related debt.

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

In the fund financial statements, governmental funds report fund balances in the following categories:

Nonspendable fund balance includes amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted fund balance includes amounts that can be spent only for specific purposes as stipulated by law, external resource providers, contract, or through enabling legislation.

Committed fund balance includes amounts that can be spent only for specific purposes determined by a formal action of the District's governing body. Commitments may be changed or lifted only by the District's governing body taking the same formal action.

Assigned fund balance includes amounts that are intended to be spent for specific purposes but do not meet the criteria to be classified as restricted or committed. Intent can be expressed by the District's governing body or by an official or body to which the governing body delegates authority.

Unassigned fund balance represents the residual classification for the District's general fund and includes all spendable amounts not contained in the other classifications. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, followed by committed, assigned, and unassigned resources as they are needed.

Estimates and Assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Fair Value Measurements

The District categorizes its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. The hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the District has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs reflect the District's own assumptions about the inputs that market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the District's own data.

New Governmental Accounting Standards Implemented

The following accounting standards issued by the Government Accounting Standards Board (GASB) were implemented by the District during the fiscal year:

- *GASB Statement No. 72, Fair Value Measurement and Application.* This statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. Adoption of GASB No. 72 had no material impact on the District's financial statements.
- *GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and 68.* Adoption of GASB No. 73 had no material impact on the District's financial statements.
- *GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* This statement establishes the hierarchy of generally accepted accounting principles (GAAP) for all state and local governments. The GAAP hierarchy sets forth what constitutes GAAP for all state and local governmental entities. It establishes the order of priority of pronouncements and other sources of accounting and financial reporting guidance that a governmental entity should apply. Adoption of GASB No. 76 had no impact on the District's financial statements.
- *GASB Statement No. 79, Certain External Investment Pools and Pool Participants.* Adoption of GASB No. 79 had no material impact on the District's financial statements.
- *GASB Statement No. 82, Pension Issues an Amendment of GASB Statement No. 67, No. 68 and No. 73.* Adoption of GASB No. 82 had no material impact on the District's financial statements.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
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Upcoming Governmental Accounting Standards Implementation

Management will be evaluating the potential impacts of the following accounting standards issued by the Government Accounting Standards Board (GASB), if applicable, on the District's future basic financial statements. Detailed information about each of these standards can be obtained at the GASB website.

- *GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, effective for periods beginning after June 15, 2016.
- *GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for periods beginning after June 15, 2017.
- *GASB Statement No. 77, Tax Abatement Disclosures*, effective for periods beginning after December 15, 2015.
- *GASB Statement No. 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, effective for periods beginning after December 15, 2015.
- *GASB Statement No. 80, Blending Requirements for Certain Component Units*, effective for periods beginning after June 15, 2016.
- *GASB Statement No. 81, Irrevocable Split-Interest Agreements*, effective for periods beginning after December 15, 2016.

NOTE 2 CASH AND INVESTMENTS

Cash and investments at June 30, 2016, consisted of the following:

	Restricted	Unrestricted	Total
Cash on Hand	\$ -	\$ 940	\$ 940
Checking Accounts	6,788	643,580	650,368
Money Market Accounts	167,475	1,206,441	1,373,916
Humboldt County Treasurer's Fund	2,612,583	1,762,834	4,375,417
State of California LAIF	-	129,193	129,193
CalTrust Funds	-	2,007,442	2,007,442
Total Cash and Investments	\$ 2,786,846	\$ 5,750,430	\$ 8,537,276

The Humboldt County Treasurer's Investment Fund is administered by the County of Humboldt Treasurer's Office and conforms to the California Government Code. At June 30, 2016, a majority of the County's portfolio consisted of U.S. Treasury and U.S. Agency securities, certificates of deposit as well as the State of California Local Agency Investment Fund (LAIF). All cash invested by the County in demand deposit accounts is collateralized to 110% with approved U.S. Government securities, such as Treasury Bills and other U.S. Treasury issues.

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The value of the pool shares, which may be withdrawn at any time, is determined on an amortized cost basis. At June 30, 2016, the District reported its investment in the pool at fair value as provided by the County of Humboldt.

Local Agency Investment Fund (LAIF) is part of the Pooled Money Investment Account managed by the Investment Division of the State Treasurer's Office. This fund is not registered with the Securities and Exchange Commission as an investment company, but is required to invest according to California Government Code. The LAIF Advisory Board (Board) has oversight responsibility for LAIF and consists of five members designated by State statute. The value of the pool shares, which may be withdrawn on demand, is determined on an amortized cost basis. At June 30, 2016, the District reported its investment in the pool at fair value as provided by LAIF.

Investment Trust of California (CalTrust) is a public joint power authority formed to pool and invest the funds of public agencies. CalTrust is governed by a Board of Trustees made up of local agency treasurers and investment officers. The Board supervises and administers the investment program of CalTrust. The CalTrust investment funds are not registered with the Securities and Exchange Commission as an investment company, but are required to invest according to California Government Code. The value of the pool shares is determined on an amortized cost basis. At June 30, 2016, the District reported its investment in the pool at the fair value based upon the fair value as provided by CalTrust.

At June 30, 2016, the District had the following investments:

	<u>Cost</u>	<u>Fair Value</u>	<u>Maturities</u>
Money Market Accounts	\$ 1,373,916	\$ 1,373,916	N/A
Humboldt County Treasurer's Fund	4,369,480	4,375,417	Average 815 Days
State of California LAIF	129,113	129,193	Average 167 Days
CalTrust Short-Term Fund	201,251	201,253	Average 409 Days
CalTrust Medium-Term Fund	1,799,101	1,806,189	Average 741 Days
Total Investments	<u>\$ 7,872,861</u>	<u>\$ 7,885,968</u>	

Custodial Credit Risk

For cash deposits, custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned to the District. The District's policy for deposits is that they will be made only in institutions located in California, they shall be insured or collateralized with United States backed securities, and time certificates of deposit shall have a maturity of less than five years. At June 30, 2016, the District's cash in bank had a carrying balance of \$2,017,496 and a bank balance of \$2,501,737. The District had no custodial credit risk exposure since its deposits were either insured or collateralized as required by State law.

For an investment, custodial credit risk is the risk that, in the event of the failure of a financial institution or counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District participates in three external investment pools: the Humboldt County Treasurer's Investment Fund, LAIF, and

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
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CalTrust. The District also invests in money market funds. These investments are not subject to custodial credit risk.

Interest Rate Risk

This is the risk of that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to interest rate risk, the District limits its investments to securities having maturities of less than five years at the time of purchase.

Credit Risk

This is the risk of loss due to the issuer of the investment not fulfilling its obligation. In mitigation of this risk, the District requires investment in high quality securities. The Humboldt County Treasurer's Investment Fund, LAIF, and CalTrust are not rated.

Restricted, Unrestricted, and Reserved

At June 30, 2016, cash and investment balances for governmental and business-type activities were restricted, reserved in accordance with District policy, or unrestricted as follows:

	Governmental Activities	Business-Type Activities	Total
Restricted for:			
Customer Deposits	\$ 8,800	\$ 108,567	\$ 117,367
Capital Outlay	194,579	1,638,425	1,833,004
Debt Service	-	829,687	829,687
Teen and Community Center	6,788	-	6,788
Total Restricted Cash	<u>\$ 210,167</u>	<u>\$ 2,576,679</u>	<u>\$ 2,786,846</u>
Unrestricted:			
Petty Cash	\$ 240	\$ 700	\$ 940
Measure B	968,078	-	968,078
Reserved for:			
Capital Asset Repair and Replacement	54,566	1,160,028	1,214,594
Catastrophe	129,834	788,117	917,951
Compensated Absences	74,391	198,648	273,039
Other Postemployment Benefits	384,501	805,005	1,189,506
Pensions	389,627	796,695	1,186,322
Total Unrestricted Cash	<u>\$ 2,001,237</u>	<u>\$ 3,749,193</u>	<u>\$ 5,750,430</u>

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

Fair Value Measurements

The District's investments have the following recurring fair value measurements as of June 30, 2016:

	Quoted Prices (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Money Market Accounts	\$ 1,373,916	\$ -	\$ -	\$ 1,373,916
Humboldt County Treasurer's Fund	-	4,375,417	-	4,375,417
State of California LAIF	-	129,193	-	129,193
CalTrust Short-Term Fund	-	201,253	-	201,253
CalTrust Medium-Term Fund	-	1,806,189	-	1,806,189
Total	\$ 1,373,916	\$ 6,512,052	\$ -	\$ 7,885,968

The District uses quoted prices in active markets to determine the fair value of its investments, if available. If quoted market prices in active markets are not available, fair value is based upon fair value information provided by third party investment custodians.

NOTE 3 CAPITAL ASSETS

Governmental Activities

The change in the governmental activities capital assets for the year ended June 30, 2016, is as follows:

	Balance 6/30/2015	Additions	Dispositions	Transfers	Balance 6/30/2016
Capital Assets Not Depreciated					
Land	\$ 1,553,731	\$ -	\$ -	\$ -	\$ 1,553,731
Construction in Progress	232,734	2,174,598	-	(3,390)	2,403,942
Total Capital Assets Not Depreciated	1,786,465	2,174,598	-	(3,390)	3,957,673
Capital Assets Being Depreciated					
Buildings and Parking Lots	2,352,538	7,602	-	-	2,360,140
Furniture and Equipment	258,874	22,305	-	-	281,179
Park Improvements	1,346,599	51,194	-	3,390	1,401,183
Vehicles	56,549	8,000	(10,592)	-	53,957
Streetlighting	506,598	11,200	-	-	517,798
Total Capital Assets Being Depreciated	4,521,158	100,301	(10,592)	3,390	4,614,257
Accumulated Depreciation	(2,888,375)	(188,947)	10,592	-	(3,066,730)
Capital Assets Being Depreciated, Net	1,632,783	(88,646)	-	3,390	1,547,527
Governmental Activities Capital Assets, Net	\$ 3,419,248	\$ 2,085,952	\$ -	\$ -	\$ 5,505,200

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

Business-Type Activities

The change in business-type activities capital assets for the year ended June 30, 2016, is as follows:

	<u>Balance 6/30/2015</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Transfers</u>	<u>Balance 6/30/2016</u>
Capital Assets Not Depreciated					
Land, Easements, and Water Rights	\$ 3,410,931	\$ -	\$ -	\$ -	\$ 3,410,931
Construction in Progress	2,305,178	3,109,839	-	(448,995)	4,966,022
Total Capital Assets Not Depreciated	<u>5,716,109</u>	<u>3,109,839</u>	<u>-</u>	<u>(448,995)</u>	<u>8,376,953</u>
Capital Assets Being Depreciated					
Buildings and Parking Lots	467,095	-	-	-	467,095
Water Infrastructure	13,044,750	333,224	-	228,532	13,606,506
Wastewater Infrastructure	17,897,074	306,296	-	220,463	18,423,833
Tools and Equipment	1,075,704	10,187	-	-	1,085,891
Vehicles	824,436	98,701	(66,623)	-	856,514
Total Capital Assets Being Depreciated	<u>33,309,059</u>	<u>748,408</u>	<u>(66,623)</u>	<u>448,995</u>	<u>34,439,839</u>
Accumulated Depreciation	(18,305,100)	(808,600)	66,623	-	(19,047,077)
Capital Assets Being Depreciated, Net	<u>15,003,959</u>	<u>(60,192)</u>	<u>-</u>	<u>448,995</u>	<u>15,392,762</u>
Business-Type Activities Capital Assets, Net	<u><u>\$ 20,720,068</u></u>	<u><u>\$ 3,049,647</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 23,769,715</u></u>

Depreciation expense was charged to functions/programs of the District as follows:

Governmental Activities

Parks and Recreation	\$ 169,520
Streetlighting	19,427
Total Depreciation	<u><u>\$ 188,947</u></u>

Business-Type Activities

Water	\$ 344,400
Wastewater	464,200
Total Depreciation	<u><u>\$ 808,600</u></u>

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

NOTE 4 LONG-TERM LIABILITIES

Governmental Activities- Measure B

PPFCC Lease

For the purpose of financing the construction of the District's Teen and Community Center Project, the District, in October 2014, 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 receive lease payments, to Umpqua Bank. The aggregate principal component of the payments is \$1,468,929. 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 pledge of 50% of the Measure B Assessment revenues received by the District each fiscal year. Future lease payments are as follows:

Year Ending			
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 79,968	\$ 47,483	\$ 127,451
2018	82,831	44,620	127,451
2019	85,798	41,653	127,451
2020	88,872	38,579	127,451
2021	92,054	35,398	127,452
2022 - 2026	512,154	125,112	637,266
2027 - 2030	411,056	34,479	445,535
Total	<u>1,352,733</u>	<u>367,324</u>	<u>1,720,057</u>
Due Within One Year	<u>(79,968)</u>	<u>(47,483)</u>	<u>(127,451)</u>
Due Beyond One Year	<u>\$ 1,272,765</u>	<u>\$ 319,841</u>	<u>\$ 1,592,606</u>

Governmental Activities - Streetlights

PG&E Loan

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

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
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Future debt service on the loan is as follows:

Year Ending June 30	Principal	Interest	Total
2017	\$ 19,865	\$ -	\$ 19,865
2018	19,865	-	19,865
2019	19,865	-	19,865
2020	9,952	-	9,952
Total	<u>69,547</u>	<u>-</u>	<u>69,547</u>
Due Within One Year	<u>(19,865)</u>	<u>-</u>	<u>(19,865)</u>
Due Beyond One Year	<u>\$ 49,682</u>	<u>\$ -</u>	<u>\$ 49,682</u>

Business-Type Activities – Water Fund

Davis-Grunsky Act Loan

The District, in 1971, entered into a loan agreement with the State of California for a construction loan to finance improvements to the District's water system. The original loan amount was not to exceed \$3,673,000 and was to bear interest at 2.5% per annum. Under the arrangement, the District was permitted to defer payment of interest on the loan for the first 10 years with such interest to be repaid over the remaining 50 year term of the loan. Payments are due each January (principal and interest) and July (interest only) through January 2033. The District was required to establish a reserve fund in an amount specified by the State. The District as an entity is obligated for the repayment of this loan and a specific revenue source is not pledged for its repayment. The District is obligated to levy taxes or assessments for the loan repayments should it not have sufficient resources available to make the scheduled payments. Future debt service on the loan is as follows:

Year Ending June 30	Principal	Interest	Total
2017	\$ 98,687	\$ 42,591	\$ 141,278
2018	100,728	40,550	141,278
2019	102,821	38,457	141,278
2020	104,965	36,313	141,278
2021	107,164	34,114	141,278
2022- 2026	570,764	135,626	706,390
2027 - 2031	634,575	71,815	706,390
2032 - 2033	273,534	9,021	282,555
Total	<u>1,993,238</u>	<u>408,487</u>	<u>2,401,725</u>
Due Within One Year	<u>(98,687)</u>	<u>(42,591)</u>	<u>(141,278)</u>
Due Beyond One Year	<u>\$ 1,894,551</u>	<u>\$ 365,896</u>	<u>\$ 2,260,447</u>

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
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ARRA Loan

The District, in 2011, entered into a loan agreement with the California Energy Resources Conservation and Development Commission for the purpose of financing water system improvements. The original loan was \$165,100 and bears interest at 1% per annum. Semi-annual principal and interest payments of \$6,225 are due each June and December. Repayment began in December 2012 and will continue through December 2026. The District as an entity is obligated for the repayment of this loan and a specific revenue source is not pledged for its repayment. Future debt service on the loan is as follows:

Year Ending			
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 11,241	\$ 1,210	\$ 12,451
2018	11,353	1,098	12,451
2019	11,467	984	12,451
2020	11,580	871	12,451
2021	11,698	753	12,451
2022 - 2026	60,274	1,981	62,255
2027	6,194	30	6,224
Total	<u>123,807</u>	<u>6,927</u>	<u>130,734</u>
Due Within One Year	<u>(11,241)</u>	<u>(1,210)</u>	<u>(12,451)</u>
Due Beyond One Year	<u>\$ 112,566</u>	<u>\$ 5,717</u>	<u>\$ 118,283</u>

I-Bank Loan

The District, in 2012, entered into a loan agreement with the California Infrastructure and Economic Development Bank for the purpose of financing water system improvements. The original loan was \$956,034 and bears interest at 3.37% per annum. Semi-annual payments are due each February (interest only) and August (principal and interest) and continue through August 2030. The District's repayment obligation is secured by a pledge of and lien on all the net system revenues and all amounts in the water enterprise fund, subject and subordinate solely to any lien securing senior debt. Future debt service on the loan is as follows:

Year Ending			
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 41,939	\$ 28,709	\$ 70,648
2018	43,352	27,146	70,498
2019	44,813	25,530	70,343
2020	46,323	23,860	70,183
2021	47,884	22,134	70,018
2022 - 2026	264,742	82,667	347,409
2027 - 2031	312,460	29,897	342,357
Total	<u>801,513</u>	<u>239,943</u>	<u>1,041,456</u>
Due Within One Year	<u>(41,939)</u>	<u>(28,709)</u>	<u>(70,648)</u>
Due Beyond One Year	<u>\$ 759,574</u>	<u>\$ 211,234</u>	<u>\$ 970,808</u>

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

Business-Type Activities - Wastewater Fund

State Revolving Fund Loans

The District, in 1998, entered into a loan agreement with the State Water Resources Control Board for the purpose of financing phase 2 of a wastewater capacity expansion project. The original loan was \$430,293 and bears interest at 2.6% per annum. Annual principal and interest payments are due each March and continue through March 2018. The District as an entity is obligated for the repayment of this loan and a specific revenue source is not pledged for its repayment. The District is obligated to levy taxes or assessments should it not have other revenues available for repayment of the obligation. Future debt service on the loan is as follows:

Year Ending June 30	Principal	Interest	Total
2017	\$ 26,510	\$ 1,396	\$ 27,906
2018	27,176	706	27,882
Total	53,686	2,102	55,788
Due Within One Year	(26,510)	(1,396)	(27,906)
Due Beyond One Year	<u>\$ 27,176</u>	<u>\$ 706</u>	<u>\$ 27,882</u>

The District, in 2015, 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 was approved for \$19,598,527 and bears interest at 1.6% per annum. Loan draws through June 30, 2016 totaled \$1,168,549. Annual principal and interest payments are to begin one year after the completion of the project and are projected to begin in September 2018 and continue through September 2047. The District as an entity is obligated for the repayment of this loan and a specific revenue source is not pledged for its repayment. The District is obligated to levy taxes or assessments should it not have other revenues available for repayment of the obligation. Projected future debt service on the loan is as follows:

Year Ending June 30	Principal	Interest	Total
2017	\$ -	\$ -	\$ -
2018	-	-	-
2019	462,283	212,471	674,754
2020	538,208	291,077	829,285
2021	531,716	297,569	829,285
2022-2026	2,788,948	1,357,475	4,146,423
2027-2031	3,019,318	1,127,105	4,146,423
2032-2036	3,268,718	877,705	4,146,423
2037-2041	3,538,718	607,705	4,146,423
2042-2046	3,831,021	315,402	4,146,423
2047-2048	1,619,597	38,974	1,658,571
Total	19,598,527	5,125,483	24,724,010
Due Within One Year	-	-	-
Due Beyond One Year	<u>\$ 19,598,527</u>	<u>\$ 5,125,483</u>	<u>\$ 24,724,010</u>

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

USDA Revenue Bonds

The District, in 1982, issued \$1,575,000 in 1982 Sewer Revenue Bonds which were purchased by the Rural Development Division of the United States Department of Agriculture. Under the arrangement, the District constructed wastewater system improvements. The bonds bear interest at 5.0% per annum with semi-annual principal and interest payments due each August and February and continue through August 2022. The District's repayment obligation is secured by a pledge of the net revenues of its wastewater enterprise. Future debt service is as follows:

Year Ending			
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 70,000	\$ 25,750	\$ 95,750
2018	70,000	22,250	92,250
2019	70,000	18,750	88,750
2020	80,000	15,250	95,250
2021	80,000	11,250	91,250
2022 - 2023	145,000	10,500	155,500
Total	515,000	103,750	618,750
Due Within One Year	(70,000)	(25,750)	(95,750)
Due Beyond One Year	\$ 445,000	\$ 78,000	\$ 523,000

Annual principal and interest payments on the bonds are expected to require less than 17% of system net revenues.

Umpqua Bank Loan

The District, in fiscal year 1998, obtained a \$675,000 loan from Umpqua Bank for the purpose of financing wastewater system improvements. The loan bears interest at 5.5% per annum with principal and interest payments of \$4,644 due monthly through December 2017. The District as an entity is obligated for the repayment of this loan and a specific revenue source is not pledged for its repayment. Future debt service on the loan is as follows:

Year Ending			
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 52,664	\$ 3,070	\$ 55,734
2018	27,238	613	27,851
Total	79,902	3,683	83,585
Due Within One Year	(52,664)	(3,070)	(55,734)
Due Beyond One Year	\$ 27,238	\$ 613	\$ 27,851

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Long-term debt activity for the year ended June 30, 2016, was as follows:

	<u>Balance 6/30/2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 6/30/2016</u>	<u>Due Within One Year</u>
<u>Governmental Activities</u>					
PPFCC Lease	\$ 1,432,701	\$ -	\$ (79,968)	\$ 1,352,733	\$ 79,968
PG&E Loan	89,391	-	(19,844)	69,547	19,865
Total Governmental-Type Activities	<u>\$ 1,522,092</u>	<u>\$ -</u>	<u>\$ (99,812)</u>	1,422,280	<u>\$ 99,833</u>
Due Within One Year				(99,833)	
Due Beyond One Year				<u>\$ 1,322,447</u>	
<u>Business-Type Activities</u>					
<u>Water Fund</u>					
Davis-Grunsky Act Loan	\$ 2,089,933	\$ -	\$ (96,695)	\$ 1,993,238	\$ 98,687
ARRA Loan	134,933	-	(11,126)	123,807	11,241
I-Bank Loan	842,085	-	(40,572)	801,513	41,939
Total Water Fund	<u>3,066,951</u>	<u>-</u>	<u>(148,393)</u>	2,918,558	<u>151,867</u>
<u>Wastewater Fund</u>					
State Revolving Fund Loan #1	40,920	-	(40,920)	-	-
State Revolving Fund Loan #2	79,525	-	(25,839)	53,686	26,510
State Revolving Fund Loan #3	-	1,168,549	-	1,168,549	-
USDA Revenue Bonds	575,000	-	(60,000)	515,000	70,000
Umpqua Bank Loan	129,726	-	(49,824)	79,902	52,664
Total Wastewater Fund	<u>825,171</u>	<u>1,168,549</u>	<u>(176,583)</u>	1,817,137	<u>149,174</u>
Total Business-Type Activities	<u>\$ 3,892,122</u>	<u>\$ 1,168,549</u>	<u>\$ (324,976)</u>	4,735,695	<u>\$ 301,041</u>
Due Within One Year				(301,041)	
Due Beyond One Year				<u>\$ 4,434,654</u>	

Interest expense included in the direct functional expenses of governmental and business-type activities was \$50,168 and \$105,914, respectively. The Wastewater Fund capitalized interest totaling \$3,116 during the fiscal year.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

Other long-term liability activity for the year ended June 30, 2016, was as follows:

	<u>Balance 6/30/2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 6/30/2016</u>	<u>Due Within One Year</u>
<u>Governmental Activities</u>					
Compensated Absences	\$ 61,161	\$ 13,230	\$ -	\$ 74,391	\$ 46,229
Net OPEB Obligation	276,539	107,962	-	384,501	-
Net Pension Liability	370,706	18,921	-	389,627	-
Total	<u>\$ 708,406</u>	<u>\$ 140,113</u>	<u>\$ -</u>	<u>\$ 848,519</u>	<u>\$ 46,229</u>
<u>Business-Type Activities</u>					
Compensated Absences					
Water	\$ 92,339	\$ 6,876	\$ -	\$ 99,215	\$ 53,792
Wastewater	92,557	6,876	-	99,433	53,905
Total	<u>\$ 184,896</u>	<u>\$ 13,752</u>	<u>\$ -</u>	<u>\$ 198,648</u>	<u>\$ 107,697</u>
Net OPEB Obligation					
Water	\$ 300,592	\$ 99,994	\$ -	\$ 400,586	\$ -
Wastewater	303,561	100,858	-	404,419	-
Total	<u>\$ 604,153</u>	<u>\$ 200,852</u>	<u>\$ -</u>	<u>\$ 805,005</u>	<u>\$ -</u>
Net Pension Liability					
Water	\$ 359,472	\$ 20,821	\$ -	\$ 380,293	\$ -
Wastewater	393,173	23,229	-	416,402	-
Total	<u>\$ 752,645</u>	<u>\$ 44,050</u>	<u>\$ -</u>	<u>\$ 796,695</u>	<u>\$ -</u>

Governmental other long-term liabilities are primarily liquidated by the General Fund.

NOTE 5 FUND BALANCE/NET POSITION

Restricted Fund Balance

At June 30, 2016, the fund balance of the general fund has been restricted to reflect unexpended Quimby fees (collected in accordance with the Quimby Act) paid by developers as well as contributions restricted for expenditure on the Teen and Community Center as follows:

	<u>Balance</u>
Teen & Community Center	\$ 6,788
Park & Recreation Capital Projects - Coastal	42,627
Park & Recreation Capital Projects - Inland	151,952
Total Restricted Fund Balance	<u>\$ 201,367</u>

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

Committed Fund Balance

At June 30, 2016, in accordance with the District's reserve policy, the fund balance of the general fund has been committed (see Note 1 for more information about committed fund balance) as follows:

<u>Reserve Description</u>	<u>Target Reserve Balance</u>	<u>Reserve Balance</u>
Catastrophe	2% of Capital Assets	\$ 45,342
Compensated Absences	Equal to Compensated Absences Liability	74,391
Other Postemployment Benefits (OPEB)	Equal to OPEB Liability	384,501
Pension Liability	Equal to Net Pension Liability	389,627
Total Committed Fund Balance		<u>\$ 893,861</u>

Unrestricted Fund Balance/Net Position

During the fiscal year, the District's governmental funds experienced a significant decrease in unrestricted fund balance primarily due to the capital outlays incurred for the construction of the Teen and Community Center. At the same time, the District's governmental activities experienced a significant shift from unrestricted net position to net investment in capital assets as a result of this capital asset activity.

NOTE 6 PUBLIC EMPLOYEES RETIREMENT SYSTEM

Plan Description

All qualified permanent and probationary employees are eligible to participate in the District's Miscellaneous Employee Pension Plan (the Plan), a cost-sharing multiple-employer defined benefit pension plan administered by the California Public Employees Retirement System (CalPERS). CalPERS acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plan are established by State statute and District resolution. A full description of the pension plan benefit provisions, assumptions, and membership information is listed in the Plan's June 30, 2014 Annual Actuarial Valuation Report. This report and CalPERS audited financial statements are publically available reports that be can be obtained on the CalPERS' website.

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 (age 52 for PEPR employees) with statutorily reduced benefits based on earnings and service credits. All members are eligible for non-duty disability benefits after 5 years of credited service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plan's provisions and benefits in effect at June 30, 2016, are summarized as follows:

	<u>Non-PEPRA</u>	<u>PEPRA</u>
Hire Date	Prior to 01/01/2013	On or After 01/01/2013
Benefit Formula	2% @ 55	2% @ 62
Benefit Vesting Schedule	5 Years	5 Years
Benefit Payments	Monthly for Life	Monthly for Life
Minimum Retirement Age	50	52
Monthly Benefit as a % of Eligible Compensation	1.426% to 2.418%	1.0% to 2.5%
Required Employee Contribution Rate	7.000%	6.250%
Required Employer Contribution Rate	8.003%	6.237%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions 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 Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Contributions to the pension plan by the District for the fiscal year ended June 30, 2016 were \$222,983 (\$155,352 employer share and \$67,631 employee share paid by the District).

Pension Liabilities, Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions

The District's net pension liability for the Plan is measured as it's proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2015, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 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 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 as of June 30, 2014 and 2015 was \$1,123,351 and \$1,186,322, respectively.

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

For the year ended June 30, 2016, the District recognized pension expense, excluding employee contributions paid by the District, of \$122,357. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Source</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 11,019	\$ -
Changes in assumptions	-	(104,250)
Pension contributions subsequent to measurement date	155,352	-
Change in employer's proportion and differences between the District's contributions and proportionate share of contributions	-	(178,545)
Net differences between projected and actual earnings on plan investments	-	(38,509)
Total	<u>\$ 166,371</u>	<u>\$ (321,304)</u>

The District reported \$155,352 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be included in pension expense as follows:

<u>Year Ended June 30</u>	<u>Increase (Decrease) to Pension Expense</u>
2017	\$ (91,742)
2018	(90,925)
2019	(68,768)
2020	(58,850)
Total	<u>\$ (310,285)</u>

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

Actuarial Methods and Assumptions

The total pension liability in the June 30, 2014 actuarial valuation was determined based upon the following methods and assumptions:

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry Age Normal Cost Method
Actuarial Assumptions	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.00%
Salary Growth	3.2% - 12.2% (1)
Investment Rate of Return	7.50% (2)
Mortality	(3)
Post Retirement Benefit Increase	(4)

- (1) Depending on entry age and duration of service.
- (2) Net of pension plan investment expenses, including inflation.
- (3) Derived from CalPERS membership data for all funds.
- (4) Contract COLA up to 2.75%.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2014 valuation were based on the results of a 2014 actuarial demographic experience study which focused on CalPERS data for the fiscal years 1997 to 2011. Further details of the Experience Study report can be found on the CalPERS website.

Changes of Assumptions

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 pension plan administrative expense. The discount rate of 7.50 percent used in the June 30, 2014 valuation was net of administrative expenses. The discount rate used for the June 30, 2015 measurement of the net pension liability was changed from 7.50 percent to 7.65 percent to correct for an adjustment to exclude administrative expenses.

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent compared to 7.5 percent in the prior year. To determine whether the municipal bond rate should be used in the calculation of a discount rate, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

Crossover Testing Report” that can be obtained at CalPERS’ website under the GASB 68 section.

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

In determining the long-term expected rate of return, CalPERS staff took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds’ asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 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 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 equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the Board effective July 1, 2014.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1 - 10*</u>	<u>Real Return Years 11+ **</u>
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	<u>100%</u>		

* An expected inflation of 2.5% used for this period.

** An expected inflation of 3.0% used for this period.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

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

The following presents the District's net pension liability (proportionate share of the net pension liability of the Plan) as of the measurement date, calculated using the discount rate of the Plan (7.65%), as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65%) or 1 percentage-point higher (8.65%) than the current rate:

	Discount Rate -1% (6.65%)	Discount Rate (7.65%)	Discount Rate +1% (8.65%)
Net Pension Liability	\$ 1,989,545	\$ 1,186,322	\$ 523,168

Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

Payable to the Pension Plan

At June 30, 2016, the District reported a payable of \$14,649 (\$8,250 employer share and \$6,399 employee share paid by the District) for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2016.

NOTE 7 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description

The District sponsors and administers a single-employer defined benefit postemployment health care plan (the Plan) to provide healthcare benefits to eligible retired employees and their dependents. District resolutions and regulations assign responsibility to establish and amend benefit provisions to the District. Although the District has not yet established a separate postemployment benefit (OPEB) trust fund, the District has set aside funds in accordance with its reserve policy equal to its OPEB liability at June 30, 2016 (\$1,189,506).

Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the District. The required contribution is based on projected pay-as-you-go financing, with additional amounts to prefund benefits as determined annually by the District's Board of Directors. For the fiscal year ended June 30, 2016, the District contributed \$92,532 of its annual cost of \$401,346. As a result, the net OPEB liability increased by \$308,814 during the fiscal year.

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Benefits

The Plan's provisions and benefits in effect at June 30, 2016, are summarized as follows:

Benefits Provided	Medical Only
Duration of Benefits	Lifetime
Required Service	5 Years
Minimum Age	50
Dependent Coverage	Yes
District Contribution %	100%
Benefit Limits	(1)

(1) No benefit limits for employee coverage. Dependent coverage is subject to a limit calculated using a formula specified by the District.

Annual OPEB Costs and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of Governmental Accounting Standards Board Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize any unfunded liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year, the amounts actually contributed to the plan, and changes in the District's net OPEB obligation to the Plan.

Annual Required Contribution (ARC)	\$ 401,346
Interest on Net OPEB Obligation	39,631
Adjustments to the ARC	<u>(39,631)</u>
Annual OPEB Cost	401,346
Contributions Made	<u>(92,532)</u>
Change in Net OPEB Obligation	308,814
Net OPEB Obligation - Beginning of Year	<u>880,692</u>
Net OPEB Obligation - End of Year	<u><u>\$ 1,189,506</u></u>

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the Plan, and the net OPEB obligation at June 30, 2016, and the two preceding fiscal years, were as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
06/30/14	\$ 275,685	35.7%	\$ 670,081
06/30/15	\$ 306,378	31.3%	\$ 880,692
06/30/16	\$ 401,346	23.1%	\$ 1,189,506

Funded Status

The funded status of the Plan as of the most recent actuarial valuation is as follows:

<u>Actuarial Valuation Date</u>	<u>(A) Actuarial Value of Assets</u>	<u>(B) Entry Age Actuarial Accrued Liability</u>	<u>(C) Excess Assets/ (Unfunded Liability) [(A) - (B)]</u>	<u>(D) Funded Ratio [(A)/(B)]</u>	<u>(E) Annual Covered Payroll</u>	<u>(F) Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll [(C)/(E)]</u>
06/01/16	\$ -	\$ 4,222,901	\$(4,222,901)	0.0%	\$ 1,269,932	332.53%

A valuation of the District's OPEB obligation must be performed on a triennial basis. Actuarial valuations of an ongoing plan involve an estimate of the value of expected benefit payments and assumptions about the probability of occurrence of events into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplemental information following the notes to these financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to actuarial liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial liabilities and the actuarial value of plan assets, consistent with the long-term perspective of the calculations.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

The OPEB liability at June 30, 2016 was calculated based on the June 1, 2016 actuarial valuation which included the following methods and assumptions:

Valuation Date	June 1, 2016
Actuarial Cost Method	Entry Age Normal Cost Method
Actuarial Assumptions	
Discount Rate	4.50%
Inflation	2.75%
Payroll Growth	2.75%
Healthcare Trend Rate	4.00%
Investment Rate of Return	4.50%
Mortality	(1)
Retirement Rates	(2)
Plan Assets	(3)

- (1) 2014 CalPERS Active Mortality for Miscellaneous Employees.
- (2) Hired before 01/01/2013: 2009 CalPERS 2% @ 55 Rates for Miscellaneous Employees. Hired after 12/31/2012: 2009 CalPERS 2% @ 60 Rates for Miscellaneous Employees adjusted to reflect minimum retirement age of 52.
- (3) There were no plan assets on the valuation date.

NOTE 8 PROPERTY TAXES

The County of Humboldt (the County) is responsible for assessing, collecting, and apportioning property taxes within the County. Property taxes are levied for each fiscal year on real property based on the assessed value as of the preceding January 1. On January 1, property taxes attach as a lien on real property and are due and payable November 1 and February 1 and are delinquent if not paid by December 10 and April 10, respectively. Supplemental property taxes are levied based on changes in assessed values between the date of real property sales and construction and the next normal assessment date.

In accordance with State law (Proposition 13), property taxes are based either on a 1% rate applied to the 1975-76 assessed value of the real property or on 1% of the sales price of the property on sales transactions and construction which occur after the 1975-76 assessment. The County can also increase the assessed valuation (exclusive of increases related to sales transactions and improvements) for cost of living increases up to a maximum of 2% per year. The District receives a share of the county-wide property tax revenue based on State formula which provides \$1/\$100 of assessed value, the maximum allowable under Proposition 13.

During fiscal year 1993-94, an alternate method of property tax allocation (the "Teeter Plan") was adopted by the County of Humboldt. Under this plan, the County distributes 100% of current secured taxes billed to taxing entities during the current year, whether collected or not.

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

The District recognizes property tax revenues (including tax increment revenues) to the extent of each year's tax allocation received or to be received within 60 days after the end of each fiscal year.

NOTE 9 COMMITMENTS AND CONTINGENCIES

Capital Project Commitments

The District has active capital projects, as outlined in its Capital Improvement Plan, in which it has entered or will enter into significant agreements for the design and construction of these projects. The Capital Improvement Plan is available on the District website as part of both the budget and the strategic plan. Additional information on the upgrade of the Wastewater Management Facility and the Teen and Community Center Project can be found in the accompanying Management's Discussion and Analysis (pages 8 and 9).

Grants and Allocations

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

Wastewater Discharge Permit and the California Toxic Rule

The District was issued a discharge permit by the State which contains compliance provisions that will require the District to expend considerable sums of money in order to fulfill compliance requirements. Similar compliance and financing issues surround the District's ability to meet present and future effluent standards regarding nutrient removal.

NOTE 10 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 for which the District carries insurance. The District, due to the costs of available coverage, participates as a member of the Special District Risk Management Authority (SDRMA). The District's obligations under the arrangement are to pay billed premiums for the specified coverages. The SDRMA may pay dividends to members or may make additional assessments depending on loss experience, but no dividends have been declared and no additional assessments have been levied. Financial information pertaining to SDRMA can be obtained from its administrative offices at 1112 I Street, Suite 300, Sacramento, California 95814.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

Below is a summary of the District's insurance coverage for the year ended June 30, 2016:

<u>Type of Coverage</u>	<u>Coverge per Occurrence</u>
General Liability	\$ 5,000,000
Public Officials and Employees Errors	5,000,000
Personal Liability - Board Members	500,000
Employment Practices Liability	5,000,000
Employee Benefits Liability	5,000,000
Employee and Public Officials Dishonesty	1,000,000
Auto Liability	5,000,000
Auto Physical Damage	Actual Value
Uninsured/Underinsured Motorists	1,000,000
Trailer Coverage	Actual Value
Property Coverage	Replacement Cost up to \$1 Billion
Boiler and Machinery Coverage	Replacement Cost up to \$100 Million
Workers' Compensation	Statutory
Employers' Liability Coverage	5,000,000

There have been no significant changes in insurance coverage during the fiscal year other than disclosed in the above paragraphs. Settlements have not exceeded coverage for each of the past three fiscal years. The District had no material uninsured claim liabilities at June 30, 2016.

NOTE 11 WATER PURCHASE CONTRACT

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

NOTE 12 SUBSEQUENT EVENTS

The District's management has evaluated subsequent events through December 21, 2016 which is the date the financial statements were available to be issued, and concluded that no additional adjustments to the financial statements or disclosures, except as subsequently noted, are required for fiscal year 2015-16.

REQUIRED SUPPLEMENTARY INFORMATION

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND (PARKS AND RECREATION)
For the Fiscal Year Ended June 30, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Fund Balance - July 1	\$ 924,617	\$ 924,617	\$ 924,617	\$ -
Resources (Inflows)				
Property Taxes	510,000	510,000	547,214	37,214
Program Fees	354,349	354,349	367,252	12,903
Facility and Open Space Fees	163,450	163,450	174,274	10,824
Other Revenues	16,272	16,272	225,643	209,371
Quimby Fees	53,000	53,000	10,949	(42,051)
Unrestricted Investment Earnings	8,200	8,200	14,376	6,176
Amounts Available for Appropriations	<u>2,029,888</u>	<u>2,029,888</u>	<u>2,264,325</u>	<u>234,437</u>
Charges to Appropriations (Outflows)				
Salaries and Benefits	812,399	812,399	784,070	(28,329)
Other Expenditures	212,162	212,162	226,509	14,347
Capital Outlay	56,320	56,320	158,518	102,198
Total Charges to Appropriations	<u>1,080,881</u>	<u>1,080,881</u>	<u>1,169,097</u>	<u>88,216</u>
Fund Balance - June 30	<u>\$ 949,007</u>	<u>\$ 949,007</u>	<u>\$ 1,095,228</u>	<u>\$ 146,221</u>

Note 1 - An annual budget is adopted for the General Fund on a budgetary basis. Appropriations lapse at fiscal year-end. The appropriated budget for the general fund is prepared by function and department. The General Manager submits a proposed operating budget for the fiscal year commencing on July 1 to the District's Board of Directors. Public comment is elicited during Board meetings to obtain taxpayer and ratepayer comments. A final budget is legally adopted on or before June 30. The General Manager of the District may make transfers of appropriations within a department. Transfers between departments and other changes require approval by the District's Board of Directors. The legal level of control is the department and fund level. No supplemental appropriations were made during the fiscal year. Encumbrance accounting is not employed in this fund.

Note 2 - An explanation of the differences between budgetary inflows and outflows and revenues and expenditures determined in accordance with generally accepted accounting principles follows:

Resources (Inflows):

Actual amounts available for appropriations from the budgetary comparison schedule	\$ 2,264,325
Differences - Budget to GAAP	
The fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes	<u>(924,617)</u>
Total revenues and other financing sources as reported in the statement of revenues, expenditures, and changes in fund balances - governmental funds	1,339,708

Charges to Appropriations (Outflows):

Total expenditures as reported in the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>1,169,097</u>
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Net Change in Fund Balance

\$ 170,611

Note 3 - Significant variances between the final budgeted and actual amounts is directly related to grant and capital expenditure activity.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
BUDGETARY COMPARISON SCHEDULE
MEASURE B FUND
For the Fiscal Year Ended June 30, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Fund Balance - July 1	\$ 1,634,475	\$ 1,634,475	\$ 1,634,475	\$ -
Resources (Inflows)				
Special Assessments	230,000	230,000	204,177	(25,823)
Grants	150,000	150,000	5,000	(145,000)
Other Revenues	270,000	270,000	741	(269,259)
Proceeds from Long-Term Debt	1,400,000	1,400,000	-	(1,400,000)
Unrestricted Investment Earnings	-	-	13,106	13,106
Amounts Available for Appropriations	<u>3,684,475</u>	<u>3,684,475</u>	<u>1,857,499</u>	<u>(1,826,976)</u>
Charges to Appropriations (Outflows)				
Salaries and Benefits	109,708	109,708	75,015	(34,693)
Other Expenditures	12,750	12,750	12,848	98
Capital Outlay	1,850,218	1,850,218	2,105,179	254,961
Debt Service	75,508	75,508	130,136	54,628
Total Charges to Appropriations	<u>2,048,184</u>	<u>2,048,184</u>	<u>2,323,178</u>	<u>274,994</u>
Fund Balance - June 30	<u>\$ 1,636,291</u>	<u>\$ 1,636,291</u>	<u>\$ (465,679)</u>	<u>\$ (2,101,970)</u>

Note 1 - An annual budget is adopted for the Measure B Fund on a budgetary basis. Appropriations lapse at fiscal year-end. The appropriated budget for the general fund is prepared by function and department. The General Manager submits a proposed operating budget for the fiscal year commencing on July 1 to the District's Board of Directors. Public comment is elicited during Board meetings to obtain taxpayer and ratepayer comments. A final budget is legally adopted on or before June 30. The General Manager of the District may make transfers of appropriations within a department. Transfers between departments and other changes require approval by the District's Board of Directors. The legal level of control is the department and fund level. No supplemental appropriations were made during the fiscal year. Encumbrance accounting is not employed in this fund.

Note 2 - An explanation of the differences between budgetary inflows and outflows and revenues and expenditures determined in accordance with generally accepted accounting principles follows:

Resources (Inflows):

Actual amounts available for appropriations from the budgetary comparison schedule	\$ 1,857,499
Differences - Budget to GAAP	
The fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes	<u>(1,634,475)</u>
Total revenues and other financing sources as reported in the statement of revenues, expenditures, and changes in fund balances - governmental funds	223,024

Charges to Appropriations (Outflows):

Total expenditures as reported in the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>2,323,178</u>
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Net Change in Fund Balance \$ (2,100,154)

Note 3 - Significant variances between the final budgeted and actual amounts is directly related to debt issuance, debt service, and capital expenditure activity for the Teen and Community Center Project.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
BUDGETARY COMPARISON SCHEDULE
STREETLIGHTING FUND
For the Fiscal Year Ended June 30, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Fund Balance - July 1	\$ (39,896)	\$ (39,896)	\$ (39,896)	\$ -
Resources (Inflows)				
Streetlight Charges & Fees	77,012	77,012	75,811	(1,201)
Other Revenues	16,800	16,800	17,363	563
Unrestricted Investment Earnings	25	25	-	(25)
Amounts Available for Appropriations	<u>53,941</u>	<u>53,941</u>	<u>53,278</u>	<u>(663)</u>
Charges to Appropriations (Outflows)				
Salaries and Benefits	40,432	40,432	40,283	(149)
Electricity	11,340	11,340	15,062	3,722
Other Expenditures	22,140	22,140	14,302	(7,838)
Debt Service	19,865	19,865	19,847	(18)
Total Charges to Appropriations	<u>93,777</u>	<u>93,777</u>	<u>89,494</u>	<u>(4,283)</u>
Fund Balance - June 30	<u>\$ (39,836)</u>	<u>\$ (39,836)</u>	<u>\$ (36,216)</u>	<u>\$ 3,620</u>

Note 1 - An annual budget is adopted for the Streetlighting Fund on a budgetary basis. Appropriations lapse at fiscal year end. The appropriated budget for the general fund is prepared by function and department. The General Manager submits a proposed operating budget for the fiscal year commencing on July 1 to the District's Board of Directors. Public comment is elicited during Board meetings to obtain taxpayer and ratepayer comments. A final budget is legally adopted on or before June 30. The General Manager of the District may make transfers of appropriations within a department. Transfers between departments and other changes require approval by the District's Board of Directors. The legal level of control is the department and fund level. No supplemental appropriations were made during the fiscal year. Encumbrance accounting is not employed in this fund.

Note 2 - An explanation of the differences between budgetary inflows and outflows and revenues and expenditures determined in accordance with generally accepted accounting principles follows:

Resources (Inflows):

Actual amounts available for appropriations from the budgetary comparison schedule	\$ 53,278
Differences - Budget to GAAP	
The fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes	<u>39,896</u>
Total revenues and other financing sources as reported in the statement of revenues, expenditures, and changes in fund balances - governmental funds	93,174

Charges to Appropriations (Outflows):

Total expenditures as reported in the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>89,494</u>
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Net Change in Fund Balance \$ 3,680

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Last 10 Years*
June 30, 2016

	<u>6/30/2016</u>	<u>6/30/2015</u>
Measurement Date	6/30/2015	6/30/2014
Valuation Date	6/30/2014	6/30/2013
Proportion of the Net Pension Liability	0.01728%	0.01805%
Proportionate Share of the Net Pension Liability	\$ 1,186,322	\$ 1,123,351
Covered-Employee Payroll	\$ 1,253,808	\$ 1,175,186
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	94.62%	95.59%
Proportionate Share of the Fiduciary Net Position as a Percentage of the Total Pension Liability	78.40%	83.21%
Proportionate Share of Aggregate Employer Contributions	\$ 201,093	\$ 150,596

* **Note (1)** The District participates in the Miscellaneous Employee Pension Plan (the Plan), a cost-sharing multiple-employer defined benefit plan administered by the California Public Employees Retirement System. The above schedule reflects the District's proportionate share of the Plan's net pension liability (as of the measurement date) for the past two years. Fiscal year 2014-15 was the first year of implementation, therefore only two years are shown. Additional information regarding the Plan can be found at Note 6 to the basic financial statements.

Note (2) The amounts above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2014 valuation date.

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
SCHEDULE OF PENSION CONTRIBUTIONS
Last 10 Years*
June 30, 2016

	<u>6/30/2016</u>	<u>6/30/2015</u>
Actuarially Determined Contribution	\$ 155,352	\$ 126,683
Contributions in Relation to the Actuarially Determined Contribution	<u>(155,352)</u>	<u>(126,683)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-Employee Payroll	\$ 1,269,932	\$ 1,253,808
Contributions as a Percentage of Covered-Employee Payroll	12.233%	10.104%

* **Note (1)** The District participates in the Miscellaneous Employee Pension Plan (the Plan), a cost-sharing multiple-employer defined benefit plan administered by the California Public Employees Retirement System. The above schedule reflects the District's contributions to the Plan over the past two fiscal years. Fiscal year 2014-15 was the first year of implementation, thus this schedule reflects only two years. Additional information regarding the Plan can be found at Note 6 to the basic financial statements.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
SCHEDULE OF FUNDING PROGRESS
OTHER POST EMPLOYMENT BENEFITS
June 30, 2016**

Actuarial Valuation Date	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability	Excess Assets/ (Unfunded Liability)	Funded Ratio	Annual Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
05/01/10	\$ -	\$ 1,710,113	\$ (1,710,113)	0.00%	\$1,131,599	151.12%
06/01/13	\$ -	\$ 2,692,157	\$ (2,692,157)	0.00%	\$1,249,028	215.54%
06/01/16	\$ -	\$ 4,222,901	\$ (4,222,901)	0.00%	\$1,269,932	332.53%

Note (1) The District sponsors and administers a single-employer defined benefit postemployment healthcare plan (the Plan) to provide healthcare benefits to eligible retired employees and their dependents. The above schedule presents information about the funded status for the Plan's three most recent actuarial valuations.

Note (2) Actuarial valuations of an on-going plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Amounts determined regarding the funded status of the plan and the annual required contribution of the District are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Information regarding the actuarial methods and assumptions for the most recent actuarial valuation can be found in Note 7 to the basic financial statements. The next actuarial valuation will be performed during fiscal year 2018-19.

**REPORT ON INTERNAL CONTROL AND COMPLIANCE
AND OTHER MATTERS**

INDEPENDENT AUDITORS' 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*

To the 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 governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of McKinleyville Community Services District (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the McKinleyville Community Services District's basic financial statements, and have issued our report thereon dated December 21, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the McKinleyville Community Services 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 McKinleyville Community Services District's internal control. Accordingly, we do not express an opinion on the effectiveness of the McKinleyville Community Services 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 McKinleyville Community Services District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of

financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hunter, Hunter & Hunt

December 21, 2016