

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
BASIC FINANCIAL STATEMENTS,
REQUIRED SUPPLEMENTARY INFORMATION,
AND
SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2012

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
McKinleyville Community Services District
McKinleyville, California

We have audited the accompanying financial statements of the governmental activities, 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, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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 the District as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2012, 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, 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United State of America require that the management's discussion and analysis on pages 3 through 9, budgetary comparison information on page 40 and 42, and the Other Post Employment Benefits Schedule of Funding

Progress on page 43, 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.

Hunter, Hunter & Hunt

November 27, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2012**

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, 2012. 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 Assets
 - 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 Assets
 - 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 Assets
 - 2) Statement of Revenues, Expenses, and Changes in Fund Net Assets
 - 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 – Street Lighting Fund
 - 4) Schedule of Funding Progress – Defined Benefit Pension Plan and 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 Assets presents the District's financial position at a point in time, June 30, and includes information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year.

The Statement of Net Assets 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, and law enforcement facility), 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), zone assessments, grants, donations, and user fees.
- **Business-Type Activities** – These are activities that the District charges fees to customers to cover the cost of services it provides. The District's water and wastewater systems are reported herein.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2012**

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) street lighting fund, (4) water utility fund, and (5) wastewater utility 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 inflow 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

- Current assets decreased by \$24,658 in comparison to the prior year while capital and other non-current assets increased by \$605,705.
- Current liabilities increased by \$100,425 over the prior year while long-term liabilities increased by approximately \$752,024.
- Overall, the District's net assets decreased by \$222,086 or 1.0% as a result of this year's operations.
- Total program revenues equaled \$4,449,012 in comparison to \$4,078,329 in the prior year while program expenses equaled \$5,303,180 in comparison to \$5,019,865 in the prior year.
- The District's general revenues and transfers decreased from the prior year by approximately \$154,876, from \$786,958 to \$632,082.

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 assets (Tables 1 and 2) and condensed statement of revenues, expenses, and changes in net assets (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, 2012**

Table 1 - Condensed Statement of Net Assets (Governmental Activities)

	Fiscal Year Ended June 30,		
	2012	2011	Change
Assets			
Current	\$ 1,016,272	\$ 985,836	\$ 30,436
Non-Current:			
Net Capital Assets	3,217,895	3,327,854	(109,959)
Other	44,525	39,325	5,200
Total Assets	4,278,692	4,353,015	(74,323)
Liabilities			
Current	142,227	155,798	(13,571)
Non-Current	100,481	72,208	28,273
Total Liabilities	242,708	228,006	14,702
Net Assets			
Investment in Capital			
Assets, Net of Related Debt	3,217,895	3,327,854	(109,959)
Unrestricted	818,089	797,155	20,934
Total Net Assets	\$ 4,035,984	\$ 4,125,009	\$ (89,025)

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

	Fiscal Year Ended June 30,		
	2012	2011	Change
Assets			
Current	\$ 4,739,053	\$ 4,744,831	\$ (5,778)
Net Capital Assets	18,814,331	18,281,086	533,245
Non-Current	1,062,601	885,382	177,219
Total Assets	24,615,985	23,911,299	704,686
Liabilities			
Current	969,600	855,604	113,996
Non-Current	4,806,267	4,082,516	723,751
Total Liabilities	5,775,867	4,938,120	837,747
Net Assets			
Investment in Capital			
Assets, Net of Related Debt	13,988,957	14,184,822	(195,865)
Restricted	951,207	750,081	201,126
Unrestricted	3,899,954	4,038,276	(138,322)
Total Net Assets	\$ 18,840,118	\$ 18,973,179	\$ (133,061)

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2012**

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

- Non-capital assets increased by \$35,636 or 3.5%;
- Net capital assets decreased by \$109,959 or 3.3%;
- Total liabilities increased by \$14,702 or 6.4%;
- Investment in capital assets, net of related debt decreased by \$109,959 or 3.3%;
- Unrestricted net assets increased by \$20,934 or 2.6%.

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

- Non-capital assets increased by \$171,441 or 3.0%;
- Net capital assets increased by \$533,245 or 2.9%;
- Total liabilities increased by \$837,747 or 17.0%;
- Investment in capital assets, net of related debt decreased by \$195,865 or 1.4%;
- Restricted net assets increased by \$201,126 or 26.8%;
- Unrestricted net assets decreased by \$138,322 or 3.4%.

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

	Fiscal Year Ended June 30,		Change
	2012	2011	
Revenues			
Program			
Charges for Services and Facilities	\$ 694,305	\$ 687,874	\$ 6,431
Operating Grants and Contributions	30,895	18,968	11,927
Capital Grants and Contributions	-	105,730	(105,730)
General			
Property Taxes	506,315	489,313	17,002
Other Income	1,724	7,259	(5,535)
Unrestricted Investment Earnings	3,166	5,901	(2,735)
Loss on Sale of Asset	-	(1,005)	1,005
Total Revenues	<u>1,236,405</u>	<u>1,314,040</u>	<u>(77,635)</u>
Expenses			
Recreation, Parks, Open Space, Facilities, and Other Activities	1,227,405	1,255,784	(28,379)
Street Lighting	<u>98,025</u>	<u>118,342</u>	<u>(20,317)</u>
Total Expenses	<u>1,325,430</u>	<u>1,374,126</u>	<u>(48,696)</u>
Change in Net Assets Before Transfers	(89,025)	(60,086)	(28,939)
Transfers-In	<u>-</u>	<u>56,696</u>	<u>(56,696)</u>
Change in Net Assets	(89,025)	(3,390)	(85,635)
Net Assets - Beginning of Year	<u>4,125,009</u>	<u>4,128,399</u>	<u>(3,390)</u>
Net Assets - End of Year	<u>\$ 4,035,984</u>	<u>\$ 4,125,009</u>	<u>\$ (89,025)</u>

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2012**

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

	Fiscal Year Ended June 30,		Change
	2012	2011	
Revenues			
Program			
Charges for Services - Water	\$ 1,640,346	\$ 1,729,146	\$ (88,800)
Charges for Services - Wastewater	1,448,604	1,663,829	(215,225)
Capital Contributions	634,862	81,850	553,012
General			
Other Income	64,865	23,100	41,765
Unrestricted Investment Earnings	46,011	46,922	(911)
Gain (Loss) on Sale of Asset	10,001	6,400	3,601
Total Revenues	<u>3,844,689</u>	<u>3,551,247</u>	<u>293,442</u>
Expenses			
Water	2,148,657	1,975,818	172,839
Wastewater	1,829,093	1,669,921	159,172
Total Expenses	<u>3,977,750</u>	<u>3,645,739</u>	<u>332,011</u>
Change in Net Assets Before Transfers	(133,061)	(94,492)	(38,569)
Transfers-Out	<u>-</u>	<u>(56,696)</u>	<u>56,696</u>
Change in Net Assets	(133,061)	(151,188)	18,127
Net Assets - Beginning of Year	18,973,179	19,124,367	(151,188)
Net Assets - End of Year	<u>\$ 18,840,118</u>	<u>\$ 18,973,179</u>	<u>\$ (133,061)</u>

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

- Total revenues decreased by \$77,635 or 5.9%;
- Transfers-in decreased by \$56,696 or 100%;
- Total expenses decreased by \$48,696 or 3.5%;
- Net assets decreased by \$89,025 or 2.2%.

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

- Total revenues increased by \$293,442 or 8.3%;
- Total expenses increased by \$332,011 or 9.1%;
- Transfers-out decreased by \$56,696 or 100%;
- Net assets decreased by \$133,061 or 0.7%.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2012**

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 fund financial statements to the prior year:

- Total assets increased by \$85,557 or 8.6%;
- Total liabilities increased by \$14,994 or 9.1%;
- Total fund balance increased by \$70,563 or 8.5%;
- Total revenues increased by \$27,090 or 2.2%;
- Total expenditures decreased by \$355,456 or 23.4%.

Proprietary Funds

Detailed information about the District's proprietary funds statement of net assets and statement of revenues, expenditures, and changes in fund net assets 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 fund financial statements to the prior year:

- Total water fund assets increased by \$801,783 or 9.6%;
- Total wastewater fund assets decreased by \$97,097 or 0.6%;
- Total water fund liabilities increased by \$979,407 or 30.6%;
- Total wastewater fund liabilities decreased by \$141,660 or 8.1%;
- Total water fund net assets decreased by \$177,624 or 3.4%;
- Total wastewater fund net assets increased by \$44,563 or 0.3%;
- Total water fund operating revenues decreased by \$88,800 or 5.1% while operating expenses increased by \$144,263 or 7.5%;
- Total wastewater fund operating revenues decreased by \$215,225 or 12.9% while operating expenses increased by \$158,047 or 9.8%.

General Fund Budgetary Highlights

Actual revenues were lower than budgetary estimates by approximately \$240,000 primarily due to lower than anticipated property taxes and capital grant revenues which were offset by higher than anticipated program fees. Actual expenditures were lower than budgetary estimates by approximately \$330,000 primarily due to the postponement of capital outlays into future years.

The original budget was amended once during the fiscal year, as approved by the Board of Directors, primarily to reflect a shift of personnel costs to contracted services as well as to reflect additional capital expenditures for the purchase of land.

Capital Assets

The District's investment in capital assets (net of accumulated depreciation) for its governmental and business-type activities as of June 30, 2012 equaled \$3,217,895 and \$18,814,331, respectively. Detailed information about the components of capital assets is included in Note 3 to the basic financial statements. Net

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2012**

capital assets decreased by \$109,959 (3.3%) for governmental activities as depreciation exceeded capital asset purchases. Conversely, net capital assets increased by \$533,245 (2.9%) for business-type activities as capital asset purchases exceeded depreciation due to significant capital outlays related to the District's water and wastewater infrastructure as well as the replacement of equipment and vehicles.

Debt

The District's debt for its governmental and business-type activities as of June 30, 2012 totaled \$0 and \$4,825,373, respectively. Overall, the District experienced a net increase in its debt balance from the prior year equal to \$729,109 (17.8%). The net increase was the result of \$243,435 in principal repayment which was offset by \$972,544 in loan proceeds which were received for the purpose of financing water system improvements. Detailed information about the components of debt is included in Note 4 to the basic financial statements.

Currently Known Facts

Looking forward, the District continues to plan for replacement and upgrade of its water and wastewater infrastructure. At the same time, purchased water costs are expected to continue to increase as the District's wholesale water supplier continues to raise rates. The increased user fees required to cover operating costs, along with the District's need to build capital reserves for the replacement and upgrade of its water and wastewater systems, have been implemented by the Board. Moreover, the District anticipates that additional long-term debt will be required in order to meet its capital replacement and expansion needs.

Forthcoming changes in rules for reporting certain long-term pension liabilities have been approved by the Government Accounting Standards Board (GASB), and will affect District financial reporting starting fiscal year 2013-14. The California Public Employees' Pension Reform Act of 2012 will also take effect at that time.

Contacting the District

The District's annual 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 regarding this report may be directed to the following:

McKinleyville Community Services District
Attention: Finance Director
PO Box 2037
McKinleyville, CA 95519

BASIC FINANCIAL STATEMENTS

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
STATEMENT OF NET ASSETS
June 30, 2012

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 1,011,064	\$ 4,370,522	\$ 5,381,586
Accounts Receivable	4,377	258,522	262,899
Interest Receivable	831	9,778	10,609
Deposits	-	2,000	2,000
Inventory	-	98,231	98,231
Total Current Assets	<u>1,016,272</u>	<u>4,739,053</u>	<u>5,755,325</u>
Non-Current Assets			
Restricted Cash and Cash Equivalents	5,200	1,022,973	1,028,173
Proposition 1A Receivable	39,325	-	39,325
Debt Issuance Costs	-	39,628	39,628
Net Capital Assets	3,217,895	18,814,331	22,032,226
Total Non-Current Assets	<u>3,262,420</u>	<u>19,876,932</u>	<u>23,139,352</u>
Total Assets	<u>4,278,692</u>	<u>24,615,985</u>	<u>28,894,677</u>
LIABILITIES			
Current Liabilities			
Accounts Payable	37,064	433,414	470,478
Accrued Liabilities	78,607	-	78,607
Customer Deposits	5,200	71,766	76,966
Interest Payable	-	58,978	58,978
Compensated Absences Payable	21,356	102,380	123,736
Bonds and Loans, Due Within One Year	-	303,062	303,062
Total Current Liabilities	<u>142,227</u>	<u>969,600</u>	<u>1,111,827</u>
Non-Current Liabilities			
Revenue Bonds	-	695,000	695,000
Loans, Due in More Than One Year	-	3,827,311	3,827,311
Net Other Post Employment Benefit Obligation	95,776	240,288	336,064
Compensated Absences Payable	4,705	43,668	48,373
Total Non-Current Liabilities	<u>100,481</u>	<u>4,806,267</u>	<u>4,906,748</u>
Total Liabilities	<u>242,708</u>	<u>5,775,867</u>	<u>6,018,575</u>
NET ASSETS			
Investment in Capital Assets, Net of Related Debt	3,217,895	13,988,957	17,206,852
Restricted for:			
Capital Outlay	-	130,052	130,052
Debt Service	-	821,155	821,155
Unrestricted	818,089	3,899,954	4,718,043
Total Net Assets	<u>\$ 4,035,984</u>	<u>\$ 18,840,118</u>	<u>\$ 22,876,102</u>

See accompanying notes.

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2012

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	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	\$ 1,149,202	\$ 408,479	\$ 30,895	\$ -	\$ (709,828)	\$ -	\$ (709,828)
Measure B	78,203	203,248	-	-	125,045	-	125,045
Street Lighting	98,025	82,578	-	-	(15,447)	-	(15,447)
Total Governmental Activities	<u>1,325,430</u>	<u>694,305</u>	<u>30,895</u>	<u>-</u>	<u>(600,230)</u>	<u>-</u>	<u>(600,230)</u>
Business-Type Activities							
Water	2,148,657	1,640,346	-	276,039	-	(232,272)	(232,272)
Wastewater	1,829,093	1,448,604	-	358,823	-	(21,666)	(21,666)
Total Business-Type Activities	<u>3,977,750</u>	<u>3,088,950</u>	<u>-</u>	<u>634,862</u>	<u>-</u>	<u>(253,938)</u>	<u>(253,938)</u>
Total	<u>\$ 5,303,180</u>	<u>\$ 3,783,255</u>	<u>\$ 30,895</u>	<u>\$ 634,862</u>	<u>(600,230)</u>	<u>(253,938)</u>	<u>(854,168)</u>
General Revenues							
Property Taxes					506,315	-	506,315
Other Income					1,724	64,865	66,589
Gain on Sale of Capital Assets					-	10,001	10,001
Unrestricted Investment Earnings					3,166	46,011	49,177
Total General Revenues					<u>511,205</u>	<u>120,877</u>	<u>632,082</u>
Change in Net Assets					<u>(89,025)</u>	<u>(133,061)</u>	<u>(222,086)</u>
Net Assets - Beginning of Year					<u>4,125,009</u>	<u>18,973,179</u>	<u>23,098,188</u>
Net Assets - End of Year					<u>\$ 4,035,984</u>	<u>\$ 18,840,118</u>	<u>\$ 22,876,102</u>

See accompanying notes.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012**

	General (Parks and Recreation)	Measure B	Street Lighting	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 909,493	\$ 106,771	\$ -	\$ 1,016,264
Accounts Receivable	1,657	-	2,720	4,377
Due From Other Funds	59,051	-	-	59,051
Interest Receivable	831	-	-	831
Total Assets	\$ 971,032	\$ 106,771	\$ 2,720	\$ 1,080,523
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts Payable	\$ 34,604	\$ 1,653	\$ 807	\$ 37,064
Due to Other Funds	-	-	59,051	59,051
Accrued Liabilities	78,607	-	-	78,607
Customer Deposits	5,200	-	-	5,200
Total Liabilities	118,411	1,653	59,858	179,922
Fund Balance				
Committed	852,621	-	-	852,621
Assigned	-	105,118	-	105,118
Unassigned	-	-	(57,138)	(57,138)
Total Fund Balance	852,621	105,118	(57,138)	900,601
Total Liabilities and Fund Balance	\$ 971,032	\$ 106,771	\$ 2,720	\$ 1,080,523

See accompanying notes.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2012**

Total Fund Balances - Governmental Funds (page 12)	\$	900,601
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Amounts reported for governmental activities in the statement of net assets (page 10) are different because:

Long-term receivables do not provide 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 assets.		39,325
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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 assets. In the current period, these amounts were as follows:

Capital Assets		5,606,565
Accumulated Depreciation		(2,388,670)

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 assets. These liabilities include:

Other Post Employment Benefit Obligation		(95,776)
Compensated Absences		(26,061)
		(121,837)

Net Assets - Governmental Activities (page 10)	\$	4,035,984
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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, 2012**

	<u>General (Parks and Recreation)</u>	<u>Measure B</u>	<u>Street Lighting</u>	<u>Total Governmental Funds</u>
REVENUES				
General Revenues				
Property Taxes	\$ 506,315	\$ -	\$ -	\$ 506,315
Special Assessments	-	203,248	-	203,248
Total General Revenues	506,315	203,248	-	709,563
Charges for Services and Facilities	408,479	-	82,578	491,057
Grants and Contributions	30,895	-	-	30,895
Other Income	1,572	65	87	1,724
Unrestricted Investment Earnings	3,047	119	-	3,166
Total Revenues	950,308	203,432	82,665	1,236,405
EXPENDITURES				
Current				
Recreation Programs, Parks, Open Space, Facilities, and Other Cultural Activities	938,920	78,203	86,186	1,103,309
Debt Service				
Principal	-	-	-	-
Interest	-	-	-	-
Capital Outlay	21,902	20,111	20,520	62,533
Total Expenditures	960,822	98,314	106,706	1,165,842
Excess of Expenditures over Revenues	(10,514)	105,118	(24,041)	70,563
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balance	(10,514)	105,118	(24,041)	70,563
Fund Balance - Beginning of Year	863,135	-	(33,097)	830,038
Fund Balance - End of Year	\$ 852,621	\$ 105,118	\$ (57,138)	\$ 900,601

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, 2012**

Change in Fund Balances - Governmental Funds (page 14)	\$	70,563
<p>Amounts reported for governmental activities in the statement of activities (page 11) are different because:</p>		
<p>Governmental funds report capital outlays as expenditures since they consume the current financial resources of governmental funds. Conversely, in the government-wide 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 were less than depreciation in the current period.</p>		
		(109,959)
<p>Changes in long-term liabilities are reported as expenses in the government-wide statement of activities. Conversely, since they do not require the use of current financial resources they are not reported as expenditures in the governmental funds until repaid. The effect of these differences in the treatment of long-term liabilities in current period were as follows:</p>		
Other Post Employment Benefit Obligation		(34,989)
Compensated Absences		<u>(14,640)</u>
Change in Net Assets - Governmental Activities (page 11)	\$	<u>(89,025)</u>

See accompanying notes.

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2012

	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 1,221,059	\$ 3,149,463	\$ 4,370,522
Accounts Receivable	126,286	132,236	258,522
Interest Receivable	4,341	5,437	9,778
Deposits	2,000	-	2,000
Inventory	68,618	29,613	98,231
Total Current Assets	<u>1,422,304</u>	<u>3,316,749</u>	<u>4,739,053</u>
Non-Current Assets			
Restricted Cash and Cash Equivalents	759,107	263,866	1,022,973
Debt Issuance Costs	9,604	30,024	39,628
Net Capital Assets	7,003,141	11,811,190	18,814,331
Total Non-Current Assets	<u>7,771,852</u>	<u>12,105,080</u>	<u>19,876,932</u>
Total Assets	<u>9,194,156</u>	<u>15,421,829</u>	<u>24,615,985</u>
LIABILITIES			
Current Liabilities			
Accounts Payable	382,827	50,587	433,414
Customer Deposits	71,766	-	71,766
Interest Payable	40,965	18,013	58,978
Compensated Absences Payable	51,190	51,190	102,380
Bonds and Loans, Due Within One Year	135,975	167,087	303,062
Total Current Liabilities	<u>682,723</u>	<u>286,877</u>	<u>969,600</u>
Non-Current Liabilities			
Revenue Bonds, Due in More Than One Year	-	695,000	695,000
Loans, Due in More Than One Year	3,353,709	473,602	3,827,311
Net Other Post Employment Benefit Obligation	119,722	120,566	240,288
Compensated Absences Payable	21,834	21,834	43,668
Total Non-Current Liabilities	<u>3,495,265</u>	<u>1,311,002</u>	<u>4,806,267</u>
Total Liabilities	<u>4,177,988</u>	<u>1,597,879</u>	<u>5,775,867</u>
NET ASSETS			
Investment in Capital Assets, Net of Related Debt	3,513,456	10,475,501	13,988,957
Restricted for:			
Capital Outlay	31,469	98,583	130,052
Debt Service	655,872	165,283	821,155
Unrestricted	815,371	3,084,583	3,899,954
Total Net Assets	<u>\$ 5,016,168</u>	<u>\$ 13,823,950</u>	<u>\$ 18,840,118</u>

See accompanying notes.

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2012

	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
Operating Revenues			
Sale of Water	\$ 1,531,374	\$ -	\$ 1,531,374
Sewer Charges	-	1,399,289	1,399,289
Other Operating Revenue	108,972	49,315	158,287
Total Operating Revenues	<u>1,640,346</u>	<u>1,448,604</u>	<u>3,088,950</u>
Operating Expenses			
Personnel Services	725,092	765,869	1,490,961
Purchased Water	589,650	-	589,650
Contracted Services	174,603	163,379	337,982
Utilities	68,338	101,252	169,590
Insurance	26,530	26,530	53,060
Repairs, Supplies, and Other Expenses	193,286	245,719	439,005
Depreciation and Amortization	288,634	460,549	749,183
Total Operating Expenses	<u>2,066,133</u>	<u>1,763,298</u>	<u>3,829,431</u>
Operating Income (Loss)	<u>(425,787)</u>	<u>(314,694)</u>	<u>(740,481)</u>
Non-Operating Revenues (Expenses)			
Interest Expense	(82,524)	(65,795)	(148,319)
Unrestricted Investment Earnings	17,492	28,519	46,011
Gain Sale of Capital Assets	5,081	4,920	10,001
Other Income	32,075	32,790	64,865
Total Non-Operating Revenues (Expenses)	<u>(27,876)</u>	<u>434</u>	<u>(27,442)</u>
Income (Loss) Before Capital Contributions and Transfers	<u>(453,663)</u>	<u>(314,260)</u>	<u>(767,923)</u>
Transfers and Capital Contributions			
Capital Contributions - Capacity Fees	31,469	98,583	130,052
Capital Contributions - Infrastructure	244,570	260,240	504,810
Total Transfers and Capital Contributions	<u>276,039</u>	<u>358,823</u>	<u>634,862</u>
Net Income (Loss)	(177,624)	44,563	(133,061)
Net Assets - Beginning of Year	<u>5,193,792</u>	<u>13,779,387</u>	<u>18,973,179</u>
Net Assets - End of Year	<u>\$ 5,016,168</u>	<u>\$ 13,823,950</u>	<u>\$ 18,840,118</u>

See accompanying notes.

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2012

	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
Cash Flows from Operating Activities			
Cash Receipts from Customers	\$ 1,683,491	\$ 1,418,304	\$ 3,101,795
Cash Paid to Suppliers of Goods and Services	(1,010,574)	(544,490)	(1,555,064)
Cash Paid to Employees for Services	(676,529)	(716,895)	(1,393,424)
Net Cash Provided (Used) by Operating Activities	<u>(3,612)</u>	<u>156,919</u>	<u>153,307</u>
Cash Flows from Capital and Related Financing Activities			
Proceeds from Long-Term Borrowing	972,544	-	972,544
Capital Contributions - Capacity Fees	31,469	98,583	130,052
Proceeds from Sale of Equipment	5,081	4,920	10,001
Principal Paid on Long-Term Debt	(89,204)	(154,231)	(243,435)
Acquisition and Construction of Capital Assets	(604,341)	(173,278)	(777,619)
Interest and Fees Paid on Long-Term Debt	(52,149)	(59,491)	(111,640)
Net Cash Provided (Used) in Capital Financing Activities	<u>263,400</u>	<u>(283,497)</u>	<u>(20,097)</u>
Cash Flows from Non-Operating Activities			
Receipts from Other Income	32,075	32,790	64,865
Net Cash Provided (Used) by Non-Operating Activities	<u>32,075</u>	<u>32,790</u>	<u>64,865</u>
Cash Flows from Investing Activities			
Proceeds from Investment Earnings	18,886	32,633	51,519
Net Cash Provided (Used) by Investing Activities	<u>18,886</u>	<u>32,633</u>	<u>51,519</u>
Increase (Decrease) in Cash and Cash Equivalents	<u>310,749</u>	<u>(61,155)</u>	<u>249,594</u>
Unrestricted Cash - Beginning of Year	1,077,306	3,316,514	4,393,820
Restricted Cash - Beginning of Year	592,111	157,970	750,081
Total Restricted and Unrestricted Cash and Cash Equivalents - Beginning of Year	<u>1,669,417</u>	<u>3,474,484</u>	<u>5,143,901</u>
Unrestricted Cash - End of Year	1,221,059	3,149,463	4,370,522
Restricted Cash - End of Year	759,107	263,866	1,022,973
Total Restricted and Unrestricted Cash and Cash Equivalents - End of Year	<u>\$ 1,980,166</u>	<u>\$ 3,413,329</u>	<u>\$ 5,393,495</u>
Reconciliation of Operating Loss to Net Cash			
Flows from Operating Activities			
Operating Income (Loss)	\$ (425,787)	\$ (314,694)	\$ (740,481)
Adjustments to Reconcile Operating Loss to Net Cash			
Flows Provided by Operating Activities:			
Depreciation	288,634	460,549	749,183
(Increase) Decrease in Accounts Receivable	51,649	(30,300)	21,349
(Increase) Decrease in Prepaids and Deposits	24,100	26,100	50,200
(Increase) Decrease in Inventory	1,704	1,490	3,194
Increase (Decrease) in Accounts Payable	16,029	(35,200)	(19,171)
Increase (Decrease) in Customer Deposits	(8,504)	-	(8,504)
Increase (Decrease) in Payroll Related Liabilities	48,563	48,974	97,537
Net Cash Flows from Operating Activities	<u>\$ (3,612)</u>	<u>\$ 156,919</u>	<u>\$ 153,307</u>
Noncash Investing, Capital, and Financing Activities			
Contribution of Capital Assets	<u>\$ 244,570</u>	<u>\$ 260,240</u>	<u>\$ 504,810</u>

See accompanying notes.

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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 as well as provides street lighting, 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 government-wide financial statements (the statement of net assets 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 are 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 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

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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

The 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 Street Lighting Fund is a special revenue fund used to account for the fees collected and used to fund street lighting services.

The District reports the following major proprietary funds:

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

The Wastewater Utility 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. 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 function and other functions of the District. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting, the District applies all GASB standards of accounting and financial reporting currently in effect, as well as Financial Accounting Standards Board (FASB) standards of accounting and financial reporting issued on or before November 30, 1989.

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are 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. 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.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first when there is an expenditure for which restricted resources are available.

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, obligations of the U.S. Treasury, bankers' acceptances, repurchase agreements, time deposits, savings and demand accounts, and the Humboldt County Treasurer's Investment Fund.

Investments in the Humboldt County Treasurer's Investment Fund and the State of California Local Agency Investment Fund are carried at cost as this approximates fair value. Investments in money market accounts are carried at cost and all other investments are carried at fair value based on quoted market information obtained from fiscal agents or other sources.

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Accounts Receivable

Management considers accounts receivable 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, reimbursements, or transfers. Loans are reported as receivables and payables as appropriate, are subject to elimination upon consolidation and 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.

The due to/from other funds account balance, as presented in the governmental funds balance sheet, resulted from interfund cash transactions to eliminate cash deficits at June 30, 2012 for reporting purposes.

Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to government-wide presentation.

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.

Restricted Cash and Cash Equivalents

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), or (3) to satisfy deposits held on behalf of District customers.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Under the GASB 34 Implementation Rules, the District is a Phase 3 entity and was not required to record infrastructure assets existing or acquired prior to July 1, 2003, the date these new financial reporting standards were implemented; and

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

the District has not recorded such assets. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of the business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the District 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

Compensated Absences and Other Post Employment 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 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.

Long-Term Obligations

In the government-wide financial statements, and the proprietary fund 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 Assets and Fund Balance

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

Government-wide and proprietary fund financial statements have the following categories of net assets:

Investment in capital assets, net of related debt, 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 assets include amounts that can be spent only for specific purposes as stipulated by law, external resource providers, contract, or through enabling legislation.

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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

In accordance with the provisions of GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the governmental fund financial statements have the following categories of fund balance:

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 GAAP 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.

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds and proprietary funds including capital projects. Appropriations lapse at fiscal year end. The appropriated budget is prepared by fund, function, and department. 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. The District made supplemental appropriations during the fiscal year. Encumbrance accounting is not employed in governmental funds.

The General Manager submits a proposed operating budget for the fiscal year commencing on July 1 to the District's Board of Directors. Public hearings are conducted to obtain taxpayer and ratepayer comments. A preliminary budget is legally adopted in June and a final budget is legally adopted in August, following the closing of the prior period.

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

The budget is prepared on a detailed line-item basis. Revenues are budgeted by source per the California Government Code Section 61110, as amended by Senate Bill 135. In accordance with GASB Statement No. 34, only the general and special revenue fund budgets are presented as required supplementary information to the basic financial statements.

NOTE 2 CASH AND INVESTMENTS

Cash and investments at June 30, 2012, consisted of the following:

	<u>Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
Cash on Hand	\$ -	\$ 940	\$ 940
Checking Accounts	-	272,750	272,750
Investment in Money Market Accounts	165,283	430,739	596,022
Investment in Humboldt County Treasurer's Fund	862,890	4,549,557	5,412,447
Investment in State of California LAIF	-	127,600	127,600
	<u>-\$ 1,028,173</u>	<u>\$ 5,381,586</u>	<u>\$ 6,409,759</u>
Total Cash and Investments	<u>\$ 1,028,173</u>	<u>\$ 5,381,586</u>	<u>\$ 6,409,759</u>

At June 30, 2012, cash balances for governmental and business-type activities were restricted, reserved in accordance with the District policy, or unrestricted as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Restricted for:			
Customer Deposits	\$ 5,200	\$ 71,766	\$ 76,966
Capital Outlay	-	130,052	130,052
Debt Service	-	821,155	821,155
Total Restricted Cash	<u>\$ 5,200</u>	<u>\$ 1,022,973</u>	<u>\$ 1,028,173</u>
Unrestricted:			
Petty Cash	\$ 240	\$ 700	\$ 940
Measure B	106,771	-	106,771
Reserved for:			
Operations	316,117	698,433	1,014,550
Capital Asset Repair and Replacement	388,416	2,655,736	3,044,152
Catastrophe	77,683	629,317	707,000
Compensated Absences	26,061	146,048	172,109
Other Post Employment Benefits	95,776	240,288	336,064
Total Unrestricted Cash	<u>\$ 1,011,064</u>	<u>\$ 4,370,522</u>	<u>\$ 5,381,586</u>

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, 2012, a majority of County's portfolio consisted of U.S. Treasury and U.S. Agency securities, certificates of deposit as well as LAIF. All cash invested by the County in demand deposit accounts is

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

collateralized to 110% with approved U.S. Government securities, such as Treasury Bills and other U.S. Treasury issues. The value of the pool shares, which may be withdrawn at anytime, is determined on an amortized cost basis. At June 30, 2012, the District reported its investment in the pool at cost which approximated fair value.

The State of California Local Agency Investment Fund (LAIF) is part of the Pooled Money Investment Account (PMIA), an investment pool consisting of funds held by the State in addition to those deposited in LAIF. All PMIA funds are 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. The Board consists of five members designate by State statute. The value of the pool shares, which may be withdrawn at anytime, is determined on an amortized cost basis. At June 30, 2012, the District reported its investment in the pool at cost which approximated fair value.

At June 30, 2012, the District had the following investments:

	<u>Cost</u>	<u>Fair Value</u>	<u>Maturities</u>
Investment in Money Market Accounts	\$ 596,022	\$ 596,022	N/A
Investment in Humboldt County Treasurer's Fund	5,412,447	5,412,447	Average 644 Days
Investment in State of California LAIF	<u>127,600</u>	<u>127,600</u>	Average 270 Days
Total Investments	<u>\$ 6,136,069</u>	<u>\$ 6,136,069</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 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, 2012, the District's cash in bank had a carrying balance of \$272,750 and a bank balance of \$288,954. 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 two external investment pools: the Humboldt County Treasurer's Investment Fund and the State of California Local Agency Investment Fund (LAIF). 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 receiving less than optimal interest earnings, or a decline in market value of securities held, due to fluctuations in interest rates. 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.

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Credit Risk

This is the risk of loss due to the issuer of the security. In mitigation of this risk, the District requires investment in high grade securities. The Humboldt County Treasurer's Investment Fund and LAIF are unrated.

NOTE 3 CAPITAL ASSETS

The change in the governmental activities capital assets for the year ended June 30, 2012, is as follows:

	<u>Balance 6/30/2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 6/30/2012</u>
Capital Assets Not Depreciated				
Land	\$ 1,340,600	\$ 16,405	\$ -	\$ 1,357,005
Capital Assets Being Depreciated				
Buildings and Parking Lots	2,352,538	20,111	-	2,372,649
Furniture and Equipment	251,603	5,496	(15,428)	241,671
Park Improvements	1,208,024	-	-	1,208,024
Vehicles	61,818	-	-	61,818
Street Lighting	344,877	20,521	-	365,398
Total Capital Assets Being Depreciated	4,218,860	46,128	(15,428)	4,249,560
Accumulated Depreciation	(2,231,606)	(172,492)	15,428	(2,388,670)
Capital Assets Being Depreciated, Net	1,987,254	(126,364)	-	1,860,890
Governmental Activities Capital Assets, Net	<u>\$ 3,327,854</u>	<u>\$ (109,959)</u>	<u>\$ -</u>	<u>\$ 3,217,895</u>

The change in business-type activities capital assets for the year ended June 30, 2012, is as follows:

	<u>Balance 6/30/2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 6/30/2012</u>
Capital Assets Not Depreciated				
Land, Easements, and Water Rights	\$ 3,400,386	\$ -	\$ -	\$ 3,400,386
Construction in Progress	480,128	140,883	(296,374)	324,637
Total Capital Assets Not Depreciated	3,880,514	140,883	(296,374)	3,725,023
Capital Assets Being Depreciated				
Buildings and Parking Lots	431,976	27,839	-	459,815
Water Infrastructure	10,658,770	704,917	-	11,363,687
Wastewater Infrastructure	16,932,302	577,970	-	17,510,272
Tools and Equipment	1,004,497	31,883	(18,139)	1,018,241
Vehicles	721,985	95,310	(28,104)	789,191
Total Capital Assets Being Depreciated	29,749,530	1,437,919	(46,243)	31,141,206
Accumulated Depreciation	(15,348,958)	(749,183)	46,243	(16,051,898)
Capital Assets Being Depreciated, Net	14,400,572	688,736	-	15,089,308
Business-Type Activities Capital Assets, Net	<u>\$ 18,281,086</u>	<u>\$ 829,619</u>	<u>\$ (296,374)</u>	<u>\$ 18,814,331</u>

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

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

Governmental Activities	
Parks and Recreation	\$ 160,654
Street Lighting	11,838
Total Depreciation	<u>\$ 172,492</u>
Business-Type Activities	
Water	\$ 288,634
Wastewater	460,549
Total Depreciation	<u>\$ 749,183</u>

NOTE 4 LONG-TERM LIABILITIES

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:

Year Ending				
<u>June 30</u>	<u>Principal</u>		<u>Interest</u>	<u>Total</u>
2013	\$ 91,008		\$ 50,270	\$ 141,278
2014	92,857		48,421	141,278
2015	94,753		46,525	141,278
2016	96,695		44,583	141,278
2017	98,687		42,591	141,278
2018 - 2022	525,095		181,296	706,391
2023 - 2027	582,904		123,487	706,391
2028 - 2032	648,309		58,082	706,391
2033	138,242		3,032	141,274
Total	<u>2,368,550</u>		<u>598,287</u>	<u>2,966,837</u>
Due Within One Year	(91,008)		(50,270)	(141,278)
Due After One Year	<u>\$ 2,277,542</u>		<u>\$ 548,017</u>	<u>\$ 2,825,559</u>

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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 will begin in December 2012 and 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:

Year Ending			
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 8,236	\$ 4,215	\$ 12,451
2014	10,910	1,541	12,451
2015	11,019	1,432	12,451
2016	11,126	1,325	12,451
2017	11,241	1,210	12,451
2018 - 2022	57,915	4,340	62,255
2023 - 2027	<u>54,653</u>	<u>1,375</u>	<u>56,028</u>
Total	165,100	15,438	180,538
Due Within One Year	(8,236)	(4,215)	(12,451)
Due After One Year	<u>\$ 156,864</u>	<u>\$ 11,223</u>	<u>\$ 168,087</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 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:

Year Ending			
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 36,731	\$ 34,468	\$ 71,199
2014	37,969	33,099	71,068
2015	39,249	31,683	70,932
2016	40,571	30,221	70,792
2017	41,939	28,709	70,648
2018 - 2022	231,870	119,019	350,889
2023 - 2027	273,664	72,801	346,465
2028 - 2031	<u>254,041</u>	<u>19,414</u>	<u>273,455</u>
Total	956,034	369,414	1,325,448
Due Within One Year	(36,731)	(34,468)	(71,199)
Due After One Year	<u>\$ 919,303</u>	<u>\$ 334,946</u>	<u>\$ 1,254,249</u>

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

Business-Type Activities - Wastewater Fund

State Revolving Fund Loans

The District, in 1996, entered into a loan agreement with the State Water Resources Control Board for the purpose of financing wastewater treatment plant improvements. The original loan was \$810,628 and bears no interest. Annual principal payments are due each April and continue through April 2016. 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 repayment of this loan should it not have other revenues available for repayment of this obligation. Future debt service on the loan is:

Year Ending			
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 40,920	\$ -	\$ 40,920
2014	40,920	-	40,920
2015	40,920	-	40,920
2016	40,920	-	40,920
Total	<u>163,680</u>	<u>-</u>	<u>163,680</u>
Due Within One Year	<u>(40,920)</u>	<u>-</u>	<u>(40,920)</u>
Due After One Year	<u>\$ 122,760</u>	<u>\$ -</u>	<u>\$ 122,760</u>

The District, in 1998, entered into a second 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:

Year Ending			
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 23,924	\$ 3,982	\$ 27,906
2014	24,546	3,360	27,906
2015	25,184	2,722	27,906
2016	25,839	2,067	27,906
2017	26,510	1,396	27,906
2018	27,176	706	27,882
Total	<u>153,179</u>	<u>14,233</u>	<u>167,412</u>
Due Within One Year	<u>(23,924)</u>	<u>(3,982)</u>	<u>(27,906)</u>
Due After One Year	<u>\$ 129,255</u>	<u>\$ 10,251</u>	<u>\$ 139,506</u>

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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 was to construct 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 on the loan is:

Year Ending			
June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 60,000	\$ 37,750	\$ 97,750
2014	60,000	34,750	94,750
2015	60,000	31,750	91,750
2016	60,000	28,750	88,750
2017	70,000	25,750	95,750
2018 - 2022	380,000	74,750	454,750
2023	<u>65,000</u>	<u>3,250</u>	<u>68,250</u>
Total	755,000	236,750	991,750
Due Within One Year	<u>(60,000)</u>	<u>(37,750)</u>	<u>(97,750)</u>
Due After One Year	<u>\$ 695,000</u>	<u>\$ 199,000</u>	<u>\$ 894,000</u>

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:

Year Ending			
June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 42,243	\$ 13,491	\$ 55,734
2014	44,632	11,102	55,734
2015	47,155	8,579	55,734
2016	49,806	5,928	55,734
2017	52,664	3,070	55,734
2018	<u>27,330</u>	<u>521</u>	<u>27,851</u>
Total	263,830	42,691	306,521
Due Within One Year	<u>(42,243)</u>	<u>(13,491)</u>	<u>(55,734)</u>
Due After One Year	<u>\$ 221,587</u>	<u>\$ 29,200</u>	<u>\$ 250,787</u>

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Long-term debt activity for the year ended June 30, 2012, was as follows:

	<u>Balance</u> <u>6/30/2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>6/30/2012</u>	<u>Due Within</u> <u>One Year</u>
<u>Business-Type Activities</u>					
Water Fund					
Davis-Grunsky Act Loan	\$ 2,457,754	\$ -	\$ (89,204)	\$ 2,368,550	\$ 91,008
ARRA Loan	148,590	16,510	-	165,100	8,236
I-Bank Loan	-	956,034	-	956,034	36,731
Total Water Fund	<u>2,606,344</u>	<u>972,544</u>	<u>(89,204)</u>	<u>3,489,684</u>	<u>135,975</u>
Wastewater Fund					
State Revolving Fund Loan #1	204,600	-	(40,920)	163,680	40,920
State Revolving Fund Loan #2	176,496	-	(23,317)	153,179	23,924
USDA Revenue Bonds	805,000	-	(50,000)	755,000	60,000
Umpqua Bank Loan	303,824	-	(39,994)	263,830	42,243
Total Wastewater Fund	<u>1,489,920</u>	<u>-</u>	<u>(154,231)</u>	<u>1,335,689</u>	<u>167,087</u>
Total	<u>\$ 4,096,264</u>	<u>\$ 972,544</u>	<u>\$ (243,435)</u>	<u>4,825,373</u>	<u>\$ 303,062</u>
Due Within One Year				<u>(303,062)</u>	
Due After One Year				<u>\$ 4,522,311</u>	

Other long-term liability activity for the year ended June 30, 2012, was as follows:

	<u>Balance</u> <u>6/30/2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>6/30/2012</u>	<u>Due Within</u> <u>One Year</u>
<u>Governmental Activities</u>					
Compensated Absences	\$ 26,144	\$ -	\$ (83)	\$ 26,061	\$ 21,356
OPEB	60,787	34,989	-	95,776	-
Total	<u>\$ 86,931</u>	<u>\$ 34,989</u>	<u>\$ (83)</u>	<u>\$ 121,837</u>	<u>\$ 21,356</u>
<u>Business-Type Activities</u>					
Compensated Absences					
Water	\$ 59,471	\$ 13,553	\$ -	\$ 73,024	\$ 51,190
Wastewater	59,471	13,553	-	73,024	51,190
Total	<u>\$ 118,942</u>	<u>\$ 27,106</u>	<u>\$ -</u>	<u>\$ 146,048</u>	<u>\$ 102,380</u>
OPEB					
Water	\$ 84,712	\$ 35,010	\$ -	\$ 119,722	\$ -
Wastewater	85,145	35,421	-	120,566	-
Total	<u>\$ 169,857</u>	<u>\$ 70,431</u>	<u>\$ -</u>	<u>\$ 240,288</u>	<u>\$ -</u>

Interest expense included in the direct functional expenses of business-type activities was \$148,319.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

NOTE 5 COMMITTED FUND BALANCE

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). Below is a detail of committed fund balance as of June 30, 2012:

<u>Reserve Description</u>	<u>Target Balance</u>	<u>Balance</u>
Operations	180 Days of Operating Expenses	\$ 264,685
Capital Asset Repair and Replacement	10% of Capital Asset Replacement Cost	388,416
Catastrophe	2% of Capital Assets	77,683
Compensated Absences	Equal to Compensated Absences Liability	26,061
Other Post Employment Benefits (OPEB)	Equal to OPEB Liability	95,776
Total Committed Fund Balance		<u>\$ 852,621</u>

NOTE 6 PUBLIC EMPLOYEES RETIREMENT SYSTEM

Plan Description

The District participates in a cost-sharing, multiple-employer, public employee, defined benefit pension plan that is administered by the California Public Employees Retirement System (CalPERS). CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provision and all other requirements are established by State statute and District ordinance. CalPERS issues a separate comprehensive annual financial report. Copies of CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California, 95814, or on-line at www.calpers.ca.gov.

The District participates in risk pooling, which consists of combining assets and liabilities across employers to produce large groups where the impact of loss is shared among all employers in the same risk pool. The District participates in the Miscellaneous 2% at 55 Risk Pool. Participation in the CalPERS risk pool is mandatory for all rate plans with less than 100 active members.

Funding Policy

Employer contribution rates are dependent upon the experience of each risk pool with additional consideration for each employer's side fund amortization as well as an adjustment to phase out the difference between the risk pool's normal cost and the employer's normal cost at the time of joining the pool. Side funds were established for each employer plan in order to reflect the excess assets or unfunded liabilities present at the time participation in the risk pool began. Amortization of the side fund began over a closed period of ten years with any subsequent plan amendments being amortized as a level percentage of pay over a closed twenty-year period. The District's side fund as of the most recent actuarial valuation (June 30, 2010) was \$30,247.

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Plan participants are required to contribute 7% of their annual covered salary while the District is required to contribute at an actuarially determined rate of annual covered payroll. The District's required contribution rate for fiscal year 2011-12 was 8.885%.

Annual Pension Cost and Funded Status

For the fiscal year ended June 30, 2012, the District's annual pension cost was \$178,113. The annual pension cost exceeded the District's required contribution due to its election to fund the employees' 7% required contribution. The District's required contribution rate was determined as part of a June 30, 2009, risk pool actuarial valuation. In response to the financial market volatility that has impacted the CalPERS retirement system and future employer rates, CalPERS adopted changes to the asset smoothing method as well as changes to its policy on the amortization of gains and losses in order to phase in over a three-year period the impact of the 24% investment loss experienced by CalPERS in fiscal year 2008-09. These changes have been implemented in the June 30, 2009 valuation. A summary of the principal assumptions and methods used to determine the contractually required contribution is as follows:

Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	16 Years as of Valuation Date
Asset Valuation Method	15 Year Smoothed Market
Actuarial Assumptions	(1) 7.75% investment rate of return (net of administrative expenses), (2) 3.55% to 14.45% projected annual salary increases depending on category, entry age, and duration of service, (3) overall payroll growth of 3.25%, and (4) 3.00% annual compounded rate of inflation

SCHEDULE OF CALPERS EMPLOYER CONTRIBUTIONS (THREE-YEAR TREND)

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
06/30/10	\$ 167,125	100%	\$ -
06/30/11	\$ 173,808	100%	\$ -
06/30/12	\$ 178,113	100%	\$ -

The funded status of the Miscellaneous 2% at 55 Risk Pool for the three most recent actuarial valuations is as follows (in thousands):

<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>
06/30/08	\$ 2,547,323	\$ 2,780,281	\$(232,958)	91.6%	\$ 688,607	33.8%
06/30/09	\$ 2,758,511	\$ 3,104,798	\$(346,287)	88.9%	\$ 742,982	46.6%
06/30/10	\$ 2,946,408	\$ 3,309,065	\$(362,657)	89.0%	\$ 748,401	48.5%

A schedule of funding progress is also presented as required supplementary information following the notes to the financial statements.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

NOTE 7 POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description

The District administers its retired employee's healthcare plan, a single-employer defined benefit health care plan. The plan provides medical benefits to eligible retired employees and their beneficiaries. District resolutions and regulations assign responsibility to establish and amend benefit provisions to the District. A separate other post employment benefit (OPEB) trust fund has not been established by the District.

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 requirements, with additional amounts to prefund benefits as determined annually by the District's Board of Directors. For the fiscal year ended June 30, 2012, the District contributed \$76,138 (100%) of the current year premiums and zero to prefund benefits.

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)		\$	180,242
Interest on Net OPEB Obligation			11,532
Adjustments to the ARC			<u>(10,216)</u>
Annual OPEB Cost			181,558
Contributions Made			<u>(76,138)</u>
Change in Net OPEB Obligation			105,420
Net OPEB Obligation - Beginning of Year			<u>230,644</u>
Net OPEB Obligation - End of Year			<u><u>\$ 336,064</u></u>

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, 2012, 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>
6/30/2010	\$ 164,733	27.5%	\$ 119,510
6/30/2011	\$ 170,709	34.9%	\$ 230,644
6/30/2012	\$ 181,558	41.9%	\$ 336,064

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Funding Status and Funding Progress

As of May 1, 2010, the most recent actuarial valuation date, the plan was zero funded. The actuarial accrued liability for benefits was \$1,710,113, and the actuarial value of plan assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of the \$1,710,113. The covered payroll (annual payroll of active employees covered by the plan) was \$1,131,599, and the ratio of the UAAL to the covered payroll was 151.1%.

Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about the probability of occurrence of events into the future. Examples include assumptions about future employment, mortality, and health care 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 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. In the May 1, 2010, valuation, the entry age normal actuarial cost method was used. The actuarial assumptions include a 5% investment rate of return based on assumed long-term return on plan assets or employer assets, as appropriate. An annual health care trend rate of 4% was also used in the valuation. There were no plan assets at the valuation date. The UAAL is being amortized as a level percentage of payroll over 30 years, the remaining amortization period at June 30, 2010.

NOTE 8 PROPERTY TAXES

The County of Humboldt (the County) is responsible for assessing, collecting, and apportioning property taxes within the County. Assessed values as of the preceding January 1 become a lien on real property as of January 1. Property taxes 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.

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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. 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 PROPOSITION 1A PROPERTY TAX RECEIVABLE

Under the provisions of Proposition 1A and as part of the 2009-10 budget package passed by the California State Legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue, including those property taxes associated with the in lieu motor license fee, the triple flip sales tax, and the supplemental property tax apportioned to cities, counties and special districts (excluding redevelopment agencies). The State is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California Legislature may consider only one additional borrowing within a ten-year period. The amount of the borrowing pertaining to the District was \$39,325.

The borrowing by the State of California was recognized as a receivable in the accompanying financial statements. Under the modified accrual basis of accounting, the borrowed tax revenues are not permitted to be recognized as revenue in the governmental fund financial statements until the tax revenues are received from the State of California (expected to be fiscal 2012-2013). In the government wide financial statements, the tax revenues were recognized in the fiscal year for which they were levied (fiscal year 2009-2010).

NOTE 10 COMMITMENTS AND CONTINGENCIES

Litigation

The District is currently pursuing a matter of litigation in the normal course of conducting business. Although the outcome of this litigation is not presently determinable, in the opinion of the District's management and legal counsel, the resolution of this matter will not have a material adverse effect on the financial condition of the District.

Short-Term Disability Insurance

All employees who have one year of service with the District are eligible for short-term disability insurance. This short-term disability insurance provides protection to employees who are prevented from working due to illness or injury not related to their job. This program is self-funded by the District and is comparable to State Disability insurance. Benefits under the plan are based upon wages paid to the employee over the twelve months preceding the quarter ended prior to the disability. An individual's weekly benefit amount is approximately 55% of his or her earnings. He or she may receive up to 52 weeks of benefit payments. Management believes liability under this arrangement, if any, is not material to these financial statements.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

There were no material claims during the year ended June 30, 2012. Accordingly, no liability has been recorded.

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 new Discharge permit by the State which contains compliance provisions that may 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 future effluent standards regarding pesticides, insecticides, cooper, lead, and other compounds.

NOTE 11 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. Below is a summary of the District's insurance coverage for the year ended June 30, 2012:

<u>Type of Coverage</u>	<u>Coverage 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 Dishonesty Coverage	400,000
Auto Liability	5,000,000
Auto Physical Damage	Actual Value
Uninsured/Underinsured Motorists	750,000
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

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

There have been no significant changes in insurance coverages 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, 2012.

NOTE 12 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 13 SUBSEQUENT EVENTS

The District's management has evaluated subsequent events through November 27, 2012, which is the date the financial statements were available to be issued, and concluded that no additional adjustments to the financial statements or disclosures are required.

REQUIRED SUPPLEMENTARY INFORMATION

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND (PARKS AND RECREATION)
For the Fiscal Year Ended June 30, 2012**

	<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	\$ 863,135	\$ 863,135	\$ 863,135	\$ -
Resources (Inflows)				
Property Taxes	530,000	530,000	506,315	(23,685)
Program Fees	310,400	310,400	344,054	33,654
Facility Rentals and Related Fees	54,450	54,450	64,425	9,975
Unrestricted Investment Earnings	18,000	12,000	3,047	(8,953)
Other Revenues	<u>285,636</u>	<u>285,636</u>	<u>32,467</u>	<u>(253,169)</u>
Amounts Available for Appropriations	<u>2,061,621</u>	<u>2,055,621</u>	<u>1,813,443</u>	<u>(242,178)</u>
Charges to Appropriations (Outflows)				
Salaries and Benefits	699,686	672,036	699,154	27,118
Other Expenditures	170,341	209,191	239,766	30,575
Capital Outlay	<u>282,000</u>	<u>410,000</u>	<u>21,902</u>	<u>(388,098)</u>
Total Charges to Appropriations	<u>1,152,027</u>	<u>1,291,227</u>	<u>960,822</u>	<u>(330,405)</u>
Fund Balance, June 30	<u>\$ 909,594</u>	<u>\$ 764,394</u>	<u>\$ 852,621</u>	<u>\$ 88,227</u>

Note 1 - 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 budgetary comparison schedule	\$ 1,813,443
Differences - Budget to GAAP	
The fund balance at the beginning of the year is a budgetary resource but it not a current year revenue for financial reporting purposes	<u>(863,135)</u>
Total revenue as reported in the statement of revenues, expenditures, and changes in fund balances - governmental funds	950,308

Charges to Appropriations (Outflows):

Total expenditures as reported in the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>960,822</u>
--	----------------

Net Change in Fund Balance \$ (10,514)

See accompanying notes.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
 BUDGETARY COMPARISON SCHEDULE
 MEASURE B FUND
 For the Fiscal Year Ended June 30, 2012**

	<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	\$ -	\$ -	\$ -	\$ -
Resources (Inflows)				
Special Assessments	210,000	210,000	203,248	(6,752)
Unrestricted Investment Earnings	-	-	119	119
Other Revenues	-	-	65	65
Amounts Available for Appropriations	<u>210,000</u>	<u>210,000</u>	<u>203,432</u>	<u>(6,568)</u>
Charges to Appropriations (Outflows)				
Salaries and Benefits	139,000	139,000	65,548	(73,452)
Other Expenditures	11,000	11,000	12,655	1,655
Capital Outlay	60,000	60,000	20,111	(39,889)
Total Charges to Appropriations	<u>210,000</u>	<u>210,000</u>	<u>98,314</u>	<u>(111,686)</u>
Fund Balance, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 105,118</u>	<u>\$ 105,118</u>

See accompanying notes.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
 BUDGETARY COMPARISON SCHEDULE
 STREETLIGHTING FUND
 For the Fiscal Year Ended June 30, 2012**

	<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	\$ (33,097)	\$ (33,097)	\$ (33,097)	\$ -
Resources (Inflows)				
Streetlight Charges	65,700	65,700	82,578	16,878
Other Revenues	16,300	16,300	87	(16,213)
Amounts Available for Appropriations	<u>48,903</u>	<u>48,903</u>	<u>49,568</u>	<u>665</u>
Charges to Appropriations (Outflows)				
Salaries and Benefits	38,568	34,881	32,501	(2,380)
Other Expenditures	39,330	45,817	53,685	7,868
Capital Outlay	25,000	25,000	20,520	(4,480)
Total Charges to Appropriations	<u>102,898</u>	<u>105,698</u>	<u>106,706</u>	<u>1,008</u>
Fund Balance, June 30	<u>\$ (53,995)</u>	<u>\$ (56,795)</u>	<u>\$ (57,138)</u>	<u>\$ (343)</u>

Note 1 - 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 budgetary comparison schedule	\$ 49,568
Differences - Budget to GAAP	
The fund balance at the beginning of the year is a budgetary resource but it not a current year revenue for financial reporting purposes	<u>33,097</u>
Total revenue as reported in the statement of revenues, expenditures, and changes in fund balances - governmental funds	82,665

Charges to Appropriations (Outflows):

Total expenditures as reported in the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>106,706</u>
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Net Change in Fund Balance \$ (24,041)

See accompanying notes.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
SCHEDULE OF FUNDING PROGRESS
For the Fiscal Year Ended June 30, 2012**

1. DEFINED BENEFIT PENSION PLAN

The District contributes to the California Public Employees Retirement System, a cost-sharing, multiple-employer, public employee, defined benefit pension plan. The District participates in the Miscellaneous 2% at 55 Risk Pool. The following schedule of funding progress presents information for the three most recent actuarial valuations (in thousands) about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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
06/30/08	\$ 2,547,323	\$ 2,780,281	\$ (232,958)	91.6%	\$ 688,607	33.8%
06/30/09	\$ 2,758,511	\$ 3,104,798	\$ (346,287)	88.9%	\$ 742,982	46.6%
06/30/10	\$ 2,946,408	\$ 3,309,065	\$ (362,657)	89.0%	\$ 748,401	48.5%

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 each of the above actuarial valuations may be obtained from CalPERS Executive Office, 400 P Street, Sacramento, California, 95814 or on-line at www.calpers.ca.gov. The actuarial valuation as of June 30, 2011 is not available.

2. OTHER POST EMPLOYMENT BENEFITS

The District administers its retired employee's healthcare plan, a single-employer, defined benefit health care plan. The funded status as of the most recent actuarial valuation is as follows (in thousands):

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%

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 above actuarial valuation can be found in Note 7 to the basic financial statements. The next actuarial valuation will be performed during fiscal year 2012-13.

See accompanying notes.

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

John B. Hunter, CPA
James A. Hunter, CPA
Scott E. Hunt, CPA/ABV
Donna L. Taylor, CPA, CFE



Eileen Sacra Capaccio, CPA
Carol Mayes, CPA, CFE
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Patrick M. Shanahan, CPA

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

We have audited the financial statements of the governmental activities and the business-type activities of McKinleyville Community Services District (the District), as of and for the year ended June 30, 2012, and have issued our report thereon dated November 27, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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 over financial reporting was for the limited purpose described and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of 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*.

We noted certain matters that we reported to management of the District in a separate letter dated November 27, 2012.

This report is intended solely for the information and use of management, the Board of Directors, the audit committee, the State of California, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Hunter, Hunter & Hunt

November 27, 2012