

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
BASIC FINANCIAL STATEMENTS
AND
REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2015

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
McKinleyville Community Services District
McKinleyville, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of McKinleyville Community Services District (the District), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the McKinleyville Community Services District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

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

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

Opinions

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

major fund, and the aggregate remaining fund information of McKinleyville Community Services District, as of June 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

Change in Accounting Principle

As discussed in Note 1 of the financial statements, the District adopted the provisions of GASB Statement No. 68, Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27 and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68. Our opinions are not modified with respect to this matter.

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 47 through 49; and the schedules of the District's proportionate share of the net pension liability, pension contributions, and funding progress – other post employment benefits on pages 50 through 52 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 January 21, 2016, on our consideration of McKinleyville Community Services District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering McKinleyville Community Services District's internal control over financial reporting and compliance.

Hunter, Hunter & Hunt

January 21, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2015**

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, 2015. This discussion and analysis should be read in conjunction with the accompanying basic financial statements and the notes thereto.

Overview of the Basic Financial Statements

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

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

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

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

- Notes to Basic Financial Statements

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

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

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

- **Governmental Activities** – Included are the District's parks, recreation programs, open space zones and streetlight zones. This also accounts for management of the District's buildings at Pierson Park (Azalea Hall, activity center, library, 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, 2015**

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

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

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

Financial Highlights

- Total current assets increased by approximately \$101,000 or 1.9% in comparison to the prior year while capital assets and other non-current assets increased by approximately \$3,608,000 or 14.9%.
- Pension related deferred outflows increased by approximately \$27,000 or 24.1%.
- Current liabilities increased by approximately \$134,000 or 13.5% in comparison to the prior year while long-term liabilities increased by approximately \$821,005 or 13.0%.
- Pension related deferred inflows increased by \$383,000 or 100%.
- Overall, the District's net position increased by approximately \$2,398,000 or 10.7% as a result of this year's operations.
- Total program revenues increased by approximately \$1,410,000 or 23.9% over the prior year while program expenses increased by approximately \$56,000 or 1.0%.
- The District's general revenues increased by approximately \$48,000 over the prior year or 8.3%.
- The District implemented Governmental Accounting Standards Board (GASB) Statement No. 68 and recorded its proportionate share of the net pension liability (\$1,541,230) applicable to its defined benefit pension plan as well as related deferred outflows of resources (\$112,178). This resulted in an adjustment to the District's previously reported net position as of June 30, 2014 in the amount of \$1,429,052.

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. Note in Tables 1 and 2 that deferred outflows, non-current liabilities, deferred inflows, and unrestricted net position, were restated to reflect the recognition of the District's net pension liability. See Note 12 for further discussion of the restatement.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2015**

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

	Fiscal Year Ended June 30,		Change
	2015	2014	
Assets and Deferred Outflows			
Current	\$ 1,063,106	\$ 1,135,252	\$ (72,146)
Non-Current			
Net Capital Assets	3,419,248	3,410,403	8,845
Other	1,614,434	184,238	1,430,196
Deferred Outflows	45,920	37,018	8,902
Total Assets and Deferred Outflows	6,142,708	4,766,911	1,375,797
Liabilities and Deferred Inflows			
Current	295,788	198,074	97,714
Non-Current	2,101,531	822,286	1,279,245
Deferred Inflows	126,235	-	126,235
Total Liabilities and Deferred Inflows	2,523,554	1,020,360	1,503,194
Net Position			
Net Investment in Capital Assets	3,329,857	3,312,222	17,635
Restricted	206,234	176,827	29,407
Unrestricted	83,063	257,502	(174,439)
Total Net Position	\$ 3,619,154	\$ 3,746,551	\$ (127,397)

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

	Fiscal Year Ended June 30,		Change
	2015	2014	
Assets and Deferred Outflows			
Current	\$ 4,465,694	\$ 4,292,961	\$ 172,733
Non-Current			
Net Capital Assets	20,720,068	18,750,640	1,969,428
Other	2,075,364	1,875,808	199,556
Deferred Outflows	93,234	75,160	18,074
Total Assets and Deferred Outflows	27,354,360	24,994,569	2,359,791
Liabilities and Deferred Inflows			
Current	834,219	797,551	36,668
Non-Current	5,014,895	5,473,136	(458,241)
Deferred Inflows	256,297	-	256,297
Total Liabilities and Deferred Inflows	6,105,411	6,270,687	(165,276)
Net Position			
Net Investment in Capital Assets	16,827,946	14,540,233	2,287,713
Restricted	1,974,548	1,777,362	197,186
Unrestricted	2,446,455	2,406,287	40,168
Total Net Position	\$21,248,949	\$18,723,882	\$ 2,525,067

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2015**

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

- Non-capital assets increased by \$1,358,050 or 103%;
- Net capital assets increased by \$8,845 or 0.3%;
- Pension related deferred outflows increased by \$8,902 or 24.0%;
- Total liabilities increased by \$1,376,959 or 135%;
- Pension related deferred inflows increased by \$126,235 or 100%;
- Net investment in capital assets increased by \$17,635 or 0.5%;
- Restricted net position increased by \$29,407 or 16.6%;
- Unrestricted net position decreased by \$174,439 or 67.7%.

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

- Non-capital assets increased by \$372,289 or 6.0%;
- Net capital assets increased by \$1,969,428 or 10.5%;
- Pension related deferred outflows increased by \$18,074 or 24.0%;
- Total liabilities decreased by \$421,573 or 6.7%;
- Pension related deferred inflows increased by \$256,297 or 100%;
- Net investment in capital assets increased by \$2,287,713 or 15.7%;
- Restricted net position increased by \$197,186 or 11.1%;
- Unrestricted net position increased by \$40,168 or 1.7%.

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

- Total revenues increased by \$42,567 or 3.1%;
- Total expenses increased by \$100,271 or 7.0%;
- Net position decreased by \$127,397 or 3.4%.

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

	Fiscal Year Ended June 30,		Change
	2015	2014	
Revenues			
Program			
Charges for Services and Facilities	\$ 772,727	\$ 777,963	\$ (5,236)
Operating Grants and Contributions	20,083	33,252	(13,169)
Capital Grants and Contributions	25,000	-	25,000
General			
Property Taxes	523,969	516,221	7,748
Other Income	49,842	25,735	24,107
Unrestricted Investment Earnings	10,872	6,755	4,117
Total Revenues	1,402,493	1,359,926	42,567
Expenses			
Recreation, Parks, Open Space, Facilities, and Other Activities	1,443,086	1,332,874	110,212
Streetlighting	86,804	96,745	(9,941)
Total Expenses	1,529,890	1,429,619	100,271
Change in Net Position	(127,397)	(69,693)	(57,704)
Net Position - Beginning of Year	3,746,551	4,287,831	(541,280)
Restatement - Pension	-	(471,587)	471,587
Net Position - End of Year	\$ 3,619,154	\$ 3,746,551	\$ (127,397)

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2015**

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

- Total revenues increased by \$1,415,951 or 27.6%;
- Total expenses decreased by \$44,340 or 1.1%;
- Net position increased by \$2,525,067 or 13.5%.

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

	Fiscal Year Ended June 30,		Change
	2015	2014	
Revenues			
Program			
Charges for Services - Water	\$ 2,974,203	\$ 2,378,985	\$ 595,218
Charges for Services - Wastewater	2,143,217	1,865,547	277,670
Capital Grants and Contributions - Water	1,123,276	411,611	711,665
Capital Grants and Contributions - Wastewater	254,027	435,099	(181,072)
General			
Gain (Loss) on Sale of Asset	8,500	1,124	7,376
Unrestricted Investment Earnings	36,006	30,912	5,094
Total Revenues	6,539,229	5,123,278	1,415,951
Expenses			
Water	2,259,154	2,270,950	(11,796)
Wastewater	1,755,008	1,787,552	(32,544)
Total Expenses	4,014,162	4,058,502	(44,340)
Change in Net Position	2,525,067	1,064,776	1,460,291
Net Position - Beginning of Year	18,723,882	18,616,571	107,311
Restatement - Pension	-	(957,465)	957,465
Net Position - End of Year	\$ 21,248,949	\$ 18,723,882	\$ 2,525,067

Fund Financial Statement Analysis

Governmental Funds

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

- Total assets (excluding the change in due to/due from other funds) increased by \$1,358,050 or 103% primarily due an increase in restricted cash related to the Teen and Community Center financing;
- Total liabilities (excluding the change in due to/due from other funds) decreased by \$12,264 or 7.2% primarily due to a decrease in accounts payable;
- Total due to/due from other funds increased by \$128,259 resulting from the General Fund's coverage of the Streetlighting Fund's cash deficit;
- Total fund balance increased by \$1,370,314 or 119% primarily due to the receipt of debt proceeds in advance of capital outlays for the Measure B Fund;
- Total revenues increased by \$51,475 or 3.8% primarily due to one-time capital grant funds and an increase in Quimby Fees in the General Fund;
- Total expenditures decreased by \$111,940 or 6.9% primarily due to a decrease in capital outlays and an increase in debt service;
- Total other financing sources increased by \$1,368,580 or 1,393% primarily due to the receipt of debt proceeds related to the Teen and Community Center Project.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2015**

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. Note in comparing the current proprietary fund financial statements to the prior year that deferred outflows, non-current liabilities, deferred inflows, and unrestricted net position were restated to reflect the recognition of the District's net pension liability. See Note 12 for further discussion of the restatement. The following can be noted when comparing the current proprietary fund financial statements to the prior year:

- Total water fund assets increased by \$1,800,038 or 19.7% primarily due to an increase in cash and net capital assets;
- Total wastewater fund assets increased by \$541,679 or 3.4% primarily due to an increase in cash and net capital assets;
- Water fund pension related deferred outflows increased by \$8,635 or 24.0% due to the implementation of *GASB Statement No. 68*;
- Wastewater fund pension related deferred outflows increased by \$9,439 or 24.0% due to the implementation of *GASB Statement No. 68*;
- Total water fund liabilities decreased by \$171,823 or 4.0% primarily due to changes in the OPEB and pension liabilities and the principal repayment on debt;
- Total wastewater fund liabilities decreased by \$249,750 or 12.5% primarily due to changes in the OPEB and pension liabilities and the principal repayment on debt ;
- Water fund pension related deferred inflows increased by \$122,411 or 100% due to the implementation of *GASB Statement No. 68* ;
- Wastewater fund pension related deferred inflows increased by \$133,886 or 100% due to the implementation of *GASB Statement No. 68* ;
- Total water fund net position increased by \$1,858,085 or 38.1%;
- Total wastewater fund net position increased by \$666,982 or 4.8%;
- Total water fund operating revenues increased by \$595,218 or 25.0% as the phased water rate increases were implemented;
- Total wastewater fund operating revenues increased by \$277,670 or 14.9% as the phased wastewater rate increases were implemented;
- Total water fund operating expenses decreased by \$5,691 or 0.3% as increased personnel costs were offset by a reduction in contracted services. All other costs remained relatively stable;
- Total wastewater operating expenses decreased by \$25,727 or 1.5% primarily due to a reduction in contracted services. All other costs remained relatively stable;
- Water fund non-operating revenues and expenses experienced no significant changes except for state grant revenue which decreased \$74,226 due a one-time capital asset related grant;
- Wastewater fund non-operating revenues and expenses experienced no significant changes;
- Water fund capital contributions increased by \$785,891 or 237% primarily due to the Mad River Bridge Emergency Water Supply Project;
- Wastewater fund capital contributions decreased by \$181,072 or 41.6% primarily due to no contributed infrastructure in fiscal year 2014-15.

General Fund Budgetary Highlights

General Fund actual revenues were lower than budgetary estimates by approximately \$93,000 primarily due to lower than anticipated program and Quimby fees which were somewhat offset by higher than anticipated property taxes and other revenues. General Fund actual expenditures were lower than budgetary estimates by approximately \$60,000 primarily due to lower salaries and benefits.

Capital Assets

As of June 30, 2015, the District's investment in capital assets (net of accumulated depreciation) for its governmental and business-type activities equaled \$3,419,248 and \$20,720,068, respectively. Detailed information about the components of capital assets is included in Note 3 to the basic financial statements. Net capital assets increased by \$8,845 (0.3%) for governmental activities as capital asset purchases exceeded depreciation. Similarly, net capital assets increased by \$1,969,428 (10.5%) for business-type activities as capital asset acquisitions exceeded depreciation.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2015**

Debt

As of June 30, 2015, the District's debt for its governmental and business-type activities totaled \$1,522,092 and \$3,892,122, respectively. Governmental activities experienced a net increase in its debt balance from the prior year equal to \$1,423,911 due to the new debt on the Teen and Community Center Project. Business-type activities experienced a net decrease in its debt balance from the prior year equal to \$318,285 as a result of principal repayment with no new debt. Detailed information about the components of debt is included in Note 4 to the basic financial statements.

Currently Known Facts, Decisions, or Conditions of Future Significance

- The District continues to plan for the replacement and upgrade of its water and wastewater infrastructure as outlined in its Capital Improvement Plan.
- The District has completed the design phase of a major upgrade to its Wastewater Management Facility. This upgrade is required by the State of California so that the District will be able to meet future State water quality standards and continue to serve the greater population of McKinleyville. The project has secured debt funding, and has also drawn on reserves to complete design and initial phases. The upgraded facility's increased operating costs and debt service will affect both the District's financial position and results of operations in the future.
- With the completion of the Streetlighting LED Project, the District will continue to realize reduced energy costs into the future for its Streetlighting Fund.
- Despite reduced water use mandated by the Governor's Office in response to the drought, 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 brought significant rate increases to many health insurance policies. While health insurance rates are expected to continue to rise sharply, the District does not anticipate the level of increase that many organizations are now experiencing.
- CalPERS pension costs were less than expected during fiscal year 2014-15, due to reported better-than-anticipated investment performance. CalPERS still forecasts pension costs to increase significantly over the next three years as it seeks to achieve fully funded status statewide. CalPERS' new cost model still expects to adjust employer costs upwards to offset fluctuations in the stock market. This is anticipated to have a materially adverse effect on the District's financial position and result of operations, but the level of affect will not be known until CalPERS provides more information.
- In accordance with Generally Accepted Accounting Principles (GAAP), loan proceeds for the Teen and Community Center Project were recognized in fiscal year 2014-15, even though construction expenditures did not begin until fiscal year 2015-16. This will materially affect the Measure B Fund in both fiscal years. Once construction is complete, the portion of Measure B that is allocated for capital projects will be used for repayment of the construction loan.

Contacting the District

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

BASIC FINANCIAL STATEMENTS

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
STATEMENT OF NET POSITION
June 30, 2015

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
ASSETS			
Current Assets			
Cash and Investments	\$ 999,458	\$ 3,718,231	\$ 4,717,689
Accounts Receivable	6,426	507,311	513,737
State Grants Receivable	-	84,971	84,971
Interest Receivable	3,552	8,032	11,584
Inventory	-	97,197	97,197
Prepays and Deposits	53,670	49,952	103,622
Total Current Assets	<u>1,063,106</u>	<u>4,465,694</u>	<u>5,528,800</u>
Non-Current Assets			
Restricted Cash and Investments	1,614,434	2,075,364	3,689,798
Net Capital Assets	3,419,248	20,720,068	24,139,316
Total Non-Current Assets	<u>5,033,682</u>	<u>22,795,432</u>	<u>27,829,114</u>
Total Assets	<u>6,096,788</u>	<u>27,261,126</u>	<u>33,357,914</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension	45,920	93,234	139,154
LIABILITIES			
Current Liabilities			
Accounts Payable	66,576	266,026	332,602
Accrued Liabilities	83,568	-	83,568
Interest Payable	8,477	24,320	32,797
Unearned Revenues	-	24,136	24,136
Customer Deposits	8,200	100,816	109,016
Compensated Absenses, Due Within One Year	33,594	93,964	127,558
Bonds and Loans, Due Within One Year	95,373	324,957	420,330
Total Current Liabilities	<u>295,788</u>	<u>834,219</u>	<u>1,130,007</u>
Non-Current Liabilities			
Compensated Absenses, Due Beyond One Year	27,567	90,932	118,499
Revenue Bonds, Due Beyond One Year	-	515,000	515,000
Loans, Due Beyond One Year	1,426,719	3,052,165	4,478,884
Net Other Post Employment Benefit Obligation	276,539	604,153	880,692
Net Pension Liability	370,706	752,645	1,123,351
Total Non-Current Liabilities	<u>2,101,531</u>	<u>5,014,895</u>	<u>7,116,426</u>
Total Liabilities	<u>2,397,319</u>	<u>5,849,114</u>	<u>8,246,433</u>
DEFERRED INFLOWS OF RESOURCES			
Pension	126,235	256,297	382,532
NET POSITION			
Net Investment in Capital Assets	3,329,857	16,827,946	20,157,803
Restricted for:			
Capital Outlay	206,234	1,155,054	1,361,288
Debt Service	-	819,494	819,494
Unrestricted	83,063	2,446,455	2,529,518
Total Net Position	<u>\$ 3,619,154</u>	<u>\$ 21,248,949</u>	<u>\$ 24,868,103</u>

See accompanying notes.

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2015

	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	\$ 1,223,230	\$ 476,450	\$ 20,083	\$ 25,000	\$ (701,697)	\$ -	\$ (701,697)
Measure B	219,856	202,749	-	-	(17,107)	-	(17,107)
Streetlighting	86,804	93,528	-	-	6,724	-	6,724
Total Governmental Activities	<u>1,529,890</u>	<u>772,727</u>	<u>20,083</u>	<u>25,000</u>	<u>(712,080)</u>	<u>-</u>	<u>(712,080)</u>
Business-Type Activities							
Water	2,259,154	2,974,203	-	1,123,276	-	1,838,325	1,838,325
Wastewater	1,755,008	2,143,217	-	254,027	-	642,236	642,236
Total Business-Type Activities	<u>4,014,162</u>	<u>5,117,420</u>	<u>-</u>	<u>1,377,303</u>	<u>-</u>	<u>2,480,561</u>	<u>2,480,561</u>
Total	<u>\$ 5,544,052</u>	<u>\$ 5,890,147</u>	<u>\$ 20,083</u>	<u>\$ 1,402,303</u>	<u>(712,080)</u>	<u>2,480,561</u>	<u>1,768,481</u>
General Revenues							
Property Taxes					523,969	-	523,969
Other Income					49,842	-	49,842
Gain on Sale of Capital Assets					-	8,500	8,500
Unrestricted Investment Earnings					10,872	36,006	46,878
Total General Revenues					<u>584,683</u>	<u>44,506</u>	<u>629,189</u>
Change in Net Position					(127,397)	2,525,067	2,397,670
Net Position - Beginning of Year, As Restated					3,746,551	18,723,882	22,470,433
Net Position - End of Year					<u>\$ 3,619,154</u>	<u>\$ 21,248,949</u>	<u>\$ 24,868,103</u>

See accompanying notes.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2015**

	General (Parks and Recreation)	Measure B	Streetlighting	Total Governmental Funds
ASSETS				
Cash and Investments	\$ 764,502	\$ 234,956	\$ -	\$ 999,458
Accounts Receivable	2,609	-	3,817	6,426
Due From Other Funds	46,025	-	-	46,025
Interest Receivable	3,552	-	-	3,552
Prepays and Deposits	51,172	-	2,498	53,670
Restricted Cash and Investments	214,434	1,400,000	-	1,614,434
Total Assets	\$ 1,082,294	\$ 1,634,956	\$ 6,315	\$ 2,723,565
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts Payable	\$ 65,909	\$ 481	\$ 186	\$ 66,576
Due To Other Funds	-	-	46,025	46,025
Accrued Liabilities	83,568	-	-	83,568
Customer Deposits	8,200	-	-	8,200
Total Liabilities	157,677	481	46,211	204,369
Fund Balance				
Nonspendable:				
Prepays	42,972	-	2,498	45,470
Restricted for:				
Capital Outlay	206,234	1,400,000	-	1,606,234
Committed	675,411	-	-	675,411
Assigned	-	234,475	-	234,475
Unassigned	-	-	(42,394)	(42,394)
Total Fund Balance	924,617	1,634,475	(39,896)	2,519,196
Total Liabilities and Fund Balance	\$ 1,082,294	\$ 1,634,956	\$ 6,315	\$ 2,723,565

See accompanying notes.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION
June 30, 2015**

Total Fund Balance - Governmental Funds (page 12) \$ 2,519,196

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

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

Capital Assets	6,307,623
Accumulated Depreciation	(2,888,375)

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

Deferred Outflows - Pension	45,920
Deferred Inflows - Pension	(126,235)

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

Compensated Absences	(61,161)
Other Postemployment Benefit Obligation	(276,539)
Loans Payable and Accrued Interest	(1,530,569)
Net Pension Liability	<u>(370,706)</u>

Net Position - Governmental Activities (page 10)	<u><u>\$ 3,619,154</u></u>
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See accompanying notes.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2015**

	General (Parks and Recreation)	Measure B	Streetlighting	Total Governmental Funds
REVENUES				
General Revenues				
Property Taxes	\$ 523,969	\$ -	\$ -	\$ 523,969
Special Assessments	-	202,749	-	202,749
Total General Revenues	523,969	202,749	-	726,718
Charges for Services and Facilities	476,450	-	93,528	569,978
Grants and Contributions	45,083	-	-	45,083
Other Income	36,546	-	17,750	54,296
Unrestricted Investment Earnings	8,743	2,116	13	10,872
Total Revenues	1,090,791	204,865	111,291	1,406,947
EXPENDITURES				
Current				
Recreation Programs, Parks, Open Space, Facilities, and Other Cultural Activities	990,211	112,900	67,672	1,170,783
Debt Service				
Principal	-	36,228	6,622	42,850
Cost of Issuance	-	68,929	-	68,929
Interest	-	29,550	-	29,550
Capital Outlay	132,357	56,696	2,229	191,282
Total Expenditures	1,122,568	304,303	76,523	1,503,394
Excess (Deficiency) of Expenditures over Revenues	(31,777)	(99,438)	34,768	(96,447)
OTHER FINANCING SOURCES (USES)				
Proceeds from Long-Term Debt	-	1,468,929	(2,168)	1,466,761
Total Other Financing Sources (Uses)	-	1,468,929	(2,168)	1,466,761
Net Change in Fund Balance	(31,777)	1,369,491	32,600	1,370,314
Fund Balance - Beginning of Year	956,394	264,984	(72,496)	1,148,882
Fund Balance - End of Year	\$ 924,617	\$ 1,634,475	\$ (39,896)	\$ 2,519,196

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, 2015**

Change in Fund Balance - Governmental Funds (page 14) \$ 1,370,314

Amounts reported for governmental activities in the statement of activities (page 11) are different because:

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. 8,845

Proceeds from long-term debt provides current financial resources, and therefore are reported as other financing sources of governmental funds. Conversely, the proceeds from long-term debt have no impact on net position. (1,466,761)

The repayment of principal of long-term debt consumes the current financial resources, and therefore are reported as debt service principal payments of governmental funds. However, these payments have no impact on net position. 42,850

Unearned revenues that became available in the current period were recognized as revenue in the governmental funds during the current year; however, such amounts were recognized as revenue in the statement of activities in the prior year. (4,454)

Some expenses reported in the statement of activities do not require the use of current financial resources, and therefore are not accrued as expenditures in governmental funds. In the current period, these expenses are as follows:

Interest on Long-Term Debt	(8,477)
Compensated Absences	(20,378)
Other Postemployment Benefits	(69,902)
Pension Benefits	<u>20,566</u>

Change in Net Position - Governmental Activities (page 11) \$ (127,397)

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2015

	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
ASSETS			
Current Assets			
Cash and Investments	\$ 1,568,735	\$ 2,149,496	\$ 3,718,231
Accounts Receivable	280,368	226,943	507,311
State Grants Receivable	84,971	-	84,971
Interest Receivable	4,512	3,520	8,032
Inventory	72,281	24,916	97,197
Prepays and Deposits	24,976	24,976	49,952
Total Current Assets	<u>2,035,843</u>	<u>2,429,851</u>	<u>4,465,694</u>
Non-Current Assets			
Restricted Cash and Investments	1,200,599	874,765	2,075,364
Net Capital Assets	7,679,681	13,040,387	20,720,068
Total Non-Current Assets	<u>8,880,280</u>	<u>13,915,152</u>	<u>22,795,432</u>
Total Assets	<u>10,916,123</u>	<u>16,345,003</u>	<u>27,261,126</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension	44,530	48,704	93,234
LIABILITIES			
Current Liabilities			
Accounts Payable	162,548	103,478	266,026
Interest Payable	11,824	12,496	24,320
Unearned Revenues	12,068	12,068	24,136
Customer Deposits	100,816	-	100,816
Compensated Absences, Due Within One Year	46,929	47,035	93,964
Bonds and Loans, Due Within One Year	148,392	176,565	324,957
Total Current Liabilities	<u>482,577</u>	<u>351,642</u>	<u>834,219</u>
Non-Current Liabilities			
Compensated Absences, Due Beyond One Year	45,410	45,522	90,932
Revenue Bonds, Due Beyond One Year	-	515,000	515,000
Loans, Due Beyond One Year	2,918,559	133,606	3,052,165
Net Other Post Employment Benefit Obligation	300,592	303,561	604,153
Net Pension Liability	359,472	393,173	752,645
Total Non-Current Liabilities	<u>3,624,033</u>	<u>1,390,862</u>	<u>5,014,895</u>
Total Liabilities	<u>4,106,610</u>	<u>1,742,504</u>	<u>5,849,114</u>
DEFERRED INFLOWS OF RESOURCES			
Pension	122,411	133,886	256,297
NET POSITION			
Net Investment in Capital Assets	4,612,730	12,215,216	16,827,946
Restricted for:			
Capital Outlay	440,389	714,665	1,155,054
Debt Service	659,394	160,100	819,494
Unrestricted	1,019,119	1,427,336	2,446,455
Total Net Position	<u>\$ 6,731,632</u>	<u>\$ 14,517,317</u>	<u>\$ 21,248,949</u>

See accompanying notes.

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2015

	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
Operating Revenues			
Sale of Water	\$ 2,838,484	\$ -	\$ 2,838,484
Sewer Charges	-	2,055,906	2,055,906
Other Revenues	135,719	87,311	223,030
Total Operating Revenues	<u>2,974,203</u>	<u>2,143,217</u>	<u>5,117,420</u>
Operating Expenses			
Personnel Services	800,770	843,935	1,644,705
Purchased Water	795,098	-	795,098
Contracted Services	32,992	30,860	63,852
Utilities	43,390	119,234	162,624
Insurance	26,223	26,223	52,446
Repairs, Supplies, and Other Expenses	159,303	225,455	384,758
Depreciation and Amortization	325,895	469,397	795,292
Total Operating Expenses	<u>2,183,671</u>	<u>1,715,104</u>	<u>3,898,775</u>
Operating Income (Loss)	<u>790,532</u>	<u>428,113</u>	<u>1,218,645</u>
Non-Operating Revenues (Expenses)			
Interest Expense	(75,483)	(39,904)	(115,387)
Unrestricted Investment Earnings	15,510	20,496	36,006
Gain on Sale of Capital Assets	4,250	4,250	8,500
State Grants	5,349	-	5,349
Total Non-Operating Revenues (Expenses)	<u>(50,374)</u>	<u>(15,158)</u>	<u>(65,532)</u>
Income (Loss) Before Capital Contributions and Transfers	<u>740,158</u>	<u>412,955</u>	<u>1,153,113</u>
Transfers and Capital Contributions			
Capital Contributions - Capacity Fees	170,786	254,027	424,813
Capital Contributions - Infrastructure	947,141	-	947,141
Total Transfers and Capital Contributions	<u>1,117,927</u>	<u>254,027</u>	<u>1,371,954</u>
Change in Net Position	1,858,085	666,982	2,525,067
Net Position - Beginning of Year, Restated	<u>4,873,547</u>	<u>13,850,335</u>	<u>18,723,882</u>
Net Position - End of Year	<u>\$ 6,731,632</u>	<u>\$ 14,517,317</u>	<u>\$ 21,248,949</u>

See accompanying notes.

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2015

	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
Cash Flows from Operating Activities			
Receipts from Customers and Users	\$ 2,933,070	\$ 2,106,563	\$ 5,039,633
Receipts from Interfund Services Provided	16,796	-	16,796
Payments to Suppliers of Goods and Services	(1,150,681)	(515,719)	(1,666,400)
Payments to Employees for Services	(742,626)	(786,622)	(1,529,248)
Payments for Interfund Services Used	-	(9,759)	(9,759)
Net Cash Provided (Used) by Operating Activities	<u>1,056,559</u>	<u>794,463</u>	<u>1,851,022</u>
Cash Flows from Capital and Related Financing Activities			
Capital Contributions Received (Capacity Fees)	170,786	254,027	424,813
Proceeds from the Sale of Capital Assets	4,250	4,250	8,500
Principal Payments on Long-Term Debt	(145,020)	(173,265)	(318,285)
Acquisition and Construction of Capital Assets	(29,116)	(1,634,983)	(1,664,099)
Interest and Fees Paid on Long-Term Debt	(76,034)	(41,545)	(117,579)
Net Cash Provided (Used) in Capital Financing Activities	<u>(75,134)</u>	<u>(1,591,516)</u>	<u>(1,666,650)</u>
Cash Flows from Investing Activities			
Interest Received on Investments	14,243	20,769	35,012
Net Cash Provided (Used) by Investing Activities	<u>14,243</u>	<u>20,769</u>	<u>35,012</u>
Increase (Decrease) in Cash and Cash Equivalents			
	<u>995,668</u>	<u>(776,284)</u>	<u>219,384</u>
Unrestricted Cash - Beginning of Year	747,834	2,950,569	3,698,403
Restricted Cash - Beginning of Year	1,025,832	849,976	1,875,808
Total Restricted and Unrestricted Cash and Cash Equivalents - Beginning of Year	<u>1,773,666</u>	<u>3,800,545</u>	<u>5,574,211</u>
Unrestricted Cash - End of Year	1,568,735	2,149,496	3,718,231
Restricted Cash - End of Year	1,200,599	874,765	2,075,364
Total Restricted and Unrestricted Cash and Cash Equivalents - End of Year	<u>\$ 2,769,334</u>	<u>\$ 3,024,261</u>	<u>\$ 5,793,595</u>
Reconciliation of Operating Loss to Net Cash Flows from Operating Activities			
Operating Income (Loss)	\$ 790,532	\$ 428,113	\$ 1,218,645
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows Provided (Used) by Operating Activities:			
Depreciation	325,895	469,397	795,292
(Increase) Decrease in Accounts Receivable	(38,728)	(48,722)	(87,450)
(Increase) Decrease in Inventory	(7,955)	(1,158)	(9,113)
(Increase) Decrease in Prepaids and Deposits	(24,976)	(24,976)	(49,952)
Increase (Decrease) in Accounts Payable	(60,744)	(97,572)	(158,316)
Increase (Decrease) in Unearned Revenues	12,068	12,068	24,136
Increase (Decrease) in Customer Deposits	2,370	-	2,370
Increase (Decrease) in Payroll Related Liabilities	58,144	57,313	115,457
Net Cash Flows from Operating Activities	<u>\$ 1,056,606</u>	<u>\$ 794,463</u>	<u>\$ 1,851,069</u>
Noncash Capital and Related Financing Activities			
Contribution of Capital Assets	\$ 947,141	\$ -	\$ 947,141
Purchase of Capital Assets on Account	91,379	93,482	184,861

See accompanying notes.

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

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

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

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

Fund Financial Statements

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

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

Measurement Focus and Basis of Accounting

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

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

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

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and wastewater utility funds are charges to customers for sales and services. In the current fiscal year, these amounts are reported net of discounts and allowances of \$16,767 and \$6,365 for the water and wastewater funds, respectively. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash, Cash Equivalents, and Investments

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

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

Investments 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. Major receivable balances include accounts receivable from customers, interest receivable related to cash and investment earnings, and receivables from state grants. Management considers all receivables to be fully collectible. Accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations as a bad debt expense.

Interfund Transactions and Balances

Interfund transactions are reflected as either loans, services provided and used, reimbursements, or transfers. Loans are reported as receivables and payables as appropriate

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

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

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, 2015, 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.

Deferred Outflows/Inflows of Resources

In the government-wide and proprietary funds financial statements, deferred outflows/inflows of resources represent amounts related to pension contributions and expenses.

Capital Assets

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

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

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

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

Unearned Revenues

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

Compensated Absences and Other Postemployment Benefit Obligations

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

Pensions

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

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benefit terms. Investments are reported at fair value. CalPERS audited financial statements are publically available reports that can be obtained at the CalPERS' website.

Long-Term Obligations

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

Net Position and Fund Balance

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

Government-wide and proprietary funds 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.

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 funds 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.

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
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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.

The General Manager submits a proposed operating budget for the fiscal year commencing on July 1 to the District's Board of Directors. Public comment is elicited during Board meetings to obtain taxpayer and ratepayer comments. A final budget is legally adopted on or before June 30.

The 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. 68, Accounting and Financial Reporting for Pensions* and *GASB No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date (an amendment to GASB Statement No. 68)* improve accounting and financial reporting for pensions by establishing standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. Simultaneous adoption of GASB No. 68 and No. 71 required the District to recognize a liability for its proportionate share of the collective net pension liability related to its CalPERS pension plan.

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- *GASB Statement No. 69, Government Combinations and Disposals of Government Operations* establishes accounting and financial reporting standards related to government combinations and disposals of government operations. It requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. Adoption of GASB No. 69 had no impact on the basic financial statements of the District.

Upcoming Governmental Accounting Standards Implementation

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

- *GASB Statement No. 72, Fair Value Measurement and Application*
- *GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and 68*
- *GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*
- *GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*
- *GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*
- *GASB Statement No. 77, Tax Abatement Disclosures*

NOTE 2 CASH AND INVESTMENTS

Cash and investments at June 30, 2015, consisted of the following:

	<u>Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
Cash on Hand	\$ -	\$ 760	\$ 760
Checking Accounts	-	273,909	273,909
Investment in Money Market Accounts	361,516	377,302	738,818
Investment in Humboldt County Treasurer's Fund	2,129,698	3,937,068	6,066,766
Investment in State of California LAIF	-	128,650	128,650
Investment in CalTrust Funds	1,198,584	-	1,198,584
Total Cash and Investments	<u>\$ 3,689,798</u>	<u>\$ 4,717,689</u>	<u>\$ 8,407,487</u>

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
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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, 2015, 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, 2015, the District reported its investment in the pool at cost which approximated fair value.

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, 2015, the District reported its investment in the pool at cost which approximated fair value.

Investment Trust of California (CalTrust) is a public joint power authority formed to pool and invest the funds of public agencies. CalTrust is governed by a Board of Trustees made up of local agency treasurers and investment officers. The Board supervises and administers the investment program of CalTrust. The CalTrust investment funds are not registered with the Securities and Exchange Commission as an investment company, but are required to invest according to California Government Code. The value of the pool shares is determined on an amortized cost basis. At June 30, 2015, the District reported its investment in the pool at the fair value based upon the fair value provided by CalTrust.

At June 30, 2015, the District had the following investments:

	Cost	Fair Value	Maturities
Investment in Money Market Accounts	\$ 738,818	\$ 738,818	N/A
Investment in Humboldt County Treasurer's Fund	6,066,766	6,066,766	Average 764 Days
Investment in State of California LAIF	128,650	128,650	Average 239 Days
Investment in CalTrust Short-Term Fund	200,092	199,893	Average 489 Days
Investment in CalTrust Medium-Term Fund	1,000,676	998,691	Average 734 Days
Total Investments	<u>\$ 8,135,002</u>	<u>\$ 8,132,818</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, 2015, the District's cash in bank had a carrying balance of

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
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\$1,012,727 and a bank balance of \$1,185,305. The District had no custodial credit risk exposure since its deposits were either insured or collateralized as required by State law.

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

Interest Rate Risk

This is the risk of 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, LAIF, and CalTrust are not rated.

At June 30, 2015, cash and investment balances for governmental and business-type activities were restricted, reserved in accordance with District policy, or unrestricted as follows:

	Governmental Activities	Business-Type Activities	Total
Restricted for:			
Customer Deposits	\$ 8,200	\$ 100,816	\$ 109,016
Capital Outlay	1,606,234	1,155,054	2,761,288
Debt Service	-	819,494	819,494
Total Restricted Cash	\$ 1,614,434	\$ 2,075,364	\$ 3,689,798
Unrestricted:			
Petty Cash	\$ 220	\$ 540	\$ 760
Measure B	234,956	-	234,956
Reserved for:			
Operations	-	-	-
Capital Asset Repair and Replacement	341,911	2,216,357	2,558,268
Catastrophe	84,671	712,285	796,956
Compensated Absences	61,161	184,896	246,057
Other Postemployment Benefits	276,539	604,153	880,692
Total Unrestricted Cash	\$ 999,458	\$ 3,718,231	\$ 4,717,689

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
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NOTE 3 CAPITAL ASSETS

The change in the governmental activities capital assets for the year ended June 30, 2015, is as follows:

	<u>Balance 6/30/2014</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Transfers</u>	<u>Balance 6/30/2015</u>
Capital Assets Not Depreciated					
Land	\$ 1,553,731	\$ -	\$ -	\$ -	\$ 1,553,731
Construction in Progress	190,427	57,691	-	(15,384)	232,734
Total Capital Assets Not Depreciated	<u>1,744,158</u>	<u>57,691</u>	<u>-</u>	<u>(15,384)</u>	<u>1,786,465</u>
Capital Assets Being Depreciated					
Buildings and Parking Lots	2,352,538	-	-	-	2,352,538
Furniture and Equipment	241,671	21,203	(4,000)	-	258,874
Park Improvements	1,232,318	98,897	-	15,384	1,346,599
Vehicles	43,058	13,491	-	-	56,549
Streetlighting	506,598	-	-	-	506,598
Total Capital Assets Being Depreciated	<u>4,376,183</u>	<u>133,591</u>	<u>(4,000)</u>	<u>15,384</u>	<u>4,521,158</u>
Accumulated Depreciation	(2,709,938)	(182,437)	4,000	-	(2,888,375)
Capital Assets Being Depreciated, Net	<u>1,666,245</u>	<u>(48,846)</u>	<u>-</u>	<u>15,384</u>	<u>1,632,783</u>
Governmental Activities Capital Assets, Net	<u>\$ 3,410,403</u>	<u>\$ 8,845</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,419,248</u>

The change in business-type activities capital assets for the year ended June 30, 2015, is as follows:

	<u>Balance 6/30/2014</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Transfers</u>	<u>Balance 6/30/2015</u>
Capital Assets Not Depreciated					
Land, Easements, and Water Rights	\$ 3,410,931	\$ -	\$ -	\$ -	\$ 3,410,931
Construction in Progress	1,005,816	1,772,602	-	(473,240)	2,305,178
Total Capital Assets Not Depreciated	<u>4,416,747</u>	<u>1,772,602</u>	<u>-</u>	<u>(473,240)</u>	<u>5,716,109</u>
Capital Assets Being Depreciated					
Buildings and Parking Lots	467,095	-	-	-	467,095
Water Infrastructure	11,709,960	914,783	-	420,007	13,044,750
Wastewater Infrastructure	17,843,841	-	-	53,233	17,897,074
Tools and Equipment	1,051,085	24,619	-	-	1,075,704
Vehicles	795,978	52,716	(24,258)	-	824,436
Total Capital Assets Being Depreciated	<u>31,867,959</u>	<u>992,118</u>	<u>(24,258)</u>	<u>473,240</u>	<u>33,309,059</u>
Accumulated Depreciation	(17,534,066)	(795,292)	24,258	-	(18,305,100)
Capital Assets Being Depreciated, Net	<u>14,333,893</u>	<u>196,826</u>	<u>-</u>	<u>473,240</u>	<u>15,003,959</u>
Business-Type Activities Capital Assets, Net	<u>\$ 18,750,640</u>	<u>\$ 1,969,428</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,720,068</u>

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
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Depreciation expense was charged to functions/programs of the District as follows:

Governmental Activities	
Parks and Recreation	\$ 163,304
Streetlighting	19,132
Total Depreciation	\$ 182,436
Business-Type Activities	
Water	\$ 325,895
Wastewater	469,397
Total Depreciation	\$ 795,292

NOTE 4 LONG-TERM LIABILITIES

Governmental Activities- Measure B

PPFCC Lease

For the purpose of financing the construction of the District's Teen and Community Center Project, the District, in October 2014, leased the site of the Teen and Community Center Project, and the improvements thereon, to the Public Property Financing Corporation of California (PPFCC) who then leased the property back to the District while assigning all of its rights, title and interest in the lease agreement, including its rights to receive lease payments, to Umpqua Bank. The aggregate principal component of the payments is \$1,468,929. Semi-annual lease payments include interest at 3.55% per annum and are due each May and November through November 2029. The District's repayment obligation is secured by a pledge of 50% of the Measure B Assessment revenues received by the District each fiscal year. Future lease payments are as follows:

Year Ending	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>June 30</u>			
2016	\$ 75,508	\$ 50,218	\$ 125,726
2017	79,968	47,483	127,451
2018	82,831	44,620	127,451
2019	85,798	41,653	127,451
2020	88,872	38,579	127,451
2021 - 2025	494,444	142,819	637,263
2026 - 2030	525,280	47,710	572,990
Total	1,432,701	413,082	1,845,783
Due Within One Year	(75,508)	(50,218)	(125,726)
Due Beyond One Year	\$ 1,357,193	\$ 362,864	\$ 1,720,057

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
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Governmental Activities - Streetlights

PG&E Loan

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

Year Ending June 30	Principal	Interest	Total
2016	\$ 19,865	\$ -	\$ 19,865
2017	19,865	-	19,865
2018	19,865	-	19,865
2019	19,865	-	19,865
2020	9,931	-	9,931
Total	89,391	-	89,391
Due Within One Year	(19,865)	-	(19,865)
Due Beyond One Year	\$ 69,526	\$ -	\$ 69,526

Business-Type Activities – Water Fund

Davis-Grunsky Act Loan

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

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

Year Ending	Principal	Interest	Total
June 30			
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	104,965	36,313	141,278
2021- 2025	558,920	147,470	706,390
2026 - 2030	621,174	85,216	706,390
2031 - 2033	405,943	17,890	423,833
Total	2,089,933	453,070	2,543,003
Due Within One Year	(96,695)	(44,583)	(141,278)
Due Beyond One Year	\$ 1,993,238	\$ 408,487	\$ 2,401,725

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	Principal	Interest	Total
June 30			
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	11,580	871	12,451
2021 - 2025	59,675	2,580	62,255
2026 - 2027	18,491	184	18,675
Total	134,933	8,252	143,185
Due Within One Year	(11,126)	(1,325)	(12,451)
Due Beyond One Year	\$ 123,807	\$ 6,927	\$ 130,734

I-Bank Loan

The District, in 2012, entered into a loan agreement with the California Infrastructure and Economic Development Bank for the purpose of financing water system improvements. The original loan was \$956,034 and bears interest at 3.37% per annum. Semi-annual payments are due each February (interest only) and August (principal and interest) and continue through August 2030. The District's repayment obligation is secured by a pledge of and lien on all the

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net system revenues and all amounts in the water enterprise fund, subject and subordinate solely to any lien securing senior debt. Future debt service on the loan is as follows:

Year Ending June 30	Principal	Interest	Total
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	46,323	23,860	70,183
2021 - 2025	256,111	92,212	348,323
2026 - 2030	302,274	41,162	343,436
2031	66,702	1,324	68,026
Total	<u>842,085</u>	<u>270,164</u>	<u>1,112,249</u>
Due Within One Year	<u>(40,571)</u>	<u>(30,221)</u>	<u>(70,792)</u>
Due Beyond One Year	<u>\$ 801,514</u>	<u>\$ 239,943</u>	<u>\$ 1,041,457</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 June 30	Principal	Interest	Total
2016	\$ 40,920	-	\$ 40,920
Total	40,920	-	40,920
Due Within One Year	<u>(40,920)</u>	<u>-</u>	<u>(40,920)</u>
Due Beyond One Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

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Future debt service on the loan is as follows:

Year Ending			
June 30	Principal	Interest	Total
2016	\$ 25,839	\$ 2,067	\$ 27,906
2017	26,510	1,396	27,906
2018	27,176	706	27,882
Total	<u>79,525</u>	<u>4,169</u>	<u>83,694</u>
Due Within One Year	<u>(25,839)</u>	<u>(2,067)</u>	<u>(27,906)</u>
Due Beyond One Year	<u>\$ 53,686</u>	<u>\$ 2,102</u>	<u>\$ 55,788</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 is as follows:

Year Ending			
June 30	Principal	Interest	Total
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	80,000	15,250	95,250
2021 - 2023	225,000	21,750	246,750
Total	<u>575,000</u>	<u>132,500</u>	<u>707,500</u>
Due Within One Year	<u>(60,000)</u>	<u>(28,750)</u>	<u>(88,750)</u>
Due Beyond One Year	<u>\$ 515,000</u>	<u>\$ 103,750</u>	<u>\$ 618,750</u>

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

Umpqua Bank Loan

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

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Future debt service on the loan is as follows:

Year Ending June 30	Principal	Interest	Total
2016	\$ 49,806	\$ 5,928	\$ 55,734
2017	52,664	3,070	55,734
2018	27,256	595	27,851
Total	<u>129,726</u>	<u>9,593</u>	<u>139,319</u>
Due Within One Year	<u>(49,806)</u>	<u>(5,928)</u>	<u>(55,734)</u>
Due Beyond One Year	<u>\$ 79,920</u>	<u>\$ 3,665</u>	<u>\$ 83,585</u>

Long-term debt activity for the year ended June 30, 2015, was as follows:

	Balance 6/30/2014	Increases	Decreases	Balance 6/30/2015	Due Within One Year
<u>Governmental Activities</u>					
PPFCC Lease	\$ -	\$ 1,468,929	\$ (36,228)	\$ 1,432,701	\$ 75,508
PG&E Loan	98,181	-	(8,790)	89,391	19,865
Total Governmental-Type Activities	<u>\$ 98,181</u>	<u>\$ 1,468,929</u>	<u>\$ (45,018)</u>	1,522,092	<u>\$ 95,373</u>
Due Within One Year				<u>(95,373)</u>	
Due Beyond One Year				<u>\$ 1,426,719</u>	
<u>Business-Type Activities</u>					
Water Fund					
Davis-Grunsky Act Loan	\$ 2,184,686	\$ -	\$ (94,753)	\$ 2,089,933	\$ 96,695
ARRA Loan	145,951	-	(11,018)	134,933	11,126
I-Bank Loan	881,334	-	(39,249)	842,085	40,571
Total Water Fund	<u>3,211,971</u>	<u>-</u>	<u>(145,020)</u>	<u>3,066,951</u>	<u>148,392</u>
Wastewater Fund					
State Revolving Fund Loan #1	81,840	-	(40,920)	40,920	40,920
State Revolving Fund Loan #2	104,696	-	(25,171)	79,525	25,839
USDA Revenue Bonds	635,000	-	(60,000)	575,000	60,000
Umpqua Bank Loan	176,900	-	(47,174)	129,726	49,806
Total Wastewater Fund	<u>998,436</u>	<u>-</u>	<u>(173,265)</u>	<u>825,171</u>	<u>176,565</u>
Total Business-Type Activities	<u>\$ 4,210,407</u>	<u>\$ -</u>	<u>\$ (318,285)</u>	3,892,122	<u>\$ 324,957</u>
Due Within One Year				<u>(324,957)</u>	
Due Beyond One Year				<u>\$ 3,567,165</u>	

Interest expense included in the direct functional expenses of governmental and business-type activities was \$38,027 and \$115,387, respectively.

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Other long-term liability activity for the year ended June 30, 2015, was as follows:

	Balance 6/30/2014	Increases	Decreases	Balance 6/30/2015	Due Within One Year
<u>Governmental Activities</u>					
Compensated Absences	\$ 40,783	\$ 20,378	\$ -	\$ 61,161	\$ 33,594
Net OPEB Obligation	206,637	69,902	-	276,539	-
Net Pension Liability	508,605	-	(137,899)	370,706	-
Total	\$ 756,025	\$ 90,280	\$ (137,899)	\$ 708,406	\$ 33,594
<u>Business-Type Activities</u>					
Compensated Absences					
Water	\$ 84,195	\$ 8,144	\$ -	\$ 92,339	\$ 46,929
Wastewater	84,195	8,362	-	92,557	47,035
Total	\$ 168,390	\$ 16,506	\$ -	\$ 184,896	\$ 93,964
Net OPEB Obligation					
Water	\$ 230,648	\$ 69,944	\$ -	\$ 300,592	\$ -
Wastewater	232,796	70,765	-	303,561	-
Total	\$ 463,444	\$ 140,709	\$ -	\$ 604,153	\$ -
Net Pension Liability					
Water	\$ 493,194	\$ -	\$ (133,722)	\$ 359,472	\$ -
Wastewater	539,431	-	(146,258)	393,173	-
Total	\$ 1,032,625	\$ -	\$ (279,980)	\$ 752,645	\$ -

NOTE 5 FUND BALANCE

Restricted Fund Balance

At June 30, 2015, 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:

Park & Recreation Capital Projects - Coastal	<u>\$ 41,528</u>
Park & Recreation Capital Projects - Inland	<u>164,706</u>
Total Restricted Fund Balance	<u>\$ 206,234</u>

At June 30, 2015, the fund balance of the Measure B fund has been restricted to reflect unexpended loan proceeds of \$1,400,000 related to the construction of the Teen and Community Center Project.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2015**

Committed Fund Balance

At June 30, 2015, 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>
Capital Asset Repair and Replacement	10% of Capital Asset Replacement Cost	\$ 253,040
Catastrophe	2% of Capital Assets	84,671
Compensated Absences	Equal to Compensated Absences Liability	61,161
Other Postemployment Benefits (OPEB)	Equal to OPEB Liability	276,539
Total Committed Fund Balance		<u>\$ 675,411</u>

NOTE 6 PUBLIC EMPLOYEES RETIREMENT SYSTEM

Plan Description

All qualified permanent and probationary employees are eligible to participate in the District's Miscellaneous 2% at 55 cost-sharing multiple-employer defined benefit pension plan (the Plan) administered by the California Public Employees Retirement System (CalPERS). CalPERS acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plan are established by State statute and District resolution. A full description of the pension plan benefit provisions, assumptions, and membership information is listed in the June 30, 2013 Annual Actuarial Valuation Report that can be found on the CalPERS' website.

Benefits Provided

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

Contributions

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

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

The District's contractually required contribution rate for the year ended June 30, 2015 was 10.432% of annual payroll actuarially determined as an amount that when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District has elected to fund the employees required 7% contribution. Contributions to the pension plan by the District for the fiscal year ended June 30, 2015 were \$207,563 (\$126,683 employer share and \$80,880 employee share paid by the District).

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

The District's net pension liability for the Plan is measured as its proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2014, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the Plan relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability of the Plan as of June 30, 2013 and 2014 was \$1,541,230 and \$1,123,351, respectively.

For the year ended June 30, 2015, the District recognized pension expense of \$145,237. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Source</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 126,683	\$ -
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	12,471	-
Net differences between projected and actual earnings on plan investments	-	(382,532)
Total	<u>\$ 139,154</u>	<u>\$ (382,532)</u>

\$126,683 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2015**

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

Year Ended June 30	Increase (Decrease) to Pension Expense
2016	\$ (91,179)
2017	(91,179)
2018	(92,070)
2019	(95,633)
Total	<u>\$ (370,061)</u>

Actuarial Assumptions

The total pension liability in the June 30, 2013 actuarial valuation was determined based upon the following methods and assumptions:

Actuarial Cost Method

Entry Age Normal in Accordance with the Requirements of GASB Statement No. 68

Actuarial Assumptions

Discount Rate	7.50%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.50% Net of Pension Plan Investment and Administrative Expenses (includes inflation)
Mortality Rate Table	Derived using CalPERS Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the fiscal years 1997 to 2011, including updates to salary increase, mortality, and retirement rates. The Experience Study report can be obtained at CalPERS website.

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

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

In determining the long-term expected rate of return, CalPERS staff took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1 - 10*</u>	<u>Real Return Years 11+ **</u>
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	12.0%	6.83%	6.95%
Real Estate	11.0%	4.50%	5.13%
Infrastructure and Forestland	3.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	<u>100%</u>		

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

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

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

The following presents the District's net pension liability (proportionate share of the net pension liability of the Plan) as of the measurement date, calculated using the discount rate of the Plan

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
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(7.50 percent), as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.50 percent) or 1 percentage-point higher (8.50 percent) than the current rate:

	Discount Rate -1% (6.5%)	Discount Rate (7.5%)	Discount Rate +1% (8.5%)
Net Pension Liability	\$ 2,011,184	\$ 1,123,351	\$ 386,534

Pension Plan Fiduciary Net Position

The plan fiduciary net position disclosed in the District's GASB No. 68 accounting valuation report may differ from the plan assets reported in District's funding actuarial valuation report due to several reasons. First, for the accounting valuations, CalPERS must keep items such as deficiency reserves, fiduciary self-insurance, and OPEB expense included in fiduciary net position. These amounts are excluded for rate setting purposes in the funding actuarial valuation. In addition, differences may result from early closing and final reconciled reserves.

Payable to the Pension Plan

At June 30, 2015, the District reported a payable of \$8,772 (\$5,187 employer share and \$3,585 employee share paid by the District) for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

Public Employee Pension Reform Act

The CalPERS Public Employee Pension Reform Act (PEPRA) changes the way CalPERS retirement benefits are applied and places compensation limits on members. PEPRA took effect in January 2013. The District had no employees in the PEPRA Plan as of the CalPERS valuation date (June 30, 2013), and therefore no unfunded liability related to PEPRA employees is included within these financial statements. The District's contribution rate for employees in the PEPRA Plan is 6.25%.

NOTE 7 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description

The District sponsors and administers a single-employer defined benefit postemployment health care plan (the Plan) to provide healthcare benefits to eligible retired employees and their dependents. District resolutions and regulations assign responsibility to establish and amend benefit provisions to the District. Although the District has not yet established a separate postemployment benefit (OPEB) trust fund, the District has set aside funds in accordance with its reserve policy equal to its OPEB liability at June 30, 2015 (\$880,692).

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

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, 2015, the District contributed \$95,767 of its annual cost of \$306,378. As a result, the net OPEB liability increased by \$210,611 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)	\$ 302,553
Interest on Net OPEB Obligation	33,504
Adjustments to the ARC	<u>(29,679)</u>
Annual OPEB Cost	306,378
Contributions Made	<u>(95,767)</u>
Change in Net OPEB Obligation	210,611
Net OPEB Obligation - Beginning of Year	<u>670,081</u>
Net OPEB Obligation - End of Year	<u><u>\$ 880,692</u></u>

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the Plan, and the net OPEB obligation at June 30, 2015, 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>
06/30/13	\$ 251,047	37.6%	\$ 492,757
06/30/14	\$ 275,685	35.7%	\$ 670,081
06/30/15	\$ 306,378	31.3%	\$ 880,692

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2015**

Funded Status

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

Actuarial Valuation Date	(A) Actuarial Value of Assets	(B) Entry Age Actuarial Accrued Liability	(C) Excess Assets/ (Unfunded Liability) [(A) - (B)]	(D) Funded Ratio [(A)/(B)]	(E) Annual Covered Payroll	(F) Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll [(C)/(E)]
06/01/13	\$ -	\$ 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.

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

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

During fiscal year 1993-94, an alternate method of property tax allocation (the "Teeter Plan") was adopted by the County of Humboldt. Under this plan, the County distributes 100% of current secured taxes billed to taxing entities during the current year, whether collected or not. The District recognizes property tax revenues (including tax increment revenues) to the extent of each year's tax allocation received or to be received within 60 days after the end of each fiscal year.

NOTE 9 COMMITMENTS AND CONTINGENCIES

Capital Project Commitments

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

Grants and Allocations

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

Wastewater Discharge Permit and the California Toxic Rule

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

NOTE 10 RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the District carries insurance. The District, due to the costs of available coverage, participates as a member of the Special District Risk Management Authority (SDRMA). The District's obligations under the arrangement are to pay billed premiums for the specified

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2015**

coverages. The SDRMA may pay dividends to members or may make additional assessments depending on loss experience, but no dividends have been declared and no additional assessments have been levied. Financial information pertaining to SDRMA can be obtained from its administrative offices at 1112 I Street, Suite 300, Sacramento, California 95814.

Below is a summary of the District's insurance coverage for the year ended June 30, 2015:

<u>Type of Coverage</u>	<u>Coverage per Occurrence</u>
General Liability	\$ 5,000,000
Public Officials and Employees Errors	5,000,000
Personal Liability - Board Members	500,000
Employment Practices Liability	5,000,000
Employee Benefits Liability	5,000,000
Employee Dishonesty Coverage	400,000
Auto Liability	5,000,000
Auto Physical Damage	Actual Value
Uninsured/Underinsured Motorists	750,000
Trailer Coverage	Actual Value
Property Coverage	Replacement Cost up to \$1 Billion
Boiler and Machinery Coverage	Replacement Cost up to \$100 Million
Workers' Compensation	Statutory
Employers' Liability Coverage	5,000,000

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, 2015.

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 PRIOR PERIOD ADJUSTMENT

The District recorded a prior period adjustment in recognition of its net pension liability in accordance with the implementation of *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*). The prior period adjustment

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
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June 30, 2015

resulted in a decrease of \$471,587 to the beginning net position of the District's governmental activities. Similarly, the beginning net position of the District's water and wastewater activities decreased by \$457,299 and \$500,166, respectively.

NOTE 13 SUBSEQUENT EVENTS

The District's management has evaluated subsequent events through January 21, 2016, which is the date the financial statements were available to be issued, and concluded that no additional adjustments to the financial statements or disclosures, except as subsequently noted, are required for fiscal year 2014-15.

Subsequent to fiscal year-end, the District received updated cost information in relation to the Water Fund's Mad River Intertie Capital Project. Updated information revealed that the District's capitalized cost and contributed capital related to the project would increase by approximately \$75,000. Due to the immaterial impact on the fiscal year 2014-15 financial statements, management has decided to postpone recognition of these additional capital costs and contributed capital until fiscal year 2015-16.

REQUIRED SUPPLEMENTARY INFORMATION

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND (PARKS AND RECREATION)
For the Fiscal Year Ended June 30, 2015**

	<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	\$ 956,394	\$ 956,394	\$ 956,394	\$ -
Resources (Inflows)				
Property Taxes	510,000	510,000	523,969	13,969
Program Fees	393,040	393,040	323,009	(70,031)
Facility and Open Space Fees	168,400	168,400	153,441	(14,959)
Other Revenues	16,000	16,000	53,556	37,556
Quimby Fees	93,000	93,000	28,073	(64,927)
Unrestricted Investment Earnings	3,000	3,000	8,743	5,743
Amounts Available for Appropriations	<u>2,139,834</u>	<u>2,139,834</u>	<u>2,047,185</u>	<u>(92,649)</u>
Charges to Appropriations (Outflows)				
Salaries and Benefits	851,855	851,855	777,207	(74,648)
Other Expenditures	215,879	215,879	213,004	(2,875)
Capital Outlay	115,000	115,000	132,357	17,357
Total Charges to Appropriations	<u>1,182,734</u>	<u>1,182,734</u>	<u>1,122,568</u>	<u>(60,166)</u>
Fund Balance - June 30	<u>\$ 957,100</u>	<u>\$ 957,100</u>	<u>\$ 924,617</u>	<u>\$ (32,483)</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	\$ 2,047,185
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>(956,394)</u>
Total revenues and other financing sources as reported in the statement of revenues, expenditures, and changes in fund balances - governmental funds	1,090,791

Charges to Appropriations (Outflows):

Total expenditures as reported in the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>1,122,568</u>
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Net Change in Fund Balance

\$ (31,777)

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
BUDGETARY COMPARISON SCHEDULE
MEASURE B FUND
For the Fiscal Year Ended June 30, 2015**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Fund Balance - July 1	\$ 264,984	\$ 264,984	\$ 264,984	\$ -
Resources (Inflows)				
Special Assessments	214,024	214,024	202,749	(11,275)
Proceeds from Long-Term Debt	-	-	1,468,929	1,468,929
Unrestricted Investment Earnings	-	-	2,116	2,116
Amounts Available for Appropriations	<u>479,008</u>	<u>479,008</u>	<u>1,938,778</u>	<u>1,459,770</u>
Charges to Appropriations (Outflows)				
Salaries and Benefits	101,059	101,059	97,613	(3,446)
Other Expenditures	6,000	6,000	149,994	143,994
Capital Outlay	105,000	105,000	56,696	(48,304)
Total Charges to Appropriations	<u>212,059</u>	<u>212,059</u>	<u>304,303</u>	<u>92,244</u>
Fund Balance - June 30	<u>\$ 266,949</u>	<u>\$ 266,949</u>	<u>\$ 1,634,475</u>	<u>\$ 1,367,526</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	\$ 1,938,778
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>(264,984)</u>
Total revenues and other financing sources as reported in the statement of revenues, expenditures, and changes in fund balances - governmental funds	1,673,794

Charges to Appropriations (Outflows):

Total expenditures as reported in the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>304,303</u>
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Net Change in Fund Balance

\$ 1,369,491

Note 2 - Significant variances between the final budgeted and actual amounts is directly related to debt issuance, debt service, and capital expenditure activity for the Teen and Community Center Project.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
BUDGETARY COMPARISON SCHEDULE
STREETLIGHTING FUND
For the Fiscal Year Ended June 30, 2015**

	<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	\$ (72,496)	\$ (72,496)	\$ (72,496)	\$ -
Resources (Inflows)				
Streetlight Charges & Fees	72,958	72,958	93,528	20,570
Proceeds from Long-Term Debt	-	-	(2,168)	(2,168)
Other Revenues	16,800	16,800	17,750	950
Unrestricted Investment Earnings	-	-	13	13
Amounts Available for Appropriations	<u>17,262</u>	<u>17,262</u>	<u>36,627</u>	<u>19,365</u>
Charges to Appropriations (Outflows)				
Salaries and Benefits	41,573	41,573	35,866	(5,707)
Electricity	18,000	18,000	16,443	(1,557)
Other Expenditures	18,070	18,070	17,592	(478)
Debt Service	12,000	12,000	6,622	(5,378)
Total Charges to Appropriations	<u>89,643</u>	<u>89,643</u>	<u>76,523</u>	<u>(13,120)</u>
Fund Balance - June 30	<u>\$ (72,381)</u>	<u>\$ (72,381)</u>	<u>\$ (39,896)</u>	<u>\$ 32,485</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	\$ 36,627
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>72,496</u>
Total revenues and other financing sources as reported in the statement of revenues, expenditures, and changes in fund balances - governmental funds	109,123

Charges to Appropriations (Outflows):

Total expenditures as reported in the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>76,523</u>
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Net Change in Fund Balance

\$ 32,600

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Last 10 Years*
June 30, 2015

	6/30/2014
Portion of the Net Pension Liability	0.01805%
Proportionate Share of the Net Pension Liability	\$1,123,351
Covered-Employee Payroll	\$1,084,395
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	103.59%
Proportionate Share of the Fiduciary Net Position as a Percentage of the Total Pension Liability	83.21%
Proportionate Share of Aggregate Employer Contributions	\$ 150,596

* **Note (1)** The District participates in the Miscellaneous 2% at 55 cost-sharing multiple-employer defined benefit plan (the Plan) administered by the California Public Employees Retirement System. The above schedule presents information about the District's proportionate share of the Plan's net pension liability as of the measurement date (June 30, 2014). The proportionate share of the net pension liability is reflected in the District's financial statements at June 30, 2015. Fiscal year 2014-15 was the first year of implementation, thus this schedule reflects only one year. Additional information regarding the Plan can be found at Note 6 to the basic financial statements.

Note (2) No changes in benefits or assumptions.

Note (3) CalPERS Actuarial Services Unit calculates pensionable earnings on an actuarial basis using average full time equivalents and pay rates. These calculation methods reduce the volatility caused by employee turnover and changes in pay rates or work schedule. Therefore, actuarial pensionable earnings will vary from actual earnings reported by the District. Management considers this variance to have an insignificant effect on annual pension cost.

MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
SCHEDULE OF PENSION CONTRIBUTIONS
Last 10 Years*
June 30, 2015

	6/30/2015
Actuarially Determined Contribution	\$ 126,683
Contributions in Relation to the Actuarially Determined Contribution	(126,683)
Contribution Deficiency (Excess)	\$ -
Covered-Employee Payroll	\$1,214,369
Contributions as a Percentage of Covered-Employee Payroll	10.432%

* **Note (1)** The District participates in the Miscellaneous 2% at 55 cost-sharing multiple-employer defined benefit plan (the Plan) administered by the California Public Employees Retirement System. The above schedule presents information about the District's contributions to the Plan for fiscal year 2014-15. Fiscal year 2014-15 was the first year of implementation, thus this schedule reflects only one year. Additional information regarding the Plan can be found at Note 6 to the basic financial statements.

Note (2) CalPERS Actuarial Services Unit calculates pensionable earnings on an actuarial basis using average full time equivalents and pay rates. These calculation methods reduce the volatility caused by employee turnover and changes in pay rates or work schedule. Therefore, actuarial pensionable earnings will vary from actual earnings reported by the District. Management considers this variance to have an insignificant effect on annual pension cost.

**MCKINLEYVILLE COMMUNITY SERVICES DISTRICT
SCHEDULE OF FUNDING PROGRESS
OTHER POST EMPLOYMENT BENEFITS
June 30, 2015**

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%

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

Note (2) Actuarial valuations of an on-going plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Amounts determined regarding the funded status of the plan and the annual required contribution of the District are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Information regarding the actuarial methods and assumptions for the 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.

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

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

To the Board of Directors
McKinleyville Community Services District
McKinleyville, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of McKinleyville Community Services District (the District), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the McKinleyville Community Services District's basic financial statements, and have issued our report thereon dated January 21, 2016.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether McKinleyville Community Services District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of

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

Purpose of this Report

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

Hunter, Hunter & Hunt

January 21, 2016