

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
BASIC FINANCIAL STATEMENTS
AND
REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2014

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 - 9
BASIC FINANCIAL STATEMENTS:	
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 - 40
REQUIRED SUPPLEMENTARY INFORMATION:	
Budgetary Comparison Schedule – General Fund (Parks and Recreation Fund)	41
Budgetary Comparison Schedule – Measure B Fund	42
Budgetary Comparison Schedule – Streetlighting Fund	43
Schedule of Funding Progress – Defined Benefit Pension Plan And Other Post Employment Benefits	44
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 <i>Government Auditing Standards</i>	45 - 46

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, 2014, 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 and the State Controller's Minimum Audit Requirements and Reporting Guidelines for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2014, 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 41 through 43, and the schedule of funding progress on page 44 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 10, 2014, 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 10, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2014**

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, 2014. 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 position may serve as a useful indicator of whether the financial position of the District is improving or declining. The statement of activities presents information showing how the District's net position changed during the most recent fiscal year.

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

- **Governmental Activities** – Included are the District's parks, recreation programs, open space zones and streetlight zones. This also accounts for management of the District's buildings at Pierson Park (Azalea Hall, activity center, library, 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, 2014**

- **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 increased by approximately \$297,000 or 5.8% in comparison to the prior year while capital assets and other non-current assets increased by approximately \$945,000 or 4.1%.
- Current liabilities increased by approximately \$243,000 or 32.3% in comparison to the prior year while long-term liabilities increased by approximately \$4,000 or 0.1%.
- Overall, the District's net position increased by approximately \$995,000 or 4.3% as a result of this year's operations.
- Total program revenues increased by approximately \$1,350,000 or 30.1% over the prior year while program expenses increased by approximately \$108,000 or 2.0%.
- The District's general revenues increased by approximately \$5,000 over the prior year or 0.8%.

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, 2014**

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

	<u>Fiscal Year Ended June 30,</u>		<u>Change</u>
	<u>2014</u>	<u>2013</u>	
Assets			
Current	\$ 1,135,252	\$ 1,101,931	\$ 33,321
Non-Current			
Net Capital Assets	3,410,403	3,154,699	255,704
Other	184,238	307,247	(123,009)
Total Assets	<u>4,729,893</u>	<u>4,563,877</u>	<u>166,016</u>
Liabilities			
Current	198,074	120,538	77,536
Non-Current	313,681	155,508	158,173
Total Liabilities	<u>511,755</u>	<u>276,046</u>	<u>235,709</u>
Net Position			
Net Investment in Capital Assets	3,312,222	3,154,699	157,523
Restricted	176,827	300,396	(123,569)
Unrestricted	729,089	832,736	(103,647)
Total Net Position	<u>\$ 4,218,138</u>	<u>\$ 4,287,831</u>	<u>\$ (69,693)</u>

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

	<u>Fiscal Year Ended June 30,</u>		<u>Change</u>
	<u>2014</u>	<u>2013</u>	
Assets			
Current	\$ 4,292,961	\$ 4,028,796	\$ 264,165
Non-Current			
Net Capital Assets	18,750,640	18,555,388	195,252
Other	1,875,808	1,259,022	616,786
Total Assets	<u>24,919,409</u>	<u>23,843,206</u>	<u>1,076,203</u>
Liabilities			
Current	797,551	632,336	165,215
Non-Current	4,440,511	4,594,299	(153,788)
Total Liabilities	<u>5,238,062</u>	<u>5,226,635</u>	<u>11,427</u>
Net Position			
Net Investment in Capital Assets	14,540,233	14,033,103	507,130
Restricted	1,777,362	1,170,470	606,892
Unrestricted	3,363,752	3,412,998	(49,246)
Total Net Position	<u>\$19,681,347</u>	<u>\$18,616,571</u>	<u>\$ 1,064,776</u>

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2014**

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 decreased by \$89,688 or 6.4%;
- Net capital assets increased by \$255,704 or 8.1%;
- Total liabilities increased by \$235,709 or 85.4%;
- Net investment in capital assets increased by \$157,523 or 5.0%;
- Restricted net position decreased by \$123,569 or 41.1%;
- Unrestricted net position decreased by \$103,647 or 12.4%.

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 increased by \$880,951 or 16.7%;
- Net capital assets increased by \$195,252 or 10.5%;
- Total liabilities increased by \$11,427 or 0.2%;
- Net investment in capital assets increased by \$507,130 or 3.6%;
- Restricted net position increased by \$606,892 or 51.9%;
- Unrestricted net position decreased by \$49,246 or 1.4%.

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

	Fiscal Year Ended June 30,		Change
	2014	2013	
Revenues			
Program			
Charges for Services and Facilities	\$ 777,963	\$ 753,362	\$ 24,601
Operating Grants and Contributions	33,252	22,315	10,937
General			
Property Taxes	516,221	521,120	(4,899)
Other Income	25,735	18,039	7,696
Unrestricted Investment Earnings	6,755	3,215	3,540
Total Revenues	1,359,926	1,318,051	41,875
Expenses			
Recreation, Parks, Open Space, Facilities, and Other Activities	1,332,874	1,291,644	41,230
Streetlighting	96,745	95,106	1,639
Total Expenses	1,429,619	1,386,750	42,869
Change in Net Position	(69,693)	(68,699)	(994)
Net Position - Beginning of Year	4,287,831	4,356,530	(68,699)
Net Position - End of Year	\$ 4,218,138	\$ 4,287,831	\$ (69,693)

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2014**

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 \$41,875 or 3.2%;
- Total expenses increased by \$42,869 or 3.1%;
- Net position decreased by \$69,693 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 increased by \$1,313,388 or 34.5%;
- Total expenses increased by \$64,693 or 1.6%;
- Net position increased by \$1,064,776 or 5.7%.

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

	Fiscal Year Ended June 30,		Change
	2014	2013	
Revenues			
Program			
Charges for Services - Water	\$ 2,359,812	\$ 1,771,344	\$ 588,468
Charges for Services - Wastewater	1,824,744	1,541,957	282,787
Capital Grants and Contributions - Water	411,611	159,828	251,783
Capital Grants and Contributions - Wastewater	435,099	243,336	191,763
General			
Other Income	59,976	54,659	5,317
Gain (Loss) on Sale of Asset	1,124	7,500	(6,376)
Unrestricted Investment Earnings	30,912	31,266	(354)
Total Revenues	5,123,278	3,809,890	1,313,388
Expenses			
Water	2,270,950	2,171,265	99,685
Wastewater	1,787,552	1,822,544	(34,992)
Total Expenses	4,058,502	3,993,809	64,693
Change in Net Position	1,064,776	(183,919)	1,248,695
Net Position - Beginning of Year	18,616,571	18,800,490	(183,919)
Net Position - End of Year	\$ 19,681,347	\$ 18,616,571	\$ 1,064,776

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, 2014**

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

- Total assets increased by \$10,239 or 0.7%;
- Total liabilities increased by \$171,920 or 99.4%;
- Total fund balance decreased by \$161,681 or 12.3%;
- Total revenues decreased by \$1,904 or 0.1%;
- Total expenditures increased by \$347,374 or 27.4%;
- Total other financing sources increased by \$98,181 or 100.0%.

Proprietary Funds

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

- Total water fund assets increased by \$540,460 or 6.3%;
- Total wastewater fund assets increased by \$535,743 or 3.5%;
- Total water fund liabilities increased by \$9,173 or 0.2%;
- Total wastewater fund liabilities increased by \$2,254 or 0.2%;
- Total water fund net position increased by \$531,287 or 11.1%;
- Total wastewater fund net position increased by \$533,489 or 3.9%;
- Total water fund operating revenues increased by \$588,468 or 33.2% while operating expenses increased by \$104,157 or 5.0%;
- Total wastewater fund operating revenues increased by \$282,787 or 18.4% while operating expenses decreased by \$30,586 or 1.7%.

General Fund Budgetary Highlights

Actual revenues were lower than budgetary estimates by approximately \$66,000 primarily due to lower than anticipated Quimby fees. Actual expenditures were higher than budgetary estimates by approximately \$86,000 primarily due to capital outlays related to the purchase of the Washington Avenue property and Pierson Park improvements.

Capital Assets

As of June 30, 2014, the District's investment in capital assets (net of accumulated depreciation) for its governmental and business-type activities equaled \$3,410,403 and \$18,750,640, respectively. Detailed information about the components of capital assets is included in Note 3 to the basic financial statements. Net capital assets increased by \$255,704 (8.1%) for governmental activities as capital asset purchases exceeded depreciation. Similarly, net capital assets increased by \$195,252 (1.1%) for business-type activities capital asset purchases exceeded depreciation.

Debt

As of June 30, 2014, the District's debt for its governmental and business-type activities totaled \$98,181 and \$4,210,407, respectively. Overall, the District experienced a net decrease in its debt balance from the prior year equal to \$213,709 (4.7%). The decrease was the result of principal repayment exceeding 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, 2014**

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.
- With the completion of the Streetlighting LED Project, the District expects to realize a full year of reduced energy costs for its Streetlighting Fund in fiscal year 2014-15.
- The District expects continued increases in its water and wastewater revenues as it continues to implement phased water and wastewater rate increases.
- 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. 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, 2014

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 1,009,247	\$ 3,698,403	\$ 4,707,650
Accounts Receivable	26,347	419,861	446,208
State Grants Receivable	-	79,575	79,575
Interest Receivable	1,477	7,038	8,515
Loan Proceeds Receivable	98,181	-	98,181
Inventory	-	88,084	88,084
Total Current Assets	<u>1,135,252</u>	<u>4,292,961</u>	<u>5,428,213</u>
Non-Current Assets			
Restricted Cash and Cash Equivalents	184,238	1,875,808	2,060,046
Net Capital Assets	3,410,403	18,750,640	22,161,043
Total Non-Current Assets	<u>3,594,641</u>	<u>20,626,448</u>	<u>24,221,089</u>
Total Assets	<u>4,729,893</u>	<u>24,919,409</u>	<u>29,649,302</u>
LIABILITIES			
Current Liabilities			
Accounts Payable	79,376	270,863	350,239
Accrued Liabilities	79,367	-	79,367
Customer Deposits	7,411	98,446	105,857
Interest Payable	-	26,512	26,512
Compensated Absences, Due Within One Year	21,960	83,450	105,410
Bonds and Loans, Due Within One Year	9,960	318,280	328,240
Total Current Liabilities	<u>198,074</u>	<u>797,551</u>	<u>995,625</u>
Non-Current Liabilities			
Compensated Absences, Due Beyond One Year	18,823	84,940	103,763
Revenue Bonds, Due Beyond One Year	-	575,000	575,000
Loans, Due Beyond One Year	88,221	3,317,127	3,405,348
Net Other Post Employment Benefit Obligation	206,637	463,444	670,081
Total Non-Current Liabilities	<u>313,681</u>	<u>4,440,511</u>	<u>4,754,192</u>
Total Liabilities	<u>511,755</u>	<u>5,238,062</u>	<u>5,749,817</u>
NET POSITION			
Net Investment in Capital Assets	3,312,222	14,540,233	17,852,455
Restricted for:			
Capital Outlay	176,827	958,762	1,135,589
Debt Service	-	818,600	818,600
Unrestricted	729,089	3,363,752	4,092,841
Total Net Position	<u>\$ 4,218,138</u>	<u>\$ 19,681,347</u>	<u>\$ 23,899,485</u>

See accompanying notes.

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2014

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges For Services and Facilities	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Totals
Functions/Programs							
Governmental Activities							
Parks and Recreation Services	\$ 1,244,604	\$ 482,205	\$ 30,252	\$ -	\$ (732,147)	\$ -	\$ (732,147)
Measure B	88,270	206,270	3,000	-	121,000	-	121,000
Streetlighting	96,745	89,488	-	-	(7,257)	-	(7,257)
Total Governmental Activities	<u>1,429,619</u>	<u>777,963</u>	<u>33,252</u>	<u>-</u>	<u>(618,404)</u>	<u>-</u>	<u>(618,404)</u>
Business-Type Activities							
Water	2,270,950	2,359,812	-	411,611	-	500,473	500,473
Wastewater	1,787,552	1,824,744	-	435,099	-	472,291	472,291
Total Business-Type Activities	<u>4,058,502</u>	<u>4,184,556</u>	<u>-</u>	<u>846,710</u>	<u>-</u>	<u>972,764</u>	<u>972,764</u>
Total	<u>\$ 5,488,121</u>	<u>\$ 4,962,519</u>	<u>\$ 33,252</u>	<u>\$ 846,710</u>	<u>(618,404)</u>	<u>972,764</u>	<u>354,360</u>
General Revenues							
Property Taxes					516,221	-	516,221
Other Income					25,735	59,976	85,711
Gain on Sale of Capital Assets					-	1,124	1,124
Unrestricted Investment Earnings					6,755	30,912	37,667
Total General Revenues					<u>548,711</u>	<u>92,012</u>	<u>640,723</u>
Change in Net Position					<u>(69,693)</u>	<u>1,064,776</u>	<u>995,083</u>
Net Position - Beginning of Year					<u>4,287,831</u>	<u>18,616,571</u>	<u>22,904,402</u>
Net Position - End of Year					<u>\$ 4,218,138</u>	<u>\$ 19,681,347</u>	<u>\$ 23,899,485</u>

See accompanying notes.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014**

	General (Parks and Recreation)	Measure B	Streetlighting	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 742,579	\$ 266,668	\$ -	\$ 1,009,247
Accounts Receivable	22,186	-	4,161	26,347
Due From Other Funds	174,284	-	-	174,284
Interest Receivable	1,477	-	-	1,477
Loan Proceeds Receivable	-	-	98,181	98,181
Restricted Cash and Cash Equivalents	184,238	-	-	184,238
Total Assets	\$ 1,124,764	\$ 266,668	\$ 102,342	\$ 1,493,774
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts Payable	\$ 77,138	\$ 1,684	\$ 554	\$ 79,376
Due to Other Funds	-	-	174,284	174,284
Accrued Liabilities	79,367	-	-	79,367
Customer Deposits	7,411	-	-	7,411
Unearned Revenues	4,454	-	-	4,454
Total Liabilities	168,370	1,684	174,838	344,892
Fund Balance				
Restricted for:				
Capital Outlay	176,827	-	-	176,827
Committed	779,567	-	-	779,567
Assigned	-	264,984	-	264,984
Unassigned	-	-	(72,496)	(72,496)
Total Fund Balance	956,394	264,984	(72,496)	1,148,882
Total Liabilities and Fund Balance	\$ 1,124,764	\$ 266,668	\$ 102,342	\$ 1,493,774

See accompanying notes.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION
June 30, 2014**

Total Fund Balance - Governmental Funds (page 12) \$ 1,148,882

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

Receivables that are not available to provide current financial resources and, therefore, are reported as unearned revenues in the governmental funds. 4,454

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	6,120,342
Accumulated Depreciation	(2,709,939)

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 Postemployment Benefit Obligation	(206,637)
Loan Payable	(98,181)
Compensated Absences	(40,783)
	(345,601)

Net Position - Governmental Activities (page 10) \$ 4,218,138

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, 2014**

	<u>General (Parks and Recreation)</u>	<u>Measure B</u>	<u>Streetlighting</u>	<u>Total Governmental Funds</u>
REVENUES				
General Revenues				
Property Taxes	\$ 516,221	\$ -	\$ -	\$ 516,221
Special Assessments	-	206,270	-	206,270
Total General Revenues	516,221	206,270	-	722,491
Charges for Services and Facilities	482,205	-	89,488	571,693
Grants and Contributions	30,252	3,000	-	33,252
Other Income	5,781	-	15,500	21,281
Unrestricted Investment Earnings	6,420	335	-	6,755
Total Revenues	<u>1,040,879</u>	<u>209,605</u>	<u>104,988</u>	<u>1,355,472</u>
EXPENDITURES				
Current				
Recreation Programs, Parks, Open Space, Facilities, and Other Cultural Activities	1,015,687	88,270	80,604	1,184,561
Capital Outlay	177,463	129,360	123,950	430,773
Total Expenditures	<u>1,193,150</u>	<u>217,630</u>	<u>204,554</u>	<u>1,615,334</u>
Excess (Deficiency) of Expenditures over Revenues	<u>(152,271)</u>	<u>(8,025)</u>	<u>(99,566)</u>	<u>(259,862)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from Long-Term Debt	-	-	98,181	98,181
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>98,181</u>	<u>98,181</u>
Net Change in Fund Balance	<u>(152,271)</u>	<u>(8,025)</u>	<u>(1,385)</u>	<u>(161,681)</u>
Fund Balance - Beginning of Year	<u>1,108,665</u>	<u>273,009</u>	<u>(71,111)</u>	<u>1,310,563</u>
Fund Balance - End of Year	<u>\$ 956,394</u>	<u>\$ 264,984</u>	<u>\$ (72,496)</u>	<u>\$ 1,148,882</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, 2014**

Change in Fund Balance - Governmental Funds (page 14)	\$ (161,681)
<p>Amounts reported for governmental activities in the statement of activities (page 11) are different because:</p>	
<p>Some revenues reported in the statement of activities do not provide current financial resources and, therefore, are not reported as revenues in the governmental funds.</p>	4,454
<p>Proceeds from long-term debt provides current financial resources and, therefore, are reported as other financing sources in governmental funds. Conversely, the proceeds from long-term debt have no impact on net position.</p>	(98,181)
<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>	255,704
<p>Some expenses reported in the statement of activities do no 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 Postemployment Benefit Obligation	(58,854)
Compensated Absences	<u>(11,135)</u>
Change in Net Position - Governmental Activities (page 11)	<u>\$ (69,693)</u>

See accompanying notes.

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2014

	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 747,834	\$ 2,950,569	\$ 3,698,403
Accounts Receivable	241,640	178,221	419,861
State Grants Receivable	79,575	-	79,575
Interest Receivable	3,245	3,793	7,038
Inventory	64,326	23,758	88,084
Total Current Assets	<u>1,136,620</u>	<u>3,156,341</u>	<u>4,292,961</u>
Non-Current Assets			
Restricted Cash and Cash Equivalents	1,025,832	849,976	1,875,808
Net Capital Assets	6,953,633	11,797,007	18,750,640
Total Non-Current Assets	<u>7,979,465</u>	<u>12,646,983</u>	<u>20,626,448</u>
Total Assets	<u>9,116,085</u>	<u>15,803,324</u>	<u>24,919,409</u>
LIABILITIES			
Current Liabilities			
Accounts Payable	147,604	123,259	270,863
Customer Deposits	98,446	-	98,446
Interest Payable	12,375	14,137	26,512
Compensated Absences, Due Within One Year	41,725	41,725	83,450
Bonds and Loans, Due Within One Year	145,021	173,259	318,280
Total Current Liabilities	<u>445,171</u>	<u>352,380</u>	<u>797,551</u>
Non-Current Liabilities			
Compensated Absences, Due Beyond One Year	42,470	42,470	84,940
Revenue Bonds, Due Beyond One Year	-	575,000	575,000
Loans, Due Beyond One Year	3,066,950	250,177	3,317,127
Net Other Post Employment Benefit Obligation	230,648	232,796	463,444
Total Non-Current Liabilities	<u>3,340,068</u>	<u>1,100,443</u>	<u>4,440,511</u>
Total Liabilities	<u>3,785,239</u>	<u>1,452,823</u>	<u>5,238,062</u>
NET POSITION			
Net Investment in Capital Assets	3,741,662	10,798,571	14,540,233
Restricted for:			
Capital Outlay	269,603	689,159	958,762
Debt Service	657,783	160,817	818,600
Unrestricted	661,798	2,701,954	3,363,752
Total Net Position	<u>\$ 5,330,846</u>	<u>\$ 14,350,501</u>	<u>\$ 19,681,347</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, 2014

	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
Operating Revenues			
Sale of Water	\$ 2,229,197	\$ -	\$ 2,229,197
Sewer Charges	-	1,765,837	1,765,837
Other Operating Revenue	130,615	58,907	189,522
Total Operating Revenues	<u>2,359,812</u>	<u>1,824,744</u>	<u>4,184,556</u>
Operating Expenses			
Personnel Services	766,824	843,382	1,610,206
Purchased Water	801,270	-	801,270
Contracted Services	74,439	61,804	136,243
Utilities	49,136	110,316	159,452
Insurance	26,668	26,168	52,836
Repairs, Supplies, and Other Expenses	167,440	236,540	403,980
Depreciation and Amortization	303,585	462,621	766,206
Total Operating Expenses	<u>2,189,362</u>	<u>1,740,831</u>	<u>3,930,193</u>
Operating Income (Loss)	<u>170,450</u>	<u>83,913</u>	<u>254,363</u>
Non-Operating Revenues (Expenses)			
Interest Expense	(81,588)	(46,721)	(128,309)
Unrestricted Investment Earnings	11,079	19,833	30,912
Gain on Sale of Capital Assets	562	562	1,124
State Grants	79,575	-	79,575
Other Income	19,173	40,803	59,976
Total Non-Operating Revenues (Expenses)	<u>28,801</u>	<u>14,477</u>	<u>43,278</u>
Income (Loss) Before Capital Contributions and Transfers	<u>199,251</u>	<u>98,390</u>	<u>297,641</u>
Transfers and Capital Contributions			
Capital Contributions - Capacity Fees	150,221	228,519	378,740
Capital Contributions - Infrastructure	181,815	206,580	388,395
Total Transfers and Capital Contributions	<u>332,036</u>	<u>435,099</u>	<u>767,135</u>
Change in Net Position	<u>531,287</u>	<u>533,489</u>	<u>1,064,776</u>
Net Position - Beginning of Year	<u>4,799,559</u>	<u>13,817,012</u>	<u>18,616,571</u>
Net Position - End of Year	<u>\$ 5,330,846</u>	<u>\$ 14,350,501</u>	<u>\$ 19,681,347</u>

See accompanying notes.

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2014

	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
Cash Flows from Operating Activities			
Cash Receipts from Customers	\$ 2,271,100	\$ 1,813,776	\$ 4,084,876
Cash Received from Interfund Services	21,442	-	21,442
Cash Paid to Suppliers of Goods and Services	(1,068,081)	(337,717)	(1,405,798)
Cash Paid to Employees for Services	(692,474)	(768,340)	(1,460,814)
Cash Paid for Interfund Services	-	(14,129)	(14,129)
Net Cash Provided (Used) by Operating Activities	<u>531,987</u>	<u>693,590</u>	<u>1,225,577</u>
Cash Flows from Capital and Related Financing Activities			
Capital Contributions - Capacity Fees	150,221	228,519	378,740
Proceeds from Sale of Equipment	562	562	1,124
Principal Paid on Long-Term Debt	(141,736)	(170,154)	(311,890)
Acquisition and Construction of Capital Assets	(101,953)	(439,728)	(541,681)
Interest and Fees Paid on Long-Term Debt	(82,122)	(46,811)	(128,933)
Net Cash Provided (Used) in Capital Financing Activities	<u>(175,028)</u>	<u>(427,612)</u>	<u>(602,640)</u>
Cash Flows from Non-Operating Activities			
Receipts from Other Income	19,173	40,803	59,976
Net Cash Provided (Used) by Non-Operating Activities	<u>19,173</u>	<u>40,803</u>	<u>59,976</u>
Cash Flows from Investing Activities			
Proceeds from Investment Earnings	10,345	19,246	29,591
Net Cash Provided (Used) by Investing Activities	<u>10,345</u>	<u>19,246</u>	<u>29,591</u>
Increase (Decrease) in Cash and Cash Equivalents	<u>386,477</u>	<u>326,027</u>	<u>712,504</u>
Unrestricted Cash - Beginning of Year	522,311	3,080,374	3,602,685
Restricted Cash - Beginning of Year	864,878	394,144	1,259,022
Total Restricted and Unrestricted Cash and Cash Equivalents - Beginning of Year	<u>1,387,189</u>	<u>3,474,518</u>	<u>4,861,707</u>
Unrestricted Cash - End of Year	747,834	2,950,569	3,698,403
Restricted Cash - End of Year	1,025,832	849,976	1,875,808
Total Restricted and Unrestricted Cash and Cash Equivalents - End of Year	<u>\$ 1,773,666</u>	<u>\$ 3,800,545</u>	<u>\$ 5,574,211</u>
Reconciliation of Operating Loss to Net Cash Flows from Operating Activities			
Operating Income (Loss)	\$ 170,450	\$ 83,913	\$ 254,363
Adjustments to Reconcile Operating Loss to Net Cash Flows Provided by Operating Activities:			
Depreciation	303,585	462,621	766,206
(Increase) Decrease in Accounts Receivable	(77,164)	(10,968)	(88,132)
(Increase) Decrease in Inventory	(636)	1,217	581
Increase (Decrease) in Accounts Payable	51,508	81,765	133,273
Increase (Decrease) in Customer Deposits	9,894	-	9,894
Increase (Decrease) in Payroll Related Liabilities	74,350	75,042	149,392
Net Cash Flows from Operating Activities	<u>\$ 531,987</u>	<u>\$ 693,590</u>	<u>\$ 1,225,577</u>
Noncash Capital and Related Financing Activities			
Contribution of Capital Assets	\$ 181,815	\$ 206,580	\$ 388,395
Purchase of Capital Assets on Account	15,691	15,691	31,382

See accompanying notes.

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Reporting Entity

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

Nature of Activities

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

Basis of Presentation

Government-Wide Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or program is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or program. While the direct costs of providing services to the District's customers are charged directly to the function or segment benefited, joint costs of providing such services, or costs that are not identifiable with any specific function or program, are allocated to functions or programs based on Management's estimate of the benefits received by each function or program. Program revenues include: (1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

function or program and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Taxes and other items not included among program revenues are reported instead as general revenues.

Fund Financial Statements

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

The District reports the following major governmental funds:

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

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

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

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

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and wastewater utility funds are charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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.

Receivables

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

Interfund Transactions and Balances

Interfund transactions are reflected as either loans, services provided and used, reimbursements, or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation. They are referred to as either "due to/from

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances". Advances between funds, as reported in the governmental fund financial statements, are offset by a nonspendable portion of fund balance to indicate that they are not available for appropriation and are not expendable available financial resources.

The due to/from other funds account balance, as presented in the governmental funds balance sheet, resulted from interfund loans to eliminate cash deficits at June 30, 2014, for reporting purposes only.

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

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

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

Inventories and Prepaid Items

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

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

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.

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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.

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 Postemployment Benefit Obligations

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation pay and vested sick leave is accrued when incurred in the government-wide and proprietary fund financial statements. In the governmental fund financial statements, a liability for these amounts is reported only if they have matured, for example, as a result of employee resignations and retirements, otherwise, an expenditure is recognized 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.

Unearned Revenues

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

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:

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

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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:

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. No supplemental appropriations were made during the fiscal year. Encumbrance accounting is not employed in governmental funds.

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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 final budget is legally adopted on or before June 30.

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.

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. 66, *Technical Corrections – 2012: An Amendment of GASB Statements No. 10 and No. 62*, which is intended to resolve conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. Adoption of GASB No. 66 had no impact on the basic financial statements of the District.

Upcoming Governmental Accounting Standards Implementation

GASB Statement No. 68, Accounting and Financial Reporting for Pensions (as amended by GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date) improves accounting and financial reporting for pensions by establishing standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. The requirements of GASB No. 68 would require the District to recognize a liability for its proportionate share of the collective net pension liability related to its CalPERS pension plan. The requirements for GASB No. 68 are effective for fiscal year 2014-15.

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 2 CASH AND CASH EQUIVALENTS

Cash and cash equivalents at June 30, 2014, consisted of the following:

	<u>Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
Cash on Hand	\$ -	\$ 759	\$ 759
Checking Accounts	-	234,040	234,040
Investment in Money Market Accounts	160,817	183,277	344,094
Investment in Humboldt County Treasurer's Fund	1,899,229	4,161,237	6,060,466
Investment in State of California LAIF	-	128,337	128,337
Total Cash and Cash Equivalents	<u>\$ 2,060,046</u>	<u>\$ 4,707,650</u>	<u>\$ 6,767,696</u>

At June 30, 2014, cash and cash equivalent 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	\$ 7,411	\$ 98,446	\$ 105,857
Capital Outlay	176,827	958,762	1,135,589
Debt Service	-	818,600	818,600
Total Restricted Cash	<u>\$ 184,238</u>	<u>\$ 1,875,808</u>	<u>\$ 2,060,046</u>
Unrestricted:			
Petty Cash	\$ 220	\$ 539	\$ 759
Measure B	266,668	-	266,668
Reserved for:			
Operations	10,374	269,170	279,544
Capital Asset Repair and Replacement	403,804	2,139,385	2,543,189
Catastrophe	80,761	657,475	738,236
Compensated Absences	40,783	168,390	209,173
Other Postemployment Benefits	206,637	463,444	670,081
Total Unrestricted Cash	<u>\$ 1,009,247</u>	<u>\$ 3,698,403</u>	<u>\$ 4,707,650</u>

The Humboldt County Treasurer's Investment Fund is administered by the County of Humboldt Treasurer's Office and conforms to the California Government Code. At June 30, 2014, 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, 2014, the District reported its investment in the pool at cost which approximated fair value.

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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 designated 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, 2014, the District reported its investment in the pool at cost which approximated fair value.

At June 30, 2014, the District had the following investments:

	<u>Cost</u>	<u>Fair Value</u>	<u>Maturities</u>
Investment in Money Market Accounts	\$ 344,094	\$ 344,094	N/A
Investment in Humboldt County Treasurer's Fund	6,060,466	6,060,466	Average 1,004 Days
Investment in State of California LAIF	<u>128,337</u>	<u>128,337</u>	Average 232 Days
Total Investments	<u>\$ 6,532,897</u>	<u>\$ 6,532,897</u>	

Custodial Credit Risk

For cash deposits, custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned to the District. The District's policy for deposits is that they will be made only in institutions located in California, they shall be insured or collateralized with United States backed securities, and time certificates of deposit shall have a maturity of less than five years. At June 30, 2014, the District's cash in bank had a carrying balance of \$578,134 and a bank balance of \$593,973. 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, 2014

NOTE 3 CAPITAL ASSETS

The change in the governmental activities capital assets for the year ended June 30, 2014, is as follows:

	Balance 6/30/2013	Additions	Dispositions	Transfers	Balance 6/30/2014
Capital Assets Not Depreciated					
Land	\$ 1,416,723	\$ 137,008	\$ -	\$ -	\$ 1,553,731
Construction in Progress	44,904	145,523	-	-	190,427
Total Capital Assets Not Depreciated	<u>1,461,627</u>	<u>282,531</u>	<u>-</u>	<u>-</u>	<u>1,744,158</u>
Capital Assets Being Depreciated					
Buildings and Parking Lots	2,352,538	-	-	-	2,352,538
Furniture and Equipment	241,671	-	-	-	241,671
Park Improvements	1,208,024	24,294	-	-	1,232,318
Vehicles	60,306	-	(17,248)	-	43,058
Streetlighting	382,648	123,950	-	-	506,598
Total Capital Assets Being Depreciated	<u>4,245,187</u>	<u>148,244</u>	<u>(17,248)</u>	<u>-</u>	<u>4,376,183</u>
Accumulated Depreciation	(2,552,115)	(175,071)	17,248	-	(2,709,938)
Capital Assets Being Depreciated, Net	<u>1,693,072</u>	<u>(26,827)</u>	<u>-</u>	<u>-</u>	<u>1,666,245</u>
Governmental Activities Capital Assets, Net	<u>\$ 3,154,699</u>	<u>\$ 255,704</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,410,403</u>

The change in business-type activities capital assets for the year ended June 30, 2014, is as follows:

	Balance 6/30/2013	Additions	Dispositions	Transfers	Balance 6/30/2014
Capital Assets Not Depreciated					
Land, Easements, and Water Rights	\$ 3,400,386	\$ 10,545	\$ -	\$ -	\$ 3,410,931
Construction in Progress	603,066	473,891	-	(71,141)	1,005,816
Total Capital Assets Not Depreciated	<u>4,003,452</u>	<u>484,436</u>	<u>-</u>	<u>(71,141)</u>	<u>4,416,747</u>
Capital Assets Being Depreciated					
Buildings and Parking Lots	467,095	-	-	-	467,095
Water Infrastructure	11,458,604	180,215	-	71,141	11,709,960
Wastewater Infrastructure	17,620,412	223,429	-	-	17,843,841
Tools and Equipment	1,033,142	41,996	(24,053)	-	1,051,085
Vehicles	764,596	31,382	-	-	795,978
Total Capital Assets Being Depreciated	<u>31,343,849</u>	<u>477,022</u>	<u>(24,053)</u>	<u>71,141</u>	<u>31,867,959</u>
Accumulated Depreciation	(16,791,913)	(766,206)	24,053	-	(17,534,066)
Capital Assets Being Depreciated, Net	<u>14,551,936</u>	<u>(289,184)</u>	<u>-</u>	<u>71,141</u>	<u>14,333,893</u>
Business-Type Activities Capital Assets, Net	<u>\$ 18,555,388</u>	<u>\$ 195,252</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,750,640</u>

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

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

Governmental Activities	
Parks and Recreation	\$ 158,930
Streetlighting	16,141
Total Depreciation	<u>\$ 175,071</u>
 Business-Type Activities	
Water	\$ 303,585
Wastewater	462,621
Total Depreciation	<u>\$ 766,206</u>

NOTE 4 LONG-TERM LIABILITIES

Governmental Activities – Streetlighting Fund

PG&E Loan

The District, in 2014, entered into a loan agreement with the Pacific Gas and Electric Company to finance improvements to the District's streetlights. The original loan amount was \$98,181 and bears no interest. Principal payments of \$1,423 are due monthly and are expected to begin in December 2014 and continue through August 2020. Future debt service on the loan is as follows:

Year Ending	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
June 30			
2015	\$ 9,960	\$ -	\$ 9,960
2016	17,075	-	17,075
2017	17,075	-	17,075
2018	17,075	-	17,075
2019	17,075	-	17,075
2020	17,075	-	17,075
2021	2,846	-	2,846
Total	<u>98,181</u>	<u>-</u>	<u>98,181</u>
Due Within One Year	<u>(9,960)</u>	<u>-</u>	<u>(9,960)</u>
Due Beyond One Year	<u>\$ 88,221</u>	<u>\$ -</u>	<u>\$ 88,221</u>

Business-Type Activities – Water Fund

Davis-Grunsky Act Loan

The District, in 1971, entered into a loan agreement with the State of California for a construction loan to finance improvements to the District's water system. The original loan amount was not to exceed \$3,673,000 and was to bear interest at 2.5% per annum. Under the arrangement, the District was permitted to defer payment of interest on the loan for the first 10

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

years with such interest to be repaid over the remaining 50 year term of the loan. Payments are due each January (principal and interest) and July (interest only) through January 2033. The District was required to establish a reserve fund in an amount specified by the State. The District as an entity is obligated for the repayment of this loan and a specific revenue source is not pledged for its repayment. The District is obligated to levy taxes or assessments for the loan repayments should it not have sufficient resources available to make the scheduled payments. Future debt service on the loan is as follows:

Year Ending			
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	102,821	38,457	141,278
2020- 2024	547,366	159,024	706,390
2025 - 2029	608,102	98,288	706,390
2030 - 2033	535,534	29,577	565,111
Total	<u>2,184,686</u>	<u>499,595</u>	<u>2,684,281</u>
Due Within One Year	<u>(94,753)</u>	<u>(46,525)</u>	<u>(141,278)</u>
Due Beyond One Year	<u>\$ 2,089,933</u>	<u>\$ 453,070</u>	<u>\$ 2,543,003</u>

ARRA Loan

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

Year Ending			
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	11,467	984	12,451
2020 - 2024	59,080	3,175	62,255
2025 - 2027	30,665	461	31,126
Total	<u>145,951</u>	<u>9,685</u>	<u>155,636</u>
Due Within One Year	<u>(11,019)</u>	<u>(1,432)</u>	<u>(12,451)</u>
Due Beyond One Year	<u>\$ 134,932</u>	<u>\$ 8,253</u>	<u>\$ 143,185</u>

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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:

Year Ending			
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	44,813	25,530	70,343
2020 - 2024	247,761	101,446	349,207
2025 - 2029	292,420	52,060	344,480
2030 - 2031	131,229	5,052	136,281
Total	<u>881,334</u>	<u>301,847</u>	<u>1,183,181</u>
Due Within One Year	<u>(39,249)</u>	<u>(31,683)</u>	<u>(70,932)</u>
Due Beyond One Year	<u>\$ 842,085</u>	<u>\$ 270,164</u>	<u>\$ 1,112,249</u>

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:

Year Ending			
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 40,920	-	\$ 40,920
2016	40,920	-	40,920
Total	<u>81,840</u>	<u>-</u>	<u>81,840</u>
Due Within One Year	<u>(40,920)</u>	<u>-</u>	<u>(40,920)</u>
Due Beyond One Year	<u>\$ 40,920</u>	<u>\$ -</u>	<u>\$ 40,920</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

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

interest payments are due each March and continue through March 2018. The District as an entity is obligated for the repayment of this loan and a specific revenue source is not pledged for its repayment. The District is obligated to levy taxes or assessments should it not have other revenues available for repayment of the obligation. Future debt service on the loan is as follows:

Year Ending			
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	104,696	6,904	111,600
Due Within One Year	(25,184)	(2,722)	(27,906)
Due Beyond One Year	<u>\$ 79,512</u>	<u>\$ 4,182</u>	<u>\$ 83,694</u>

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:

Year Ending			
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	70,000	18,750	88,750
2020 - 2023	305,000	37,000	342,000
Total	635,000	164,250	799,250
Due Within One Year	(60,000)	(31,750)	(91,750)
Due Beyond One Year	<u>\$ 575,000</u>	<u>\$ 132,500</u>	<u>\$ 707,500</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

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

an entity is obligated for the repayment of this loan and a specific revenue source is not pledged for its repayment. Future debt service on the loan is as follows:

Year Ending				
June 30	Principal	Interest	Total	
2015	\$ 47,155	\$ 8,579	\$ 55,734	
2016	49,806	5,928	55,734	
2017	52,664	3,070	55,734	
2018	<u>27,275</u>	<u>576</u>	<u>27,851</u>	
Total	176,900	18,153	195,053	
Due Within One Year	<u>(47,155)</u>	<u>(8,579)</u>	<u>(55,734)</u>	
Due Beyond One Year	<u>\$ 129,745</u>	<u>\$ 9,574</u>	<u>\$ 139,319</u>	

Long-term debt activity for the year ended June 30, 2014, was as follows:

	Balance			Balance	Due Within
	6/30/2013	Increases	Decreases	6/30/2014	One Year
<u>Governmental Activities</u>					
Streetlighting Fund					
PG&E Loan	\$ -	\$ 98,181	\$ -	\$ 98,181	\$ 9,960
Due Within One Year				<u>(9,960)</u>	
Due Beyond One Year				<u>\$ 88,221</u>	
<u>Business-Type Activities</u>					
Water Fund					
Davis-Grunsky Act Loan	\$ 2,277,543	\$ -	\$ (92,857)	\$ 2,184,686	\$ 94,753
ARRA Loan	156,861	-	(10,910)	145,951	11,019
I-Bank Loan	919,303	-	(37,969)	881,334	39,249
Total Water Fund	<u>3,353,707</u>	<u>-</u>	<u>(141,736)</u>	<u>3,211,971</u>	<u>145,021</u>
Wastewater Fund					
State Revolving Fund Loan #1	122,760	-	(40,920)	81,840	40,920
State Revolving Fund Loan #2	129,242	-	(24,546)	104,696	25,184
USDA Revenue Bonds	695,000	-	(60,000)	635,000	60,000
Umpqua Bank Loan	221,588	-	(44,688)	176,900	47,155
Total Wastewater Fund	<u>1,168,590</u>	<u>-</u>	<u>(170,154)</u>	<u>998,436</u>	<u>173,259</u>
Total Business-Type Activities	<u>\$ 4,522,297</u>	<u>\$ -</u>	<u>\$ (311,890)</u>	<u>4,210,407</u>	<u>\$ 318,280</u>
Due Within One Year				<u>(318,280)</u>	
Due Beyond One Year				<u>\$ 3,892,127</u>	

Interest expense included in the direct functional expenses of business-type activities was \$128,309.

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Other long-term liability activity for the year ended June 30, 2014, was as follows:

	<u>Balance</u> <u>6/30/2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>6/30/2014</u>	<u>Due Within</u> <u>One Year</u>
<u>Governmental Activities</u>					
Compensated Absences	\$ 29,648	\$ 11,135	\$ -	\$ 40,783	\$ 21,960
OPEB	147,783	58,854	-	206,637	-
Total	<u>\$ 177,431</u>	<u>\$ 69,989</u>	<u>\$ -</u>	<u>\$ 247,420</u>	<u>\$ 21,960</u>
<u>Business-Type Activities</u>					
Compensated Absences					
Water	\$ 68,734	\$ 15,461	\$ -	\$ 84,195	\$ 41,725
Wastewater	68,734	15,461	-	84,195	41,725
Total	<u>\$ 137,468</u>	<u>\$ 30,922</u>	<u>\$ -</u>	<u>\$ 168,390</u>	<u>\$ 83,450</u>
OPEB					
Water	\$ 171,759	\$ 58,889	\$ -	\$ 230,648	\$ -
Wastewater	173,215	59,581	-	232,796	-
Total	<u>\$ 344,974</u>	<u>\$ 118,470</u>	<u>\$ -</u>	<u>\$ 463,444</u>	<u>\$ -</u>

NOTE 5 FUND BALANCE

Restricted Fund Balance

At June 30, 2014, 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:

	<u>Balance</u>
Park & Recreation Capital Projects - Coastal	\$ 41,067
Park & Recreation Capital Projects - Inland	135,760
Total Restricted Fund Balance	<u>\$ 176,827</u>

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

Committed Fund Balance

At June 30, 2014, in accordance with the District's reserve policy, the fund balance of the general fund has been committed (see Note 1 for more information about committed fund balance) as follows:

<u>Reserve Description</u>	<u>Target Reserve Balance</u>	<u>Reserve Balance</u>
Operations	180 Days of Operating Expenses	\$ 47,582
Capital Asset Repair and Replacement	10% of Capital Asset Replacement Cost	403,804
Catastrophe	2% of Capital Assets	80,761
Compensated Absences	Equal to Compensated Absences Liability	40,783
Other Postemployment Benefits (OPEB)	Equal to OPEB Liability	206,637
Total Committed Fund Balance		<u>\$ 779,567</u>

NOTE 6 PUBLIC EMPLOYEES RETIREMENT SYSTEM

Plan Description

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

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

Funding Policy

Employer contribution rates are dependent upon the experience of each risk pool with additional consideration for each employer's side fund amortization as well as an adjustment to phase out the difference between the risk pool's normal cost and the employer's normal cost at the time of joining the pool. Side funds were established for each employer plan in order to reflect the excess assets or unfunded liabilities present at the time participation in the risk pool began. Amortization of the side fund began over a closed period of ten years with any subsequent plan amendments being amortized as a level percentage of pay over a closed twenty-year period. The District's side fund (unfunded liability) as of the most recent actuarial valuation (June 30, 2012) was \$20,167.

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

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

District's required contribution rate for fiscal year 2013-14 was 9.690% and will increase to 10.432% for fiscal year 2014-15.

Annual Pension Cost and Funded Status

For the fiscal year ended June 30, 2014, the District's annual pension cost was \$190,981. 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, 2011, risk pool actuarial valuation. A summary of the principal assumptions and methods used to determine the contractually required contribution is as follows:

Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	20 Years as of Valuation Date
Asset Valuation Method	15 Year Smoothed Market
Actuarial Assumptions	(1) 7.50% investment rate of return (net of administrative expenses), (2) 3.30% to 14.20% projected annual salary increases depending on category, entry age, and duration of service, (3) overall payroll growth of 3.00%, and (4) 2.75% 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>
06/30/12	\$ 178,113	100%	\$ -
06/30/13	\$ 186,934	100%	\$ -
06/30/14	\$ 190,981	100%	\$ -

A schedule of funding progress for the three most recent actuarial valuations of the Miscellaneous 2% at 55 Risk Pool is presented as required supplementary information following the notes to the financial statements.

NOTE 7 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description

The District sponsors and administers a single-employer defined benefit postemployment health care plan (the Plan) to provide healthcare benefits to eligible retired employees and their dependents. District resolutions and regulations assign responsibility to establish and amend benefit provisions to the District. Although the District has not yet established a separate postemployment benefit (OPEB) trust fund, the District has committed funds in accordance with its reserve policy equal to its OPEB liability at June 30, 2014 (\$670,081).

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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, 2014, the District contributed \$98,361 of its annual required contribution of \$275,685. As a result, the net OPEB liability increased by \$177,324 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.

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)	\$ 272,873
Interest on Net OPEB Obligation	24,638
Adjustments to the ARC	<u>(21,826)</u>
Annual OPEB Cost	275,685
Contributions Made	<u>(98,361)</u>
Change in Net OPEB Obligation	177,324
Net OPEB Obligation - Beginning of Year	<u>492,757</u>
Net OPEB Obligation - End of Year	<u>\$ 670,081</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, 2014, 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>
06/30/12	\$ 181,558	41.9%	\$ 336,064
06/30/13	\$ 251,047	37.6%	\$ 492,757
06/30/14	\$ 275,685	35.7%	\$ 670,081

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

Funded Status

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

	(A)	(B)	(C)	(D)	(E)	(F)
Actuarial Valuation Date	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability	Excess Assets/ (Unfunded Liability) [(A) - (B)]	Funded Ratio [(A)/(B)]	Annual Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll [(C)/(E)]
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 an estimate of the value of expected benefit payments and assumptions about the probability of occurrence of events into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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

Actuarial Methods and Assumptions

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

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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.

NOTE 9 COMMITMENTS AND CONTINGENCIES

Capital Project Commitments

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

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, 2014**

Below is a summary of the District's insurance coverage for the year ended June 30, 2014:

<u>Type of Coverage</u>	<u>Coverage per Occurrence</u>
General Liability	\$ 5,000,000
Public Officials and Employees Errors	5,000,000
Personal Liability - Board Members	500,000
Employment Practices Liability	5,000,000
Employee Benefits Liability	5,000,000
Employee Dishonesty Coverage	400,000
Auto Liability	5,000,000
Auto Physical Damage	Actual Value
Uninsured/Underinsured Motorists	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, 2014.

NOTE 11 WATER PURCHASE CONTRACT

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

NOTE 12 SUBSEQUENT EVENTS

The District's management has evaluated subsequent events through December 10, 2014, 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, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Fund Balance - July 1	\$ 1,108,665	\$ 1,108,665	\$ 1,108,665	\$ -
Resources (Inflows)				
Property Taxes	510,000	510,000	516,221	6,221
Program Fees	334,300	334,300	328,129	(6,171)
Facility and Open Space Fees	143,330	143,330	154,076	10,746
Other Revenues	116,400	116,400	36,033	(80,367)
Unrestricted Investment Earnings	3,150	3,150	6,420	3,270
Amounts Available for Appropriations	<u>2,215,845</u>	<u>2,215,845</u>	<u>2,149,544</u>	<u>(66,301)</u>
Charges to Appropriations (Outflows)				
Salaries and Benefits	777,122	777,122	763,967	(13,155)
Other Expenditures	227,040	227,040	251,720	24,680
Capital Outlay	103,000	103,000	177,463	74,463
Total Charges to Appropriations	<u>1,107,162</u>	<u>1,107,162</u>	<u>1,193,150</u>	<u>85,988</u>
Fund Balance - June 30	<u>\$ 1,108,683</u>	<u>\$ 1,108,683</u>	<u>\$ 956,394</u>	<u>\$ (152,289)</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 the budgetary comparison schedule	\$ 2,149,544
Differences - Budget to GAAP	
The fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes	<u>(1,108,665)</u>
Total revenues and other financing sources as reported in the statement of revenues, expenditures, and changes in fund balances - governmental funds	1,040,879

Charges to Appropriations (Outflows):

Total expenditures as reported in the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>1,193,150</u>
--	------------------

Net Change in Fund Balance \$ (152,271)

See accompanying notes.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
BUDGETARY COMPARISON SCHEDULE
MEASURE B FUND
For the Fiscal Year Ended June 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Fund Balance - July 1	\$ 273,009	\$ 273,009	\$ 273,009	\$ -
Resources (Inflows)				
Special Assessments	209,000	209,000	206,270	(2,730)
Grants and Contributions	-	-	3,000	3,000
Unrestricted Investment Earnings	125	125	335	210
Amounts Available for Appropriations	<u>482,134</u>	<u>482,134</u>	<u>482,614</u>	<u>480</u>
Charges to Appropriations (Outflows)				
Salaries and Benefits	95,958	95,958	85,221	(10,737)
Other Expenditures	8,500	8,500	3,049	(5,451)
Capital Outlay	103,822	103,822	129,360	25,538
Total Charges to Appropriations	<u>208,280</u>	<u>208,280</u>	<u>217,630</u>	<u>9,350</u>
Fund Balance - June 30	<u>\$ 273,854</u>	<u>\$ 273,854</u>	<u>\$ 264,984</u>	<u>\$ (8,870)</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 the budgetary comparison schedule	\$ 482,614
Differences - Budget to GAAP	
The fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes	<u>(273,009)</u>
Total revenues and other financing sources as reported in the statement of revenues, expenditures, and changes in fund balances - governmental funds	209,605

Charges to Appropriations (Outflows):

Total expenditures as reported in the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>217,630</u>
--	----------------

Net Change in Fund Balance \$ (8,025)

See accompanying notes.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
BUDGETARY COMPARISON SCHEDULE
STREETLIGHTING FUND
For the Fiscal Year Ended June 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Fund Balance - July 1	\$ (71,111)	\$ (71,111)	\$ (71,111)	\$ -
Resources (Inflows)				
Streetlight Charges & Fees	72,000	72,000	89,488	17,488
Proceeds from Long-Term Debt	100,000	100,000	98,181	(1,819)
Other Revenues	16,300	16,300	15,500	(800)
Unrestricted Investment Earnings	100	100	-	(100)
Amounts Available for Appropriations	<u>117,289</u>	<u>117,289</u>	<u>132,058</u>	<u>14,769</u>
Charges to Appropriations (Outflows)				
Salaries and Benefits	39,799	39,799	37,305	(2,494)
Electricity	26,335	26,335	26,103	(232)
Other Expenditures	17,675	17,675	17,196	(479)
Capital Outlay	100,000	100,000	123,950	23,950
Total Charges to Appropriations	<u>183,809</u>	<u>183,809</u>	<u>204,554</u>	<u>20,745</u>
Fund Balance - June 30	<u>\$ (66,520)</u>	<u>\$ (66,520)</u>	<u>\$ (72,496)</u>	<u>\$ (5,976)</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 the budgetary comparison schedule	\$ 132,058
Differences - Budget to GAAP	
The fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes	<u>71,111</u>
Total revenues and other financing sources as reported in the statement of revenues, expenditures, and changes in fund balances - governmental funds	203,169

Charges to Appropriations (Outflows):

Total expenditures as reported in the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>204,554</u>
--	----------------

Net Change in Fund Balance \$ (1,385)

See accompanying notes.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
SCHEDULE OF FUNDING PROGRESS
For the Fiscal Year Ended June 30, 2014**

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 risk pool actuarial valuations (in thousands) about whether the actuarial value of the plan assets (of the risk pool) is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits (of the risk pool).

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
06/30/10	\$ 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%
06/30/12	\$ 3,686,598	\$ 4,175,139	\$ (488,541)	88.3%	\$ 757,046	64.5%

Actuarial valuations of an on-going plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Amounts determined regarding the funded status of the plan and the annual required contribution of the District are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Information regarding the actuarial methods and assumptions for each of the above actuarial valuations may be obtained from CalPERS Executive Office, 400 P Street, Sacramento, California, 95814 or on-line at www.calpers.ca.gov. The June 30, 2013 actuarial valuation was not available at the time the financial statements were issued.

2. OTHER POSTEMPLOYMENT 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
McKinleyville, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the business-type activities of McKinleyville Community Services District (the District), as of and for the year ended June 30, 2014, 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 10, 2014.

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*.

1315 Fourth Street
Eureka, California 95501

Hunter, Hunter & Hunt, LLP

CERTIFIED PUBLIC ACCOUNTANTS



Phone 707-476-0674
Fax 707-476-0675
www.hhh-cpa.com

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 10, 2014