

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT**

**BASIC FINANCIAL STATEMENTS**

**AND**

**REQUIRED SUPPLEMENTARY INFORMATION,**

**Year Ended June 30, 2013**

## TABLE OF CONTENTS

<b>INDEPENDENT AUDITORS' REPORT</b>	1 - 2
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	3 - 9
<b>BASIC FINANCIAL STATEMENTS:</b>	
Statement of Net Position	10
Statement of Activities	11
Balance Sheet – Governmental Funds	12
Reconciliation of Governmental Funds Balance Sheet to The Government-Wide Statement of Net Position	13
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Statement of Net Position – Proprietary Funds	16
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds	17
Statement of Cash Flows – Proprietary Funds	18
Notes to Financial Statements	19 - 41
<b>REQUIRED SUPPLEMENTARY INFORMATION:</b>	
Budgetary Comparison Schedule – General Fund (Parks and Recreation Fund)	42
Budgetary Comparison Schedule – Measure B Fund	43
Budgetary Comparison Schedule – Streetlighting Fund	44
Schedule of Funding Progress – Defined Benefit Pension Plan And Other Post Employment Benefits	45
<b>REPORT ON INTERNAL CONTROL AND COMPLIANCE AND OTHER MATTERS:</b>	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	46 - 47

## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors  
McKinleyville Community Services District  
McKinleyville, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and business-type activities of McKinleyville Community Services District (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of governmental and the business-type activities of McKinleyville Community Services District as of June 30, 2013, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9, the budgetary comparison information on pages 42 through 44, and the schedule of funding progress on page 45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2013, on our consideration of McKinleyville Community Services District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Hunter, Hunter & Hunt*

December 30, 2013

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2013**

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, 2013. This discussion and analysis should be read in conjunction with the accompanying basic financial statements and the notes thereto.

**Overview of the Basic Financial Statements**

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

- Government-Wide Financial Statements (accrual basis of accounting):
  - 1) Statement of Net Position
  - 2) Statement of Activities
- Governmental Fund Financial Statements (modified accrual basis of accounting):
  - 1) Balance Sheet
  - 2) Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position
  - 3) Statement of Revenues, Expenditures, and Changes in Fund Balances
  - 4) Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
- Proprietary Fund Financial Statements (accrual basis of accounting):
  - 1) Statement of Net Position
  - 2) Statement of Revenues, Expenses, and Changes in Net Position
  - 3) Statement of Cash Flows
- Notes to Basic Financial Statements
- Required Supplementary Information:
  - 1) Budgetary Comparison Schedule – General Fund (Parks & Recreation)
  - 2) Budgetary Comparison Schedule – Measure B Fund
  - 3) Budgetary Comparison Schedule – Streetlighting Fund
  - 4) Schedule of 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 position 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 position. 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 position changed during the most recent fiscal year.

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

- **Governmental Activities** – Included are the District's parks, recreation programs, open space zones and streetlight zones. This also accounts for management of the District's buildings at Pierson Park (Azalea Hall, activity center, library, 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 and maintenance), zone assessments, grants, donations, and user fees.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2013**

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

The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements report the District's operations in more detail than the government-wide financial statements by providing information about the District's most significant funds which include: (1) general fund, including parks and recreation, (2) Measure B fund, (3) streetlighting fund, (4) water 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 inflows and outflows of spendable resources, as well as the balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating the District's near-term financing requirements.
- **Proprietary Funds** - Proprietary funds provide the same type of information as the business-type activities in the government-wide financial statements, only in more detail.

**Financial Highlights**

- Total current assets decreased by approximately \$625,000 or 10.9% in comparison to the prior year while capital assets and other non-current assets decreased by approximately \$144,000 or 0.6%.
- Current liabilities decreased by approximately \$359,000 or 32.3% in comparison to the prior year while long-term liabilities decreased by approximately \$157,000 or 3.2%.
- Overall, the District's net position decreased by approximately \$253,000 or 1.1% as a result of this year's operations.
- Total program revenues increased by approximately \$43,000 or 1.0% over the prior year while program expenses increased by approximately \$77,000 or 1.5%.
- The District's general revenues increased by approximately \$4,000 over the prior year, from \$632,082 to \$635,799.

**Government-Wide Financial Statement Analysis**

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

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2013**

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

	<b>Fiscal Year Ended June 30,</b>		<b>Change</b>
	<b>2013</b>	<b>2012</b>	
<b>Assets</b>			
Current	\$ 1,101,931	\$ 1,016,272	\$ 85,659
Non-Current			
Net Capital Assets	3,154,699	3,217,895	(63,196)
Other	307,247	365,071	(57,824)
<b>Total Assets</b>	<u>4,563,877</u>	<u>4,599,238</u>	<u>(35,361)</u>
<b>Liabilities</b>			
Current	120,538	142,227	(21,689)
Non-Current	155,508	100,481	55,027
<b>Total Liabilities</b>	<u>276,046</u>	<u>242,708</u>	<u>33,338</u>
<b>Net Position</b>			
Investment in Capital			
Assets, Net of Related Debt	3,154,699	3,217,895	(63,196)
Restricted	300,396	320,546	(20,150)
Unrestricted	832,736	818,089	14,647
<b>Total Net Position</b>	<u>\$ 4,287,831</u>	<u>\$ 4,356,530</u>	<u>\$ (68,699)</u>

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

	<b>Fiscal Year Ended June 30,</b>		<b>Change</b>
	<b>2013</b>	<b>2012</b>	
<b>Assets</b>			
Current	\$ 4,028,796	\$ 4,739,053	\$ (710,257)
Non-Current			
Net Capital Assets	18,555,388	18,814,331	(258,943)
Other	1,259,022	1,022,973	236,049
<b>Total Assets</b>	<u>23,843,206</u>	<u>24,576,357</u>	<u>(733,151)</u>
<b>Liabilities</b>			
Current	632,336	969,600	(337,264)
Non-Current	4,594,299	4,806,267	(211,968)
<b>Total Liabilities</b>	<u>5,226,635</u>	<u>5,775,867</u>	<u>(549,232)</u>
<b>Net Position</b>			
Investment in Capital			
Assets, Net of Related Debt	14,033,103	13,988,957	44,146
Restricted	1,170,470	951,207	219,263
Unrestricted	3,412,998	3,860,326	(447,328)
<b>Total Net Position</b>	<u>\$18,616,571</u>	<u>\$18,800,490</u>	<u>\$ (183,919)</u>



**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2013**

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

- Non-capital assets increased by \$27,835 or 2.0%;
- Net capital assets decreased by \$63,196 or 2.0%;
- Total liabilities increased by \$33,338 or 13.7%;
- Investment in capital assets, net of related debt decreased by \$63,196 or 2.0%;
- Restricted net position decreased by \$20,150 or 6.3%;
- Unrestricted net position increased by \$14,647 or 1.8%.

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

- Non-capital assets decreased by \$474,208 or 8.2%;
- Net capital assets decreased by \$258,943 or 1.4%;
- Total liabilities decreased by \$549,232 or 9.5%;
- Investment in capital assets, net of related debt increased by \$44,146 or 0.3%;
- Restricted net position increased by \$219,263 or 23.1%;
- Unrestricted net assets decreased by \$447,328 or 11.6%.

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

	Fiscal Year Ended June 30,		Change
	2013	2012	
<b>Revenues</b>			
Program			
Charges for Services and Facilities	\$ 753,362	\$ 694,305	\$ 59,057
Operating Grants and Contributions	22,315	30,895	(8,580)
General			
Property Taxes	521,120	506,315	14,805
Other Income	18,039	1,724	16,315
Unrestricted Investment Earnings	3,215	3,166	49
<b>Total Revenues</b>	<u>1,318,051</u>	<u>1,236,405</u>	<u>81,646</u>
<b>Expenses</b>			
Recreation, Parks, Open Space, Facilities, and Other Activities	1,291,644	1,227,405	64,239
Streetlighting	95,106	98,025	(2,919)
<b>Total Expenses</b>	<u>1,386,750</u>	<u>1,325,430</u>	<u>61,320</u>
<b>Change in Net Position</b>	(68,699)	(89,025)	20,326
<b>Net Position - Beginning of Year</b>	4,356,530	4,125,009	231,521
Restatements	-	320,546	(320,546)
<b>Net Position - End of Year</b>	<u>\$ 4,287,831</u>	<u>\$ 4,356,530</u>	<u>\$ (68,699)</u>

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2013**

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

- Total revenues increased by \$81,646 or 6.6%;
- Total expenses increased by \$61,320 or 4.6%;
- Net position decreased by \$68,699 or 1.6%.

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

- Total revenues decreased by \$34,799 or 0.9%;
- Total expenses increased by \$16,059 or 0.4%;
- Net position decreased by \$183,919 or 1.0%.

<b>Table 4 - Condensed Statement of Revenues, Expenses, and Changes in Net Position Business-Type Activities</b>
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	Fiscal Year Ended June 30,		Change
	2013	2012	
<b>Revenues</b>			
Program			
Charges for Services - Water	\$ 1,771,344	\$ 1,640,346	\$ 130,998
Charges for Services - Wastewater	1,541,957	1,448,604	93,353
Capital Contributions	403,164	634,862	(231,698)
General			
Other Income	54,659	64,865	(10,206)
Unrestricted Investment Earnings	31,266	46,011	(14,745)
Gain (Loss) on Sale of Asset	7,500	10,001	(2,501)
<b>Total Revenues</b>	3,809,890	3,844,689	(34,799)
<b>Expenses</b>			
Water	2,171,265	2,148,657	22,608
Wastewater	1,822,544	1,829,093	(6,549)
<b>Total Expenses</b>	3,993,809	3,977,750	16,059
<b>Change in Net Position</b>	(183,919)	(133,061)	(50,858)
<b>Net Position - Beginning of Year</b>	18,800,490	18,973,179	(172,689)
Restatements	-	(39,628)	39,628
<b>Net Position - End of Year</b>	\$ 18,616,571	\$ 18,800,490	\$ (183,919)

**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

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2013**

basic financial statements. The following can be noted when comparing the current governmental fund financial statements to the prior year:

- Total assets, after restatements, increased by \$82,466 or 5.9%;
- Total liabilities decreased by \$6,950 or 3.9%;
- Total fund balance, after restatements, increased by \$89,416 or 7.3%;
- Total revenues increased by \$120,971 or 9.8%;
- Total expenditures increased by \$102,118 or 8.8%.

**Proprietary Funds**

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

- Total water fund assets, after restatements, decreased by \$608,927 or 6.6%;
- Total wastewater fund assets, after restatements, decreased by \$124,224 or 0.8%;
- Total water fund liabilities decreased by \$401,922 or 9.6%;
- Total wastewater fund liabilities decreased by \$147,310 or 9.2%;
- Total water fund net position, after restatements, decreased by \$207,005 or 4.1%;
- Total wastewater fund net position, after restatements, increased by \$23,086 or 0.2%;
- Total water fund operating revenues increased by \$130,998 or 8.0% while operating expenses increased by \$19,072 or 0.9%;
- Total wastewater fund operating revenues increased by \$93,353 or 6.4% while operating expenses increased by \$8,119 or 0.5%.

**General Fund Budgetary Highlights**

Actual revenues were lower than budgetary estimates by approximately \$107,000 primarily due to lower than anticipated capital grant revenues which were offset by higher than anticipated property taxes and program fees. Actual expenditures were lower than budgetary estimates by approximately \$40,000 primarily due to the postponement of capital outlays into future years which was offset by an overall increase in operating expenses.

**Capital Assets**

As of June 30, 2013, the District's investment in capital assets (net of accumulated depreciation) for its governmental and business-type activities equaled \$3,154,699 and \$18,555,388, respectively. Detailed information about the components of capital assets is included in Note 3 to the basic financial statements. Net capital assets decreased by \$63,196 (2.0%) for governmental activities as depreciation exceeded capital asset purchases. Similarly, net capital assets decreased by \$258,943 (1.4%) for business-type activities as depreciation exceeded capital asset purchases.

**Debt**

As of June 30, 2013, the District's debt for its governmental and business-type activities totaled \$0 and \$4,522,297, respectively. Overall, the District experienced a net decrease in its debt balance from the prior year equal to \$303,076 (6.3%). The decrease was the result of principal repayment with no new debt. Detailed information about the components of debt is included in Note 4 to the basic financial statements.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2013**

**Currently Known Facts, Decisions, or Conditions of Future Significance**

- The District continues to plan for the replacement and upgrade of its water and wastewater infrastructure as outlined in its Capital Improvement Plan. The District is working with its wholesale water supplier, Humboldt Bay Municipal Water District, on a grant-funded project to complete an emergency water supply pipeline installed under the Mad River Bridge. This project will provide emergency backup for the District's water supply in the event that its main water supply pipeline (running under the Mad River) is disrupted by an earthquake or other natural disaster. The value of the project, including connections on both the north and south ends of the bridge, will significantly add value to the District's infrastructure when it is conveyed to the District upon completion of the project. Additionally, the District is in the design phase of a major upgrade to its Wastewater Management Facility. This upgrade will be required by the State of California so that the District will be able to meet future State water quality standards and continue to serve the greater population of McKinleyville. The project will be funded through reserves, grants, and debt. The upgraded facility's increased operating costs and debt service will affect both the District's financial position and results of operations.
- The District is close to completing its Streetlights LED Project. Aside from being more energy efficient, PG&E uses a lower tariff table to calculate rates for LED lights. Thus, this project will materially impact the results of operations in the Streetlighting Fund through significantly reduced operating costs.
- The District's water and wastewater rate study, and phased rate increases enacted in 2012, is being revised to correct an inconsistency between the rate analysis and Proposition 218 Announcement. The effect resulted in a material loss of Water Fund revenues during the 2012-13 fiscal year. These lost revenues are expected to be recovered over the next three years.
- Purchased water costs are expected to continue to increase as the District's wholesale water supplier continues to raise rates.
- The Affordable Care Act has significantly raised rates for all health insurance policies that did not meet the new Federal minimum coverage requirements. However, the District's current insurance plans already meet or exceed these minimum requirements, so while health insurance rates overall are expected to rise sharply, the District does not anticipate the level of increase that many organizations will experience.
- CalPers pension costs are expected to increase significantly in the next three years as it seeks to achieve fully funded status statewide. CalPERS new cost model will adjust employer costs upwards to offset fluctuations in the stock market. This is expected to have a materially adverse affect on the District's financial position and result of operations, but the level of affect will not be known until CalPERS provides more information.
- Forthcoming changes in rules for reporting certain long-term pension liabilities have been approved by the Government Accounting Standards Board (GASB), and will affect the District's financial reporting starting in fiscal year 2014-15.

**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](http://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 POSITION**  
June 30, 2013

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents	\$ 1,066,162	\$ 3,602,685	\$ 4,668,847
Accounts Receivable	28,973	331,729	360,702
Interest Receivable	470	5,717	6,187
Prepays and Deposits	6,326	-	6,326
Inventory	-	88,665	88,665
<b>Total Current Assets</b>	<u>1,101,931</u>	<u>4,028,796</u>	<u>5,130,727</u>
<b>Non-Current Assets</b>			
Restricted Cash and Cash Equivalents	307,247	1,259,022	1,566,269
Net Capital Assets	3,154,699	18,555,388	21,710,087
<b>Total Non-Current Assets</b>	<u>3,461,946</u>	<u>19,814,410</u>	<u>23,276,356</u>
<b>Total Assets</b>	<u>4,563,877</u>	<u>23,843,206</u>	<u>28,407,083</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts Payable	18,914	106,208	125,122
Accrued Liabilities	72,850	-	72,850
Customer Deposits	6,851	88,552	95,403
Interest Payable	-	27,136	27,136
Compensated Absenses, Due Within One Year	21,923	98,606	120,529
Bonds and Loans, Due Within One Year	-	311,834	311,834
<b>Total Current Liabilities</b>	<u>120,538</u>	<u>632,336</u>	<u>752,874</u>
<b>Non-Current Liabilities</b>			
Compensated Absenses, Due Beyond One Year	7,725	38,862	46,587
Revenue Bonds, Due Beyond One Year	-	635,000	635,000
Loans, Due Beyond One Year	-	3,575,463	3,575,463
Net Other Post Employment Benefit Obligation	147,783	344,974	492,757
<b>Total Non-Current Liabilities</b>	<u>155,508</u>	<u>4,594,299</u>	<u>4,749,807</u>
<b>Total Liabilities</b>	<u>276,046</u>	<u>5,226,635</u>	<u>5,502,681</u>
<b>NET POSITION</b>			
Investment in Capital Assets, Net of Related Debt	3,154,699	14,033,091	17,187,790
Restricted for:			
Capital Outlay	300,396	351,502	651,898
Debt Service	-	818,968	818,968
Unrestricted	832,736	3,413,010	4,245,746
<b>Total Net Position</b>	<u>\$ 4,287,831</u>	<u>\$ 18,616,571</u>	<u>\$ 22,904,402</u>

See accompanying notes.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT  
STATEMENT OF ACTIVITIES  
For the Fiscal Year Ended June 30, 2013**

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges For Services and Facilities	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Totals
<b>Functions/Programs</b>							
<b>Governmental Activities</b>							
Parks and Recreation Services	\$ 1,272,770	\$ 462,227	\$ 22,315	\$ -	\$ (788,228)	\$ -	\$ (788,228)
Measure B	18,874	205,420	-	-	186,546	-	186,546
Streetlighting	95,106	85,715	-	-	(9,391)	-	(9,391)
<b>Total Governmental Activities</b>	<u>1,386,750</u>	<u>753,362</u>	<u>22,315</u>	<u>-</u>	<u>(611,073)</u>	<u>-</u>	<u>(611,073)</u>
<b>Business-Type Activities</b>							
Water	2,171,265	1,771,344	-	159,828	-	(240,093)	(240,093)
Wastewater	1,822,544	1,541,957	-	243,336	-	(37,251)	(37,251)
<b>Total Business-Type Activities</b>	<u>3,993,809</u>	<u>3,313,301</u>	<u>-</u>	<u>403,164</u>	<u>-</u>	<u>(277,344)</u>	<u>(277,344)</u>
<b>Total</b>	<u>\$ 5,380,559</u>	<u>\$ 4,066,663</u>	<u>\$ 22,315</u>	<u>\$ 403,164</u>	<u>(611,073)</u>	<u>(277,344)</u>	<u>(888,417)</u>
<b>General Revenues</b>							
Property Taxes					521,120	-	521,120
Other Income					18,039	54,659	72,698
Gain on Sale of Capital Assets					-	7,500	7,500
Unrestricted Investment Earnings					3,215	31,266	34,481
<b>Total General Revenues</b>					<u>542,374</u>	<u>93,425</u>	<u>635,799</u>
<b>Change in Net Position</b>					<u>(68,699)</u>	<u>(183,919)</u>	<u>(252,618)</u>
<b>Net Position - Beginning of Year, As Previously Reported</b>					4,035,984	18,840,118	22,876,102
Restatements (Note 12)					320,546	(39,628)	280,918
<b>Net Position - Beginning of Year, As Restated</b>					<u>4,356,530</u>	<u>18,800,490</u>	<u>23,157,020</u>
<b>Net Position - End of Year</b>					<u>\$ 4,287,831</u>	<u>\$ 18,616,571</u>	<u>\$ 22,904,402</u>

See accompanying notes.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2013**

	<b>General (Parks and Recreation)</b>	<b>Measure B</b>	<b>Streetlighting</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 792,116	\$ 274,046	\$ -	\$ 1,066,162
Accounts Receivable	24,859	-	4,114	28,973
Due From Other Funds	74,357	-	-	74,357
Interest Receivable	470	-	-	470
Prepays and Deposits	6,326	-	-	6,326
Restricted Cash and Cash Equivalents	307,247	-	-	307,247
<b>Total Assets</b>	<b>\$ 1,205,375</b>	<b>\$ 274,046</b>	<b>\$ 4,114</b>	<b>\$ 1,483,535</b>
<b>LIABILITIES AND FUND BALANCE</b>				
<b>Liabilities</b>				
Accounts Payable	\$ 17,009	\$ 1,037	\$ 868	\$ 18,914
Due to Other Funds	-	-	74,357	74,357
Accrued Liabilities	72,850	-	-	72,850
Customer Deposits	6,851	-	-	6,851
<b>Total Liabilities</b>	<b>96,710</b>	<b>1,037</b>	<b>75,225</b>	<b>172,972</b>
<b>Fund Balance</b>				
Restricted for:				
Capital Outlay	300,396	-	-	300,396
Committed	808,269	-	-	808,269
Assigned	-	273,009	-	273,009
Unassigned	-	-	(71,111)	(71,111)
<b>Total Fund Balance</b>	<b>1,108,665</b>	<b>273,009</b>	<b>(71,111)</b>	<b>1,310,563</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 1,205,375</b>	<b>\$ 274,046</b>	<b>\$ 4,114</b>	<b>\$ 1,483,535</b>

See accompanying notes.



**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO  
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION  
June 30, 2013**

Total Fund Balance - Governmental Funds (page 12)	\$ 1,310,563
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Amounts reported for governmental activities in the statement of net position (page 10) are different because:

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

Capital Assets	5,706,815
Accumulated Depreciation	(2,552,116)

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

Other Post Employment Benefit Obligation	(147,783)
Compensated Absences	(29,648)
	(177,431)

Net Position - Governmental Activities (page 10)	\$ <u><u>4,287,831</u></u>
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See accompanying notes.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Fiscal Year Ended June 30, 2013**

	<u>General (Parks and Recreation)</u>	<u>Measure B</u>	<u>Streetlighting</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
General Revenues				
Property Taxes	\$ 560,445	\$ -	\$ -	\$ 560,445
Special Assessments	-	205,420	-	205,420
Total General Revenues	560,445	205,420	-	765,865
Charges for Services and Facilities	462,227	-	85,715	547,942
Grants and Contributions	22,315	-	-	22,315
Other Income	17,982	-	57	18,039
Unrestricted Investment Earnings	2,883	332	-	3,215
<b>Total Revenues</b>	<u>1,065,852</u>	<u>205,752</u>	<u>85,772</u>	<u>1,357,376</u>
<b>EXPENDITURES</b>				
Current				
Recreation Programs, Parks, Open Space, Facilities, and Other Cultural Activities	1,057,330	18,874	82,495	1,158,699
Capital Outlay	73,024	18,987	17,250	109,261
<b>Total Expenditures</b>	<u>1,130,354</u>	<u>37,861</u>	<u>99,745</u>	<u>1,267,960</u>
<b>Excess (Deficiency) of Expenditures over Revenues</b>	<u>(64,502)</u>	<u>167,891</u>	<u>(13,973)</u>	<u>89,416</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net Change in Fund Balance</b>	<u>(64,502)</u>	<u>167,891</u>	<u>(13,973)</u>	<u>89,416</u>
<b>Fund Balance - Beginning of Year, As Previously Reported</b>	852,621	105,118	(57,138)	900,601
Restatements (Note 12)	320,546	-	-	320,546
<b>Fund Balance - Beginning of Year, As Restated</b>	<u>1,173,167</u>	<u>105,118</u>	<u>(57,138)</u>	<u>1,221,147</u>
<b>Fund Balance - End of Year</b>	<u>\$ 1,108,665</u>	<u>\$ 273,009</u>	<u>\$ (71,111)</u>	<u>\$ 1,310,563</u>

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, 2013**

Change in Fund Balance - Governmental Funds (page 14)	\$	89,416
<p>Amounts reported for governmental activities in the statement of activities (page 11) are different because:</p>		
<p>The revenues associated with long-term receivables are recognized in the statement of activities when the receivable is first established. Since long-term receivables do not provide current financial resources, their effects are not recognized in the governmental funds until collection. This amount represents the collection of a long-term receivable in the current year.</p>		(39,325)
<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>		(63,198)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources, and therefore are not accrued as expenditures in the governmental funds. In the current period, these expenses are as follows:</p>		
Other Post Employment Benefit Obligation		(52,006)
Compensated Absences		<u>(3,586)</u>
Change in Net Position - Governmental Activities (page 11)	\$	<u><u>(68,699)</u></u>

See accompanying notes.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**June 30, 2013**

	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents	\$ 522,311	\$ 3,080,374	\$ 3,602,685
Accounts Receivable	164,476	167,253	331,729
Interest Receivable	2,511	3,206	5,717
Inventory	63,690	24,975	88,665
<b>Total Current Assets</b>	<u>752,988</u>	<u>3,275,808</u>	<u>4,028,796</u>
<b>Non-Current Assets</b>			
Restricted Cash and Cash Equivalents	864,878	394,144	1,259,022
Net Capital Assets	6,957,759	11,597,629	18,555,388
<b>Total Non-Current Assets</b>	<u>7,822,637</u>	<u>11,991,773</u>	<u>19,814,410</u>
<b>Total Assets</b>	<u>8,575,625</u>	<u>15,267,581</u>	<u>23,843,206</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts Payable	80,405	25,803	106,208
Customer Deposits	88,552	-	88,552
Interest Payable	12,909	14,227	27,136
Compensated Absences, Due Within One Year	49,303	49,303	98,606
Bonds and Loans, Due Within One Year	141,736	170,098	311,834
<b>Total Current Liabilities</b>	<u>372,905</u>	<u>259,431</u>	<u>632,336</u>
<b>Non-Current Liabilities</b>			
Compensated Absences, Due Beyond One Year	19,431	19,431	38,862
Revenue Bonds, Due Beyond One Year	-	635,000	635,000
Loans, Due Beyond One Year	3,211,971	363,492	3,575,463
Net Other Post Employment Benefit Obligation	171,759	173,215	344,974
<b>Total Non-Current Liabilities</b>	<u>3,403,161</u>	<u>1,191,138</u>	<u>4,594,299</u>
<b>Total Liabilities</b>	<u>3,776,066</u>	<u>1,450,569</u>	<u>5,226,635</u>
<b>NET POSITION</b>			
Investment in Capital Assets, Net of Related Debt	3,604,052	10,429,039	14,033,091
Restricted for:			
Capital Outlay	119,382	232,120	351,502
Debt Service	656,944	162,024	818,968
Unrestricted	419,181	2,993,829	3,413,010
<b>Total Net Position</b>	<u>\$ 4,799,559</u>	<u>\$ 13,817,012</u>	<u>\$ 18,616,571</u>

See accompanying notes.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
**For the Fiscal Year Ended June 30, 2013**

	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
<b>Operating Revenues</b>			
Sale of Water	\$ 1,651,096	\$ -	\$ 1,651,096
Sewer Charges	-	1,498,361	1,498,361
Other Operating Revenue	120,248	43,596	163,844
<b>Total Operating Revenues</b>	<u>1,771,344</u>	<u>1,541,957</u>	<u>3,313,301</u>
<b>Operating Expenses</b>			
Personnel Services	779,418	802,038	1,581,456
Purchased Water	657,440	-	657,440
Contracted Services	110,216	98,202	208,418
Utilities	46,807	150,682	197,489
Insurance	26,437	26,436	52,873
Repairs, Supplies, and Other Expenses	162,342	231,994	394,336
Depreciation and Amortization	302,545	462,065	764,610
<b>Total Operating Expenses</b>	<u>2,085,205</u>	<u>1,771,417</u>	<u>3,856,622</u>
<b>Operating Income (Loss)</b>	<u>(313,861)</u>	<u>(229,460)</u>	<u>(543,321)</u>
<b>Non-Operating Revenues (Expenses)</b>			
Interest Expense	(86,060)	(51,127)	(137,187)
Unrestricted Investment Earnings	10,565	20,701	31,266
Gain on Sale of Capital Assets	3,750	3,750	7,500
Other Income	18,773	35,886	54,659
<b>Total Non-Operating Revenues (Expenses)</b>	<u>(52,972)</u>	<u>9,210</u>	<u>(43,762)</u>
<b>Income (Loss) Before Capital Contributions and Transfers</b>	<u>(366,833)</u>	<u>(220,250)</u>	<u>(587,083)</u>
<b>Transfers and Capital Contributions</b>			
Capital Contributions - Capacity Fees	87,913	133,196	221,109
Capital Contributions - Infrastructure	71,915	110,140	182,055
<b>Total Transfers and Capital Contributions</b>	<u>159,828</u>	<u>243,336</u>	<u>403,164</u>
<b>Change in Net Position</b>	<u>(207,005)</u>	<u>23,086</u>	<u>(183,919)</u>
<b>Net Position - Beginning of Year, As Previously Reported</b>	5,016,168	13,823,950	18,840,118
Restatements (Note 12)	(9,604)	(30,024)	(39,628)
<b>Net Position - Beginning of Year, As Restated</b>	<u>5,006,564</u>	<u>13,793,926</u>	<u>18,800,490</u>
<b>Net Position - End of Year</b>	<u>\$ 4,799,559</u>	<u>\$ 13,817,012</u>	<u>\$ 18,616,571</u>

See accompanying notes.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**For the Fiscal Year Ended June 30, 2013**

	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
<b>Cash Flows from Operating Activities</b>			
Cash Receipts from Customers	\$ 1,688,631	\$ 1,506,940	\$ 3,195,571
Cash Received from Interfund Services	61,309	-	61,309
Cash Paid to Suppliers of Goods and Services	(1,298,736)	(468,022)	(1,766,758)
Cash Paid to Employees for Services	(731,671)	(753,679)	(1,485,350)
Cash Paid for Interfund Services	-	(59,438)	(59,438)
Net Cash Provided (Used) by Operating Activities	<u>(280,467)</u>	<u>225,801</u>	<u>(54,666)</u>
<b>Cash Flows from Capital and Related Financing Activities</b>			
Capital Contributions - Capacity Fees	87,913	133,196	221,109
Proceeds from Sale of Equipment	3,750	3,750	7,500
Principal Paid on Long-Term Debt	(135,977)	(167,099)	(303,076)
Acquisition and Construction of Capital Assets	(185,248)	(138,363)	(323,611)
Interest and Fees Paid on Long-Term Debt	(114,116)	(54,914)	(169,030)
Net Cash Provided (Used) in Capital Financing Activities	<u>(343,678)</u>	<u>(223,430)</u>	<u>(567,108)</u>
<b>Cash Flows from Non-Operating Activities</b>			
Receipts from Other Income	18,773	35,886	54,659
Net Cash Provided (Used) by Non-Operating Activities	<u>18,773</u>	<u>35,886</u>	<u>54,659</u>
<b>Cash Flows from Investing Activities</b>			
Proceeds from Investment Earnings	12,395	22,932	35,327
Net Cash Provided (Used) by Investing Activities	<u>12,395</u>	<u>22,932</u>	<u>35,327</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	<u>(592,977)</u>	<u>61,189</u>	<u>(531,788)</u>
Unrestricted Cash - Beginning of Year	1,221,059	3,149,463	4,370,522
Restricted Cash - Beginning of Year	759,107	263,866	1,022,973
Total Restricted and Unrestricted Cash and Cash Equivalents - Beginning of Year	<u>1,980,166</u>	<u>3,413,329</u>	<u>5,393,495</u>
Unrestricted Cash - End of Year	522,311	3,080,374	3,602,685
Restricted Cash - End of Year	864,878	394,144	1,259,022
Total Restricted and Unrestricted Cash and Cash Equivalents - End of Year	<u>\$ 1,387,189</u>	<u>\$ 3,474,518</u>	<u>\$ 4,861,707</u>
<b>Reconciliation of Operating Loss to Net Cash Flows from Operating Activities</b>			
Operating Income (Loss)	\$ (313,861)	\$ (229,460)	\$ (543,321)
Adjustments to Reconcile Operating Loss to Net Cash Flows Provided by Operating Activities:			
Depreciation	302,545	462,065	764,610
(Increase) Decrease in Accounts Receivable	(38,190)	(35,017)	(73,207)
(Increase) Decrease in Prepaids and Deposits	2,000	-	2,000
(Increase) Decrease in Inventory	4,928	4,638	9,566
Increase (Decrease) in Accounts Payable	(302,422)	(24,784)	(327,206)
Increase (Decrease) in Customer Deposits	16,786	-	16,786
Increase (Decrease) in Payroll Related Liabilities	47,747	48,359	96,106
Net Cash Flows from Operating Activities	<u>\$ (280,467)</u>	<u>\$ 225,801</u>	<u>\$ (54,666)</u>
<b>Noncash Investing, Capital, and Financing Activities</b>			
Contribution of Capital Assets	<u>\$ 71,915</u>	<u>\$ 110,140</u>	<u>\$ 182,055</u>

See accompanying notes.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

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

**Basis of Presentation**

**Government-Wide Financial Statements**

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or program 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 function or program and (2) grants and contributions that are restricted to meeting the

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

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

The District reports the following major proprietary funds:

The Water 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, in accordance with accounting principles generally accepted in the United States of America, as prescribed by the GASB. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred or asset used, regardless of the timing of related cash flows.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the District's water and wastewater 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.

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



**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

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 (LAIF), 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 LAIF 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.

**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

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

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 loans to eliminate cash deficits at June 30, 2013, for reporting purposes only.

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, Quimby 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 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, including internal labor, 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.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

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 Position and Fund Balance**

The difference between fund assets and liabilities is called "net position" 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 position:

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

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

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:

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

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

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

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

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

Unassigned fund balance represents the residual classification for the District's general fund and includes all spendable amounts not contained in the other classifications.

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

**Estimates and Assumptions**

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

**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 for water and sewer capital projects 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 close of the prior period.

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.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**New Governmental Accounting Standards Implemented**

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

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* - supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in GASB No. 20 for enterprise funds and business-type activities to apply post-November 30, 1989 Financial Accounting Standards Board (FASB) Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements. Adoption of GASB No. 62 had no impact on the basic financial statements of the District.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* – amends the net asset reporting requirements in GASB Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* – establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. It also limits the use of the term “deferred” in financial statement presentations. Implementation of GASB No. 65 resulted in the District’s write-off of unamortized bond issuance costs that were previously recognized as an asset and amortized over the life of the associated debt.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**NOTE 2 CASH AND INVESTMENTS**

Cash and investments at June 30, 2013, consisted of the following:

	<u>Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
Cash on Hand	\$ -	\$ 759	\$ 759
Checking Accounts	-	45,378	45,378
Investment in Money Market Accounts	162,024	151,263	313,287
Investment in Humboldt County Treasurer's Fund	1,404,245	4,343,426	5,747,671
Investment in State of California LAIF	-	128,021	128,021
<b>Total Cash and Investments</b>	<b><u>\$ 1,566,269</u></b>	<b><u>\$ 4,668,847</u></b>	<b><u>\$ 6,235,116</u></b>

At June 30, 2013, cash and investment balances for governmental and business-type activities were restricted, reserved in accordance with District policy, or unrestricted as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Restricted for:			
Customer Deposits	\$ 6,851	\$ 88,552	\$ 95,403
Capital Outlay	300,396	351,502	651,898
Debt Service	-	818,968	818,968
<b>Total Restricted Cash</b>	<b><u>\$ 307,247</u></b>	<b><u>\$ 1,259,022</u></b>	<b><u>\$ 1,566,269</u></b>
Unrestricted:			
Petty Cash	\$ 220	\$ 539	\$ 759
Measure B	274,046	-	274,046
Reserved for:			
Operations	146,268	552,606	698,874
Capital Asset Repair and Replacement	390,164	1,928,159	2,318,323
Catastrophe	78,033	638,939	716,972
Compensated Absences	29,648	137,468	167,116
Other Post Employment Benefits	147,783	344,974	492,757
<b>Total Unrestricted Cash</b>	<b><u>\$ 1,066,162</u></b>	<b><u>\$ 3,602,685</u></b>	<b><u>\$ 4,668,847</u></b>

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, 2013, a majority of the County's portfolio consisted of U.S. Treasury and U.S. Agency securities, certificates of deposit as well as the State of California Local Agency Investment Fund (LAIF). All cash invested by the County in demand deposit accounts is collateralized to 110% with approved U.S. Government securities, such as Treasury Bills and other U.S. Treasury issues. The value of the pool shares, which may be withdrawn at anytime, is determined on an amortized cost basis. At June 30, 2013, the District reported its investment in the pool at cost which approximated fair value.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

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, 2013, the District reported its investment in the pool at cost which approximated fair value.

At June 30, 2013, the District had the following investments:

	<u>Cost</u>	<u>Fair Value</u>	<u>Maturitie</u>
Investment in Money Market Accounts	\$ 313,287	\$ 313,287	N/A
Investment in Humboldt County Treasurer's Fund	5,747,671	5,747,671	Average 842
Investment in State of California LAIF	<u>128,021</u>	<u>128,021</u>	Average 278
Total Investments	<u>\$ 6,188,979</u>	<u>\$ 6,188,979</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, 2013, the District's cash in bank had a carrying balance of \$196,641 and a bank balance of \$249,281. 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 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.

**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.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**NOTE 3 CAPITAL ASSETS**

The change in the governmental activities capital assets for the year ended June 30, 2013, is as follows:

	<u>Balance 6/30/2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers/ Reclassifications</u>	<u>Balance 6/30/2013</u>
<b>Capital Assets Not Depreciated</b>					
Land	\$ 1,357,005	\$ 59,718	\$ -	\$ -	\$ 1,416,723
Construction in Progress	-	24,793	-	20,111	44,904
<b>Total Capital Assets Not Depreciated</b>	<u>1,357,005</u>	<u>84,511</u>	<u>-</u>	<u>20,111</u>	<u>1,461,627</u>
<b>Capital Assets Being Depreciated</b>					
Buildings and Parking Lots	2,372,649	-	-	(20,111)	2,352,538
Furniture and Equipment	241,671	-	-	-	241,671
Park Improvements	1,208,024	-	-	-	1,208,024
Vehicles	61,818	7,500	(9,012)	-	60,306
Streetlighting	365,398	17,250	-	-	382,648
<b>Total Capital Assets Being Depreciated</b>	<u>4,249,560</u>	<u>24,750</u>	<u>(9,012)</u>	<u>(20,111)</u>	<u>4,245,187</u>
Accumulated Depreciation	<u>(2,388,670)</u>	<u>(172,457)</u>	<u>9,012</u>	<u>-</u>	<u>(2,552,115)</u>
<b>Capital Assets Being Depreciated, Net</b>	<u>1,860,890</u>	<u>(147,707)</u>	<u>-</u>	<u>(20,111)</u>	<u>1,693,072</u>
<b>Governmental Activities Capital Assets, Net</b>	<u>\$ 3,217,895</u>	<u>\$ (63,196)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,154,699</u>

The change in business-type activities capital assets for the year ended June 30, 2013, is as follows:

	<u>Balance 6/30/2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 6/30/2013</u>
<b>Capital Assets Not Depreciated</b>				
Land, Easements, and Water Rights	\$ 3,400,386	\$ -	\$ -	\$ 3,400,386
Construction in Progress	324,637	278,429	-	603,066
<b>Total Capital Assets Not Depreciated</b>	<u>3,725,023</u>	<u>278,429</u>	<u>-</u>	<u>4,003,452</u>
<b>Capital Assets Being Depreciated</b>				
Buildings and Parking Lots	459,815	7,280	-	467,095
Water Infrastructure	11,363,687	94,917	-	11,458,604
Wastewater Infrastructure	17,510,272	110,140	-	17,620,412
Tools and Equipment	1,018,241	14,901	-	1,033,142
Vehicles	789,191	-	(24,595)	764,596
<b>Total Capital Assets Being Depreciated</b>	<u>31,141,206</u>	<u>227,238</u>	<u>(24,595)</u>	<u>31,343,849</u>
Accumulated Depreciation	<u>(16,051,898)</u>	<u>(764,610)</u>	<u>24,595</u>	<u>(16,791,913)</u>
<b>Capital Assets Being Depreciated, Net</b>	<u>15,089,308</u>	<u>(537,372)</u>	<u>-</u>	<u>14,551,936</u>
<b>Business-Type Activities Capital Assets, Net</b>	<u>\$ 18,814,331</u>	<u>\$ (258,943)</u>	<u>\$ -</u>	<u>\$ 18,555,388</u>



**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2013**

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

<b>Governmental Activities</b>	
Parks and Recreation	\$ 159,847
Streetlighting	12,610
Total Depreciation	<u>\$ 172,457</u>
<b>Business-Type Activities</b>	
Water	\$ 302,545
Wastewater	462,065
Total Depreciation	<u>\$ 764,610</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 as follows:

<b>Year Ending</b>				
<b><u>June 30</u></b>	<b><u>Principal</u></b>		<b><u>Interest</u></b>	<b><u>Total</u></b>
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	100,728		40,550	141,278
2019 - 2023	536,092		170,298	706,390
2024 - 2028	595,346		111,044	706,390
2029 - 2033	662,385		44,004	706,389
Total	<u>2,277,543</u>		<u>548,016</u>	<u>2,825,559</u>
Due Within One Year	<u>(92,857)</u>		<u>(48,421)</u>	<u>(141,278)</u>
Due Beyond One Year	<u>\$ 2,184,686</u>		<u>\$ 499,595</u>	<u>\$ 2,684,281</u>

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**ARRA Loan**

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

<b>Year Ending</b> <b>June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
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	11,353	1,098	12,451
2019 - 2023	58,495	3,759	62,254
2024 - 2027	42,717	861	43,578
Total	<u>156,861</u>	<u>11,226</u>	<u>168,087</u>
Due Within One Year	<u>(10,910)</u>	<u>(1,541)</u>	<u>(12,451)</u>
Due Beyond One Year	<u>\$ 145,951</u>	<u>\$ 9,685</u>	<u>\$ 155,636</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 as follows:

<b>Year Ending</b> <b>June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
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	43,352	27,146	70,498
2019 - 2023	239,684	110,378	350,062
2024 - 2028	282,886	62,603	345,489
2029 - 2031	193,653	11,107	204,760
Total	<u>919,303</u>	<u>334,946</u>	<u>1,254,249</u>
Due Within One Year	<u>(37,969)</u>	<u>(33,099)</u>	<u>(71,068)</u>
Due Beyond One Year	<u>\$ 881,334</u>	<u>\$ 301,847</u>	<u>\$ 1,183,181</u>

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2013**

**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 as follows:

<b>Year Ending</b>			
<b><u>June 30</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
2014	\$ 40,920	\$ -	\$ 40,920
2015	40,920	-	40,920
2016	40,920	-	40,920
Total	<u>122,760</u>	<u>-</u>	<u>122,760</u>
Due Within One Year	<u>(40,920)</u>	<u>-</u>	<u>(40,920)</u>
Due Beyond One Year	<u>\$ 81,840</u>	<u>\$ -</u>	<u>\$ 81,840</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 as follows:

<b>Year Ending</b>			
<b><u>June 30</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
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	27,163	719	27,882
Total	<u>129,242</u>	<u>10,264</u>	<u>139,506</u>
Due Within One Year	<u>(24,546)</u>	<u>(3,360)</u>	<u>(27,906)</u>
Due Beyond One Year	<u>\$ 104,696</u>	<u>\$ 6,904</u>	<u>\$ 111,600</u>

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**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 as follows:

<b>Year Ending</b>			
<b><u>June 30</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
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	70,000	22,250	92,250
2019 - 2023	<u>375,000</u>	<u>55,750</u>	<u>430,750</u>
Total	695,000	199,000	894,000
Due Within One Year	<u>(60,000)</u>	<u>(34,750)</u>	<u>(94,750)</u>
Due Beyond One Year	<u>\$ 635,000</u>	<u>\$ 164,250</u>	<u>\$ 799,250</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 as follows:

<b>Year Ending</b>			
<b><u>June 30</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
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>27,331</u>	<u>520</u>	<u>27,851</u>
Total	221,588	29,199	250,787
Due Within One Year	<u>(44,632)</u>	<u>(11,102)</u>	<u>(55,734)</u>
Due Beyond One Year	<u>\$ 176,956</u>	<u>\$ 18,097</u>	<u>\$ 195,053</u>

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

Long-term debt activity for the year ended June 30, 2013, was as follows:

	<u>Balance</u> <u>6/30/2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>6/30/2013</u>	<u>Due Within</u> <u>One Year</u>
<b><u>Business-Type Activities</u></b>					
<b>Water Fund</b>					
Davis-Grunsky Act Loan	\$ 2,368,550	\$ -	\$ (91,007)	\$ 2,277,543	\$ 92,857
ARRA Loan	165,100	-	(8,239)	156,861	10,910
I-Bank Loan	956,034	-	(36,731)	919,303	37,969
Total Water Fund	<u>3,489,684</u>	<u>-</u>	<u>(135,977)</u>	<u>3,353,707</u>	<u>141,736</u>
<b>Wastewater Fund</b>					
State Revolving Fund Loan #1	163,680	-	(40,920)	122,760	40,920
State Revolving Fund Loan #2	153,179	-	(23,937)	129,242	24,546
USDA Revenue Bonds	755,000	-	(60,000)	695,000	60,000
Umpqua Bank Loan	263,830	-	(42,242)	221,588	44,632
Total Wastewater Fund	<u>1,335,689</u>	<u>-</u>	<u>(167,099)</u>	<u>1,168,590</u>	<u>170,098</u>
Total	<u>\$ 4,825,373</u>	<u>\$ -</u>	<u>\$ (303,076)</u>	<u>4,522,297</u>	<u>\$ 311,834</u>
Due Within One Year				<u>(311,834)</u>	
Due Beyond One Year				<u>\$ 4,210,463</u>	

Interest expense included in the direct functional expenses of business-type activities was \$137,187.

Other long-term liability activity for the year ended June 30, 2013, was as follows:

	<u>Balance</u> <u>6/30/2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>6/30/2013</u>	<u>Due Within</u> <u>One Year</u>
<b><u>Governmental Activities</u></b>					
Compensated Absences	\$ 26,061	\$ 3,587	\$ -	\$ 29,648	\$ 21,923
OPEB	95,776	52,007	-	147,783	-
Total	<u>\$ 121,837</u>	<u>\$ 55,594</u>	<u>\$ -</u>	<u>\$ 177,431</u>	<u>\$ 21,923</u>
<b><u>Business-Type Activities</u></b>					
<b>Compensated Absences</b>					
Water	\$ 73,024	\$ -	\$ (4,290)	\$ 68,734	\$ 49,303
Wastewater	73,024	-	(4,290)	68,734	49,303
Total	<u>\$ 146,048</u>	<u>\$ -</u>	<u>\$ (8,580)</u>	<u>\$ 137,468</u>	<u>\$ 98,606</u>
<b>OPEB</b>					
Water	\$ 119,722	\$ 52,037	\$ -	\$ 171,759	\$ -
Wastewater	120,566	52,649	-	173,215	-
Total	<u>\$ 240,288</u>	<u>\$ 104,686</u>	<u>\$ -</u>	<u>\$ 344,974</u>	<u>\$ -</u>

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2013**

**NOTE 5 FUND BALANCE**

At June 30, 2013, the fund balance of the general fund has been restricted to reflect unexpended Quimby fees (collected in accordance with the Quimby Act) paid by developers as follows:

**Restricted Fund Balance**

	<b>Balance</b>
Park & Recreation Capital Projects - Coastal	\$ 41,549
Park & Recreation Capital Projects - Inland	258,847
Total Restricted Fund Balance	<b>\$ 300,396</b>

**Committed Fund Balance**

At June 30, 2013, in accordance with the District's reserve policy, the fund balance of the general fund has been committed (see Note 1 for more information about committed fund balance) as follows:

<b>Reserve Description</b>	<b>Target Reserve Balance</b>	<b>Reserve Balance</b>
Operations	180 Days of Operating Expenses	\$ 162,641
Capital Asset Repair and Replacement	10% of Capital Asset Replacement Cost	390,164
Catastrophe	2% of Capital Assets	78,033
Compensated Absences	Equal to Compensated Absences Liability	29,648
Other Post Employment Benefits (OPEB)	Equal to OPEB Liability	147,783
Total Committed Fund Balance		<b>\$ 808,269</b>

**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](http://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.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2013**

**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 (unfunded liability) as of the most recent actuarial valuation (June 30, 2011) was \$25,506.

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 2012-13 was 9.144%. Beginning in January 2014, the District's required contribution rate will increase to 9.690%.

**Annual Pension Cost and Funded Status**

For the fiscal year ended June 30, 2013, the District's annual pension cost was \$186,934. 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, 2010, risk pool actuarial valuation. A summary of the principal assumptions and methods used to determine the contractually required contribution is as follows:

<b>Actuarial Cost Method</b>	Entry Age Normal Cost Method
<b>Amortization Method</b>	Level Percent of Payroll
<b>Average Remaining Period</b>	16 Years as of Valuation Date
<b>Asset Valuation Method</b>	15 Year Smoothed Market
<b>Actuarial Assumptions</b>	(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>
06/30/11	\$ 173,808	100%	\$ -
06/30/12	\$ 178,113	100%	\$ -
06/30/13	\$ 186,934	100%	\$ -

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2013**

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

Actuarial Valuation Date	(A) Actuarial Value of Assets	(B) Entry Age Actuarial Accrued Liability	(C) Excess Assets/ (Unfunded Liability) [(A) - (B)]	(D) Funded Ratio [(A)/(B)]	(E) Annual Covered Payroll	(F) Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll [(C)/(E)]
06/30/11	\$ 3,203,215	\$ 3,619,836	\$(416,621)	88.5%	\$ 759,264	54.9%

A schedule of funding progress for the three most recent actuarial valuations is presented as required supplementary information following the notes to the financial statements.

**NOTE 7 POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS**

**Plan Description**

The District sponsors and administers a single-employer defined benefit postemployment health care plan (the Plan) to provide healthcare benefits to eligible retired employees and their dependents. District resolutions and regulations assign responsibility to establish and amend benefit provisions to the District. Although the District has not yet established a separate post employment benefit (OPEB) trust fund, the District has committed funds in accordance with its reserve policy equal to its OPEB liability at June 30, 2013 (\$492,757).

**Funding Policy**

The contribution requirements of plan members and the District are established and may be amended by the District. The required contribution is based on projected pay-as-you-go financing, with additional amounts to prefund benefits as determined annually by the District's Board of Directors. For the fiscal year ended June 30, 2013, the District contributed \$94,354 of its annual required contribution of \$251,047. As a result, the net OPEB liability increased by \$156,693 during the fiscal year.

**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.



**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

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)	\$ 251,047
Interest on Net OPEB Obligation	16,803
Adjustments to the ARC	<u>(16,803)</u>
Annual OPEB Cost	251,047
Contributions Made	<u>(94,354)</u>
Change in Net OPEB Obligation	156,693
Net OPEB Obligation - Beginning of Year	<u>336,064</u>
Net OPEB Obligation - End of Year	<u>\$ 492,757</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, 2013, and the two preceding fiscal years, were as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
06/30/11	\$ 170,709	34.9%	\$ 230,644
06/30/12	\$ 181,558	41.9%	\$ 336,064
06/30/13	\$ 251,047	37.6%	\$ 492,757

**Funded Status**

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

<u>Actuarial Valuation Date</u>	<u>(A) Actuarial Value of Assets</u>	<u>(B) Entry Age Actuarial Accrued Liability</u>	<u>(C) Excess Assets/ (Unfunded Liability) [(A) - (B)]</u>	<u>(D) Funded Ratio [(A)/(B)]</u>	<u>(E) Annual Covered Payroll</u>	<u>(F) Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll [(C)/(E)]</u>
06/01/13	\$ -	\$ 2,692,157	\$(2,692,157)	0.0%	\$ 1,249,028	215.5%

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

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

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial liabilities and the actuarial value of plan assets, consistent with the long-term perspective of the calculations. In the June 1, 2013, valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 5% investment rate of return, a 3.0% rate of inflation, annual healthcare trend rate of 4%, and a 3% payroll increase. There were no plan assets at the valuation date.

**NOTE 8 PROPERTY TAXES**

The County of Humboldt (the County) is responsible for assessing, collecting, and apportioning property taxes within the County. 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. 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.

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 District's property tax revenues totaling \$39,325. During the year of borrowing, the property tax revenues were recognized as a receivable in the government-wide financial statements while in the governmental fund financial statements the borrowed property tax revenues were not permitted to be recognized as revenue until received. Accordingly, property tax revenues were recognized in the governmental fund financial statements during 2012-13 when the District received payment from the State.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**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.

**Capital Project Commitments**

The District has active capital projects, as outlined in its Capital Improvement Plan, in which it has entered or will enter into significant agreements for the design and construction of these projects.

**Grants and Allocations**

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

**Wastewater Discharge Permit and the California Toxic Rule**

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

**NOTE 10 RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the District carries insurance. The District, due to the costs of available coverage, participates as a member of the Special District Risk Management Authority (SDRMA). The District's obligations under the arrangement are to pay billed premiums for the specified coverages. The SDRMA may pay dividends to members or may make additional assessments depending on loss experience, but no dividends have been declared and no additional assessments have been levied. Financial information pertaining to SDRMA can be obtained from its administrative offices at 1112 I Street, Suite 300, Sacramento, California 95814.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2013**

Below is a summary of the District's insurance coverage for the year ended June 30, 2013:

<u>Type of Coverage</u>	<u>Coverge per Occurrence</u>
General Liability	\$ 5,000,000
Public Officials and Employees Errors	5,000,000
Personal Liability - Board Members	500,000
Employment Practices Liability	5,000,000
Employee Benefits Liability	5,000,000
Employee Dishonesty Coverage	400,000
Auto Liability	5,000,000
Auto Physical Damage	Actual Value
Uninsured/Underinsured Motorists	1,000,000
Trailer Coverage	Actual Value
Property Coverage	Replacement Cost up to \$1 Billion
Boiler and Machinery Coverage	Replacement Cost up to \$100 Million
Workers' Compensation	Statutory
Employers' Liability Coverage	5,000,000

There have been no significant changes in insurance coverage during the fiscal year other than disclosed in the above paragraphs. Settlements have not exceeded coverage for each of the past three fiscal years. The District had no material uninsured claim liabilities at June 30, 2013.

**NOTE 11 WATER PURCHASE CONTRACT**

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

**NOTE 12 RESTATEMENTS**

**Governmental Funds**

The District recorded a prior period adjustment totaling \$320,546 to increase the beginning fund balance and net position of the District's governmental funds. The adjustment related to the recording of parks and recreation capital project funds that are collected and held by the County of Humboldt Treasurer until requested by the District for use in qualifying capital projects.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**Water and Wastewater Funds**

The District recorded a prior period adjustment totaling \$9,604 and \$30,024 to decrease the beginning net position of the District's water and wastewater funds, respectively.

The adjustment related to the implementation of the Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which required the District to expense previously capitalized debt issuance costs.

**NOTE 13 SUBSEQUENT EVENTS**

The District's management has evaluated subsequent events through December 30, 2013, 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, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<b>Fund Balance - July 1, As Restated</b>	\$ 1,173,167	\$ 1,173,167	\$ 1,173,167	\$ -
<b>Resources (Inflows)</b>				
Property Taxes	530,000	530,000	560,445	30,445
Program Fees	345,800	345,800	401,152	55,352
Facility Rentals and Related Fees	53,226	53,226	61,075	7,849
Unrestricted Investment Earnings	3,000	3,000	2,883	(117)
Other Revenues	240,555	240,555	40,297	(200,258)
<b>Amounts Available for Appropriations</b>	<u>2,345,748</u>	<u>2,345,748</u>	<u>2,239,019</u>	<u>(106,729)</u>
<b>Charges to Appropriations (Outflows)</b>				
Salaries and Benefits	793,190	793,190	780,596	(12,594)
Other Expenditures	219,805	219,805	276,734	56,929
Capital Outlay	158,000	158,000	73,024	(84,976)
<b>Total Charges to Appropriations</b>	<u>1,170,995</u>	<u>1,170,995</u>	<u>1,130,354</u>	<u>(40,641)</u>
<b>Fund Balance - June 30</b>	<u><u>\$ 1,174,753</u></u>	<u><u>\$ 1,174,753</u></u>	<u><u>\$ 1,108,665</u></u>	<u><u>\$ (66,088)</u></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	\$ 2,239,019
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>(1,173,167)</u>
Total revenue as reported in the statement of revenues, expenditures, and changes in fund balances - governmental funds	1,065,852

**Charges to Appropriations (Outflows):**

Total expenditures as reported in the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>1,130,354</u>
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**Net Change in Fund Balance** \$ (64,502)

See accompanying notes.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
MEASURE B FUND  
For the Fiscal Year Ended June 30, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<b>Fund Balance - July 1</b>	\$ 105,118	\$ 105,118	\$ 105,118	\$ -
<b>Resources (Inflows)</b>				
Special Assessments	209,000	209,000	205,420	(3,580)
Unrestricted Investment Earnings	-	-	332	332
<b>Amounts Available for Appropriations</b>	<u>314,118</u>	<u>314,118</u>	<u>310,870</u>	<u>(3,248)</u>
<b>Charges to Appropriations (Outflows)</b>				
Salaries and Benefits	39,000	39,000	10,876	(28,124)
Other Expenditures	3,000	3,000	7,998	4,998
Capital Outlay	167,000	167,000	18,987	(148,013)
<b>Total Charges to Appropriations</b>	<u>209,000</u>	<u>209,000</u>	<u>37,861</u>	<u>(171,139)</u>
<b>Fund Balance - June 30</b>	<u>\$ 105,118</u>	<u>\$ 105,118</u>	<u>\$ 273,009</u>	<u>\$ 167,891</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	\$ 310,870
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>(105,118)</u>
Total revenue as reported in the statement of revenues, expenditures and changes in fund balances - governmental funds	205,752

**Charges to Appropriations (Outflows):**

Total expenditures as reported in the statement of revenues, expenditures and changes in fund balances - governmental funds	<u>37,861</u>
<b>Net Change in Fund Balance</b>	<u>\$ 167,891</u>

See accompanying notes.



**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
STREETLIGHTING FUND  
For the Fiscal Year Ended June 30, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<b>Fund Balance - July 1</b>	\$ (57,138)	\$ (57,138)	\$ (57,138)	\$ -
<b>Resources (Inflows)</b>				
Streetlight Charges & Fees	83,829	83,829	85,715	1,886
Proceeds from Long-Term Debt	155,000	155,000	-	(155,000)
Other Revenues	-	-	57	57
<b>Amounts Available for Appropriations</b>	<u>181,691</u>	<u>181,691</u>	<u>28,634</u>	<u>(153,057)</u>
<b>Charges to Appropriations (Outflows)</b>				
Salaries and Benefits	40,026	40,026	35,260	(4,766)
Other Expenditures	42,541	42,541	47,235	4,694
Capital Outlay	155,000	155,000	17,250	(137,750)
<b>Total Charges to Appropriations</b>	<u>237,567</u>	<u>237,567</u>	<u>99,745</u>	<u>(137,822)</u>
<b>Fund Balance - June 30</b>	<u>\$ (55,876)</u>	<u>\$ (55,876)</u>	<u>\$ (71,111)</u>	<u>\$ (15,235)</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	\$ 28,634
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>57,138</u>
Total revenue as reported in the statement of revenues, expenditures, and changes in fund balances - governmental funds	85,772

**Charges to Appropriations (Outflows):**

Total expenditures as reported in the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>99,745</u>
<b>Net Change in Fund Balance</b>	<u>\$ (13,973)</u>

See accompanying notes.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT  
SCHEDULE OF FUNDING PROGRESS  
For the Fiscal Year Ended June 30, 2013**

**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
06/30/09	\$ 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%
06/30/11	\$ 3,203,215	\$ 3,619,836	\$ (416,621)	88.5%	\$ 759,264	54.9%

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](http://www.calpers.ca.gov). The June 30, 2012 actuarial valuation was not available at the time the financial statements were issued.

**2. OTHER POST EMPLOYMENT BENEFITS**

The District sponsors and administers a single-employer defined benefit postemployment healthcare plan (the Plan) to provide healthcare benefits to eligible retired employees and their dependents. The following schedule presents information about the funded status for the Plan's two actuarial valuations 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%
06/01/13	\$ -	\$ 2,692,157	\$ (2,692,157)	0.00%	\$1,249,028	215.54%

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 2015-16.

See accompanying notes.

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

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors  
McKinleyville Community Services District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the business-type activities of McKinleyville Community Services District (the District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise McKinleyville Community Services District's basic financial statements, and have issued our report thereon dated December 30, 2013.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests

disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the District in a separate letter dated December 30, 2013.

**Purpose of this Report**

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

*Hunter, Hunter + Hunt*

December 30, 2013