McKinleyville Community Services District
McKinleyville, California

Annual Financial Report
For the Fiscal Year Ended
June 30, 2017

McKINLEYVILLE COMMUNITY SERVICES DISTRICT

Board of Directors as of June 30, 2017

Name	Title	Elected/ Appointed	Current Term
Dennis Mayo	President	Elected	09/2008 - 12/2018
David Couch	Vice President	Elected	12/2009 - 12/2018
Mary Burke	Director	Elected	03/2017 - 12/2020
John Corbett	Director	Elected	10/2002 - 12/2020
George Wheeler	Director	Elected	12/2013 - 12/2018

McKinleyville Community Services District
1656 Sutter Road
McKinleyville, California 95519
(707) 839-3251

McKinleyville Community Services District

Annual Financial Report

For the Fiscal Year Ended June 30, 2017

McKinleyville Community Services District
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Financial Section

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Certified Public Accountants

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Independent Auditor's Report

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 (District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinion 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 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 opinion.

Opinion

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, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 and the required supplementary information on pages 52 through 58 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 3, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance. That report can be found on pages 59 and 60.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
January 3, 2018

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the McKinleyville Community Services District (District) provides an introduction to the financial statements of the District for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented here with additional information that we have furnished in the accompanying basic financial statements and related notes, which follow this section.

Financial Highlights

- In 2017, the District's net position increased by 8.60% or $2,372,027 to $29,958,413 as a result of ongoing operations.
- In 2017, the District's total revenues increased 0.26% or $22,108 to $8,631,360, due primarily to an increase of $909,010 in charges for services; which was offset by decreases of $800,807 in capital grants and contributions, $44,768 in operating grants and contributions, and $41,327 in general revenues related to investment losses.
- In 2017, the District's total expenses increased by 6.25% or $368,364 to $6,259,333, due primarily to increases of $110,115 in general (parks and recreation) fund expenses, $46,968 in Measure B fund expenses, $168,373 in water fund expenses, and $45,826 in wastewater fund expenses.

Using This Financial Report

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provides information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

The Statement of Net Position includes all of the District's investments in resources (assets) and deferred outflows of resources, obligations to creditors (liabilities) and deferred inflows of resources. It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statement of Activities. This statement measures the success of the District's operations over the past year and can be used to determine the District's profitability and credit worthiness.

Government-wide Financial Statements

Statement of Net Position and Statement of Activities

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Activities report information about the District in a way that helps answer this question. These statements include all assets, deferred outflows of resources, liabilities and deferred inflows of resources using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's *net position* and changes in it. Think of the District's net position – the difference between assets and deferred outflows of resources, less liabilities and deferred inflows of resources – as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position is one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in the District's property tax base and the types of grants the District applies for to assess the *overall financial health* of the District.

Fund Financial Statements

Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance

Governmental funds are used to account for essentially 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 on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 20 through 51.

Government-wide Financial Analysis

Statements of Net Position

The following table is a summary of the statements of net position at June 30, 2017.

Condensed Statements of Net Position

	Governmental Activities		Business-Type Activities		Total District	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Assets:						
Current assets	$ 764,469	783,994	10,227,264	5,575,617	10,991,733	6,359,611
Non-current assets	-	210,167	-	2,576,679	-	2,786,846
Capital assets	5,496,977	5,505,200	33,255,198	23,769,715	38,752,175	29,274,915
Total assets	6,261,446	6,499,361	43,482,462	31,922,011	49,743,908	38,421,372
Deferred outflows of resources	113,866	49,174	309,124	117,197	422,990	166,371
Liabilities:						
Current liabilities	373,520	555,152	2,531,618	1,963,810	2,905,138	2,518,962
Non-current liabilities	2,266,474	2,124,737	14,859,846	6,036,354	17,126,320	8,161,091
Total liabilities	2,639,994	2,679,889	17,391,464	8,000,164	20,031,458	10,680,053
Deferred inflows of resources	64,419	107,222	112,608	214,082	177,027	321,304
Net position:						
Net investment in capital assets	4,177,483	4,082,920	20,375,909	19,034,021	24,553,392	23,116,941
Restricted	157,127	201,367	1,385,999	2,468,112	1,543,126	2,669,479
Unrestricted	(663,711)	(522,863)	4,525,606	2,322,829	3,861,895	1,799,966
Total net position	$ 3,670,899	3,761,424	26,287,514	23,824,962	29,958,413	27,586,386

Government-wide Financial Analysis, continued

Statements of Net Position, continued

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources of the District exceeded liabilities and deferred inflows of resources by $29,958,413 as of June 30, 2017. The District's total net position is made-up of three components: (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position.

Statements of Activities

The following table is a summary of the statements of activities for the year ended June 30, 2017.

Condensed Statements of Activities

	Governmental Activities		Business-Type Activities		Total District	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	$ 660,044	617,337	6,571,871	5,705,568	7,231,915	6,322,905
Operating grants and contributions	50,520	79,051	-	16,237	50,520	95,288
Capital grants and contributions	46,728	128,357	434,717	1,153,895	481,445	1,282,252
Total program revenues	757,292	824,745	7,006,588	6,875,700	7,763,880	7,700,445
General revenues:						
Property taxes	574,220	547,214	-	-	574,220	547,214
Voter approved taxes	208,775	204,177	-	-	208,775	204,177
Investment earnings	6,267	27,482	20,396	49,276	26,663	76,758
Gain on disposal of capital assets	-	-	15,900	17,170	15,900	17,170
Other income	41,922	63,488	-	-	41,922	63,488
Total general revenues	831,184	842,361	36,296	66,446	867,480	908,807
Total revenues	1,588,476	1,667,106	7,042,884	6,942,146	8,631,360	8,609,252
Expenses:						
General (Parks & Recreation)	1,390,477	1,280,362	-	-	1,390,477	1,280,362
Measure B	195,917	148,949	-	-	195,917	148,949
Streetlighting	92,607	95,525	-	-	92,607	95,525
Water	-	-	2,614,505	2,446,132	2,614,505	2,446,132
Wastewater	-	-	1,965,827	1,920,001	1,965,827	1,920,001
Total expenses	1,679,001	1,524,836	4,580,332	4,366,133	6,259,333	5,890,969
Change in net position	(90,525)	142,270	2,462,552	2,576,013	2,372,027	2,718,283
Net position – beginning of period	3,761,424	3,619,154	23,824,962	21,248,949	27,586,386	24,868,103
Net position – end of period	$ 3,670,899	3,761,424	26,287,514	23,824,962	29,958,413	27,586,386

Compared to prior year, net position of the District increased 8.60% or $2,372,027 as a result of ongoing operations.

Total revenues increased 0.26% or $22,108 to $8,631,360, due primarily to an increase of $909,010 in charges for services; which was offset by decreases of $800,807 in capital grants and contributions, $44,768 in operating grants and contributions, and $41,327 in general revenues related to investment losses.

Total expenses increased by 6.25% or $368,364 to $6,259,333, due primarily to increases of $110,115 in general (parks and recreation) fund expenses, $46,968 in Measure B fund expenses, $168,373 in water fund expenses, and $45,826 in wastewater fund expenses.

Government-wide Financial Analysis, continued

Changes in fund balance – Governmental funds

The following table is a summary of the changes in fund balance for all governmental funds for the year ended June 30, 2017.

Condensed Changes in Fund Balance – Governmental Funds

	General (Parks and Recreation)	Measure B	Streetlighting	Total Governmental Activities
Fund balance, beginning of year	$ 1,095,228	(465,679)	(36,216)	593,333
Change in fund balance	77,175	(132,950)	15,050	(40,725)
Fund balance – end of year	$ 1,172,403	(598,629)	(21,166)	552,608

In 2017, total fund balance decreased by 6.86% or $40,725 to $552,608. The General (Parks and Recreation) fund increased by 7.05% or $77,175 to $1,172,403. The Measure B fund decreased by 28.55% or $132,950 to a deficit fund balance of $598,629, and the Street Lighting fund increased by 41.56% or $15,050 to a deficit fund balance of $21,166.

Capital Asset Administration

Capital Assets

	Governmental Activities		Business-Type Activities		Total District	
	2017	2016	2017	2016	2017	2016
Capital assets:						
Non-depreciable assets	$ 1,682,772	3,957,673	17,879,003	8,376,953	19,561,775	12,334,626
Depreciable assets	7,106,487	4,614,257	35,158,474	34,439,839	42,264,961	39,054,096
Total capital assets	8,789,259	8,571,930	53,037,477	42,816,792	61,826,736	51,388,722
Accumulated depreciation	(3,292,282)	(3,066,730)	(19,782,279)	(19,047,077)	(23,074,561)	(22,113,807)
Total capital assets, net	$ 5,496,977	5,505,200	33,255,198	23,769,715	38,752,175	29,274,915

At the end of fiscal year 2017, the District's investment in capital assets amounted to $38,752,175 (net of accumulated depreciation). This investment in capital assets includes land, buildings, building improvements, furnishings and equipment, collection and distribution systems, tanks, wells, water transmission and distribution systems, and construction-in-process. The capital assets of the District are more fully analyzed in Note 4 to the basic financial statements.

Long-Term Debt Administration

Long-Term Debt

		Governmental Activities		Business-Type Activities		Total District	
		2017	**2016**	**2017**	**2016**	**2017**	**2016**
Long-term debt:							
Long-term debt	$	1,319,494	1,422,280	12,879,289	4,735,695	14,198,783	6,157,975
Total long-term debt:	$	1,319,494	1,422,280	12,879,289	4,735,695	14,198,783	6,157,975

Long-term debt increased 130.58% or $8,040,808 to $14,198,783 in 2017 primarily due to additional note payable funds received from the State Water Resources Control Board for the purpose of financing a wastewater management facility improvement. The long-term debt position of the District is more fully analyzed in Note 6 to the basic financial statements.

Conditions Affecting Current Financial Position

Management is unaware of any conditions, which could have a significant impact on the District's current financial position, net assets or operating results in terms of past, present and future.

Requests for Information

This financial report is designed to provide the District's present users, including funding sources, customers, stakeholders and other interested parties with a general overview of the District's finances and to demonstrate the District's accountability with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's Finance Manager, Colleen Trask at McKinleyville Community Services District, P.O. Box 2037, McKinleyville, California 95519 or (707) 839-3251.

Basic Financial Statements

McKinleyville Community Services District
Statement of Net Position
June 30, 2017

		Governmental Activities	Business-Type Activities	Totals
Current assets:				
Cash and investments (notes 2 & 3)	$	598,567	8,098,014	8,696,581
Cash and investments – restricted (notes 2 & 3)		157,127	1,385,998	1,543,125
Accounts receivable		5,762	623,589	629,351
Accrued interest receivable		3,013	8,879	11,892
Materials and supplies inventory		-	110,784	110,784
Total current assets		764,469	10,227,264	10,991,733
Non-current assets:				
Capital assets – not being depreciated (note 4)		1,682,772	17,879,003	19,561,775
Capital assets – being depreciated (note 4)		3,814,205	15,376,195	19,190,400
Total non-current assets		5,496,977	33,255,198	38,752,175
Total assets		6,261,446	43,482,462	49,743,908
Deferred outflows of resources:				
Deferred pension outflows (note 8)		113,866	309,124	422,990
Total deferred outflows of resources	$	113,866	309,124	422,990

Continued on next page

See accompanying notes to the basic financial statements

McKinleyville Community Services District
Statement of Net Position, continued
June 30, 2017

		Governmental Activities	Business-Type Activities	Totals
Current liabilities:				
Accounts payable and accrued expenses	$	109,646	1,875,193	1,984,839
Accrued interest on long-term debt		7,557	117,836	125,393
Accrued salaries and related payables		93,815	-	93,815
Customer deposits		8,400	114,868	123,268
Unearned revenue		-	24,604	24,604
Long-term liabilities – due within one year:				
Compensated absences (note 5)		51,406	119,305	170,711
Bond payable (note 6)		-	70,000	70,000
Capital lease payable (note 6)		82,831	-	82,831
Notes payable (note 6)		19,865	209,812	229,677
Total current liabilities		373,520	2,531,618	2,905,138
Non-current liabilities:				
Long-term liabilities – due in more than one year:				
Compensated absences (note 5)		35,433	110,650	146,083
Bond payable (note 6)		-	375,000	375,000
Capital lease payable (note 6)		1,187,071	-	1,187,071
Notes payable (note 6)		29,727	12,224,477	12,254,204
Other post employment benefits (note 7)		506,006	1,032,653	1,538,659
Net pension liabilities (note 8)		508,237	1,117,066	1,625,303
Total non-current liabilities		2,266,474	14,859,846	17,126,320
Total liabilities		2,639,994	17,391,464	20,031,458
Deferred inflows of resources:				
Deferred pension inflows (note 8)		64,419	112,608	177,027
Total deferred inflows of resources		64,419	112,608	177,027
Net position: (note 10)				
Net investment in capital assets		4,177,483	20,375,909	24,553,392
Restricted		157,127	1,385,999	1,543,126
Unrestricted		(663,711)	4,525,606	3,861,895
Total net position	$	3,670,899	26,287,514	29,958,413

See accompanying notes to the basic financial statements

McKinleyville Community Services District
Statement of Activities
For the Fiscal Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Cntributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities	Net (Expense) Revenue and Changes in Net Position: Business-Type Activities	Net (Expense) Revenue and Changes in Net Position: Total
Governmental activities:							
General (Parks and Recreation)	$ 1,390,477	575,042	50,520	46,728	(718,187)	-	(718,187)
Measure B	195,917	-	-	-	(195,917)	-	(195,917)
Street Lighting	92,607	85,002	-	-	(7,605)	-	(7,605)
Total governmental activities	1,679,001	660,044	50,520	46,728	(921,709)	-	(921,709)
Business–Type activities:							
Water	2,614,505	3,420,610	-	152,299	-	958,404	958,404
Wastewater	1,965,827	3,151,261	-	282,418	-	1,467,852	1,467,852
Total business–type activities:	4,580,332	6,571,871	-	434,717	-	2,426,256	2,426,256
Total	$ 6,259,333	7,231,915	50,520	481,445	(921,709)	2,426,256	1,504,547
General revenues:							
Property taxes					$ 574,220	-	574,220
Voter approved taxes					208,775	-	208,775
Interest earnings					6,267	20,396	26,663
Gain on disposal of capital assets					-	15,900	15,900
Other income					41,922	-	41,922
Total general revenues					831,184	36,296	867,480
Change in net position					(90,525)	2,462,552	2,372,027
Net position, beginning of year					3,761,424	23,824,962	27,586,386
Net position, end of year					$ 3,670,899	26,287,514	29,958,413

See accompanying notes to the basic financial statements

McKinleyville Community Services District
Balance Sheet of Governmental Funds
June 30, 2017

		General (Parks and Recreation)	Measure B	Street Lighting	Total Governmental Activities
Assets:					
Cash and investments	$	598,567	-	-	598,567
Cash and investments – restricted		157,127	-	-	157,127
Accounts receivable		2,059	-	3,703	5,762
Interest receivable		3,013	-	-	3,013
Due from other funds		616,552	-	-	616,552
Total assets	$	1,377,318	-	3,703	1,381,021
Liabilities:					
Accounts payable	$	102,700	2,061	4,885	109,646
Accrued wages and related payables		93,815	-	-	93,815
Due to other funds		-	596,568	19,984	616,552
Deposits		8,400	-	-	8,400
Total liabilities		204,915	598,629	24,869	828,413
Fund balance:					
Restricted		157,127	-	-	157,127
Committed		1,211,022	-	-	1,211,022
Unassigned		(195,746)	(598,629)	(21,166)	(815,541)
Total fund balance		1,172,403	(598,629)	(21,166)	552,608
Total liabilities and fund balance	$	1,377,318	-	3,703	1,381,021

Continued on next page

See accompanying notes to the financial statements

McKinleyville Community Services District
Reconciliation of the Balance Sheet of
Governmental Funds to the Statement of Net Position
June 30, 2017

Reconciliation:

Total Fund Balances of Government Funds	$	552,608
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds balance sheet. However, the statement of net position includes those capital assets. In the current period, these amounts were as follows:		
Capital assets		8,789,259
Accumulated depreciation		(3,292,282)
Deferred outflows(inflows) of resources are not financial resources(uses), and therefore are not reported in the governmental funds balance sheet. However, they are reported in the statement of net position. These are as follows:		
Deferred pension outflows		113,866
Deferred pension inflows		(64,419)
Long-term liabilities applicable to the District are not due and payable in the current period and, accordingly, are not reported as governmental fund liabilities. All liabilities, both current and long-term, are reported in the statement of net position as follows:		
Accrued interest on long-term debt		(7,557)
Compensated absences		(86,839)
Other postemployment benefit obligation		(506,006)
Long-term debt		(1,319,494)
Net pension liability		(508,237)
Net Position of Governmental Activities	$	3,670,899

See accompanying notes to the basic financial statements

McKinleyville Community Services District
Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds
For the Year Ended June 30, 2017

	General (Parks and Recreation)	Measure B	Street Lighting	Total Governmental Funds
Revenues				
Property taxes	$ 574,220	-	-	574,220
Special assessments	-	208,775	-	208,775
Charges for services and facilities	575,042	-	85,002	660,044
Operating grants and contributions	50,520	-	-	50,520
Capital grants and contributions	46,728	-	-	46,728
Other income	24,120	-	17,802	41,922
Unrestricted investment earnings	8,668	(2,401)	-	6,267
Total Revenues	1,279,298	206,374	102,804	1,588,476
Expenditures				
General government (Parks and Recreation)	1,050,860	-	-	1,050,860
Measure B	-	143,123	-	143,123
Streetlighting	-	-	67,799	67,799
Debt service				
Principal	-	82,831	19,955	102,786
Interest	-	47,304	-	47,304
Capital outlay	151,263	66,066	-	217,329
Total expenditures	1,202,123	339,324	87,754	1,629,201
Excess (deficiency) of Expenditures over Revenues	77,175	(132,950)	15,050	(40,725)
Net Change in Fund Balance	77,175	(132,950)	15,050	(40,725)
Fund Balance - Beginning of Year	1,095,228	(465,679)	(36,216)	593,333
Fund Balance - End of Year	$ 1,172,403	(598,629)	(21,166)	552,608

Continued on next page

See accompanying notes to the financial statements

McKinleyville Community Services District
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities
June 30, 2017

Reconciliation:

Net Change in Fund Balance – Total Governmental Funds	$	(40,725)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated usefull lives as depreciation expense as follows:		
Capital outlay expense		217,329
Depreciation expense		(225,552)
The repayment of principal of long-term debt consumes current financial resources, and therefore, is reported as debt service principal payments in the governmental funds. However, these payments have no impact on net position, and therefore, are not reported in the statement of activities as follows:		
Debt service principal		102,786
Some expenses reported in the statement of activities do not require the use of current financial resources, and therefore, are not reported as expenses in governmental funds as follows:		
Net change in accrued interest expense on long-term debt		705
Net change in compensated absences for the current period		(12,448)
Net change in other postemployment benefits for the current period		(121,505)
Net change in pension obligations for the current period		(11,115)
Change in Net Position – Total Governmental Activities	$	(90,525)

See accompanying notes to the basic financial statements

McKinleyville Community Services District
Statement of Net Position – Enterprise Funds
For the Fiscal Year Ended June 30, 2017

		Water	Wastewater	2017
Current assets:				
Cash and investments	$	3,393,142	4,704,872	8,098,014
Cash and investments – restricted		1,109,109	276,889	1,385,998
Accounts receivable		318,885	304,704	623,589
Accrued interest receivable		5,096	3,783	8,879
Inventory		85,218	25,566	110,784
Total current assets		4,911,450	5,315,814	10,227,264
Non-current assets:				
Capital assets – not being depreciated		872,944	17,006,059	17,879,003
Capital assets – being depreciated		7,434,946	7,941,249	15,376,195
Total non-current assets		8,307,890	24,947,308	33,255,198
Total assets		13,219,340	30,263,122	43,482,462
Deferred outflows of resources:				
Deferred pension outflows		147,653	161,471	309,124
Total deferred outflows of resources	$	147,653	161,471	309,124

Continued on next page

See accompanying notes to the basic financial statements

McKinleyville Community Services District
Statement of Net Position – Enterprise Funds, continued
For the Fiscal Year Ended June 30, 2017

		Water	Wastewater	2017
Current liabilities				
Accounts payable	$	331,999	1,543,194	1,875,193
Accrued interest payable		10,666	107,170	117,836
Customer deposits		114,868	-	114,868
Unearned revenue		12,302	12,302	24,604
Long-term liabilities – due within one year:				
Compensated absences		59,584	59,721	119,305
Bond payable		-	70,000	70,000
Notes payable		155,378	54,434	209,812
Total current liabilities		684,797	1,846,821	2,531,618
Non-current liabilites:				
Long-term liabilities – due within one year:				
Compensated absences		55,259	55,391	110,650
Bond payable		-	375,000	375,000
Notes payable		2,611,313	9,613,164	12,224,477
Other post employment benefits		515,248	517,405	1,032,653
Net pension liabilities		533,248	583,818	1,117,066
Total current liabilities		3,715,068	11,144,778	14,859,846
Total liabilities		4,399,865	12,991,599	17,391,464
Deferred inflows of resources:				
Deferred pension inflows		54,584	58,024	112,608
Total deferred inflows of resources		54,584	58,024	112,608
Net position (note):				
Net investment in capital assets		5,541,199	14,834,710	20,375,909
Restricted		1,109,109	276,890	1,385,999
Unrestricted		2,262,236	2,263,370	4,525,606
Total net position	$	8,912,544	17,374,970	26,287,514

See accompanying notes to the basic financial statements

McKinleyville Community Services District

Statement of Revenues, Expenditures, and Changes in Fund Net Position – Enterprise Funds

For the Fiscal Year Ended June 30, 2017

	Water	Wastewater	2017
Operating revenues:			
Water revenue	$ 3,287,859	-	3,287,859
Sewer revenue	-	3,055,922	3,055,922
Other service charges	132,751	95,339	228,090
Total operating revenues	3,420,610	3,151,261	6,571,871
Operating expenses:			
Water purchase	933,907	-	933,907
Salaries and benefits	495,126	491,572	986,698
Employee benefits	465,960	498,870	964,830
Services and supplies	-	1,660	1,660
Professional services	33,697	44,885	78,582
Utilities	52,298	160,679	212,977
Insurance expense	25,952	25,944	51,896
Other operating expense	192,489	261,715	454,204
Total operating expenses	2,199,429	1,485,325	3,684,754
Operating income before depreciation	1,221,181	1,665,936	2,887,117
Depreciation expense	(346,630)	(453,677)	(800,307)
Operating income	874,551	1,212,259	2,086,810
Non-operating revenue(expense):			
Interest earning	3,113	17,283	20,396
Gain(loss) on sale of assets	8,009	7,891	15,900
Interest expense	(68,446)	(26,825)	(95,271)
Total non-operating revenues, net	(57,324)	(1,651)	(58,975)
Net income before capital contributions	817,227	1,210,608	2,027,835
Capital contributions:			
Capacity fees	152,299	269,318	421,617
Contributed capital assets	-	13,100	13,100
Total capital contributions	152,299	282,418	434,717
Change in net position	969,526	1,493,026	2,462,552
Net position, beginning of year	7,943,018	15,881,944	23,824,962
Net position, end of year	$ 8,912,544	17,374,970	26,287,514

See accompanying notes to the basic financial statements

McKinleyville Community Services District
Statement of Cash Flows – Enterprise Funds
For the Fiscal Year Ended June 30, 2017

		2017
Cash flows from operating activities:		
Cash receipts from customers	$	6,444,874
Cash paid to employees		(955,391)
Cash paid to vendors and suppliers		(1,880,189)
Net cash provided by operating activities		3,609,294
Cash flows from non-capital financing activities:		
Other non-operating revenue		1,224,887
Net cash provided by non-capital financing activities		1,224,887
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets		(10,285,790)
Proceeds from the sale of capital assets		15,902
Proceeds from capital contributions		434,717
Proceeds from loan issuance		8,444,615
Principal payments on long-term debt		(301,021)
Interest payments on long-term debt		(2,884)
Net cash used in capital and related financing activities		(1,694,461)
Cash flows from investing activities:		
Interest earnings		18,420
Net cash provided by investing activities		18,420
Net increase in cash and cash equivalents		3,158,140
Cash and cash equivalents, beginning of year		6,325,872
Cash and cash equivalents, end of year	$	9,484,012
Reconciliation of cash and cash equivalents to statement of net position:		
Cash and investments	$	8,098,014
Cash and investments – restricted		1,385,998
Total cash and cash equivalents	$	9,484,012

Continued on next page

See accompanying notes to the basic financial statements

McKinleyville Community Services District
Statement of Cash Flows – Enterprise Funds, continued
For the Fiscal Year Ended June 30, 2017

		2017
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	2,086,810
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense		800,307
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:		
Decrease in assets and deferred ouflows:		
Accounts receivable		(133,494)
Inventory		(6,245)
Deferred pension outflows		(191,929)
Increase(decrease) in liabilities and deferred inflows:		
Accounts payable		569,496
Customer deposits		6,301
Unearned revenue		196
Compensated absences		31,307
Other post employment benefits		227,648
Net pension liabilites		320,371
Deferred inflows of resources		(101,474)
Total adjustments		1,522,484
Net cash provided by operating activities	$	3,609,294

See accompanying notes to the basic financial statements

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The McKinleyville Community Service District (District) was created on April 7, 1970, when McKinleyville's voters voted 589 "yes" votes against 151 "no" votes to form the District. The District initially had authority to serve water and treat sewer wastes. In 1972, the voters added street lighting powers; in 1985 the voters added recreational powers; and in 1995 the voters authorized the construction the McKinleyville Library.

The District's boundary encompasses 12,140 acres ranging from North Bank Road on the south to Patrick's Creek on the north and services over 5,300 active water services and 4,470 active sewer connections. The District is an independent, special district governed by a five member Board of Directors elected by McKinleyville's voters. The District normally conducts a monthly general meeting of the Board of Directors which is held on the first Wednesdays of the month.

B. Basis of Accounting and Measurement Focus

The *basic financial statements* of the District are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Government-wide Financial Statements

These statements are presented on an *economic resources* measurement focus and the accrual basis of accounting for both governmental and business-type activities. Accordingly, all of the District's assets (including capital assets), deferred outflows of resources, liabilities, and deferred inflows of resources are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used; such as, unbilled but utilized utility services that are recorded at year end. The Statement of Activities demonstrates the degree to which the operating expenses of a given function are offset by operating revenues. Operating expenses are those that are clearly identifiable with a specific function. The types of transactions reported as operating revenues for the District are charges for services directly related to the operations of the District. Charges for services include revenues from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by the District. Taxes, operating grants, and other items, properly not included among operating revenues, are reported instead as non-operating revenues. Contributed capital and capital grants are included as capital contributions.

Fund Financial Statements

These statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds. Accompanying these statements is a schedule to reconcile and explain the differences in fund balances, as presented in these statements, to the net position presented in the Government-wide Financial Statements.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

B. Basis of Accounting and Measurement Focus, continued

Fund Financial Statements, continued

Governmental funds are accounted for on a spending or *current financial resources* measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become measurable and available to finance expenditures of the current period.

Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60-days after year-end) are recognized when due. The primary sources susceptible to accrual for the District are property tax, interest earnings, investment revenue, and operating and capital grant revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. However, exceptions to this rule include principal and interest on debt, which are recognized when due.

The accrual basis of accounting is followed by the proprietary enterprise funds. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, such as unbilled but utilized utility services recorded at year end.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place. Operating revenues and expenses, such as water sales and purchases of water, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Management, administration, and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories, such as interest income and interest expense, are reported as non-operating revenues and expenses.

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity with a self-balancing set of accounts established for the purpose of carrying out specific activities or attaining certain objectives in accordance with specific regulations, restrictions or limitations.

Funds are organized into two major categories: governmental and proprietary categories. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operational fund of the District or meets the following criteria:

a) Total assets and deferred outflows of resources, liabilities and deferred inflows resources, revenues, or expenditures/expenses of that individual governmental or proprietary fund are at least 10 percent of the corresponding total for all funds of that category or type;

b) Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental fund or proprietary fund are at least 5 percent of the corresponding total for all governmental and proprietary funds combined; or

c) The entity has determined that a fund is important to the financial statement user.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

B. Basis of Accounting and Measurement Focus, continued

Fund Financial Statements, continued

The funds of the financial reporting entity are described below:

Governmental Funds

General (Parks and Recreation) – This fund is used for all parks and recreation activities within the District; and to account for and report all financial resources not accounted for and reported in another fund.

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

Street Lighting – This fund is used to account for all street lighting activities within the District.

Enterprise Fund

Water – This fund accounts for the water transmission and distribution operations of the District.

Wastewater – This fund is used for the wastewater service operations of the District.

C. Financial Reporting

The District's basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to governmental funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The District has adopted the following GASB pronouncements in the current year:

In June 2015, the GASB issued Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness or information about postemployment benefits other than pensions (other postemployment benefits of OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

This Statement replaces Statements No. 43 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* as amended, and No. 57 – *OPEB Measurements by Agent Employers and Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25 – *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* as amended, Statement 43, and Statement No.50 – *Pension Disclosures*.

In August 2015, the GASB issued Statement No. 77 – *Tax Abatement Disclosures*. The objective of this Statement is to improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Financial statement users need information about certain limitations on a government's ability to raise resources. This includes limitations on revenue-raising capacity resulting from governmental programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Tax abatements are widely used by state and local governments, particularly to encourage economic development.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

C. Financial Reporting

In December 2015, the GASB issued Statement No. 78 – *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans.* The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions.* This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that meet certain criteria.

In January 2016, the GASB issued Statement No. 80 – *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14.* The objective of this statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member.

In March 2016, the GASB issued Statement No. 82 – *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73.* This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

D. Financial Statement Elements

1. Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and disclosures of contingent assets, deferred outflows of resources, liabilities, and deferred inflows of resources at the date of the financial statements and the reported changes in District net position during the reporting period. Actual results could differ from those estimates.

2. Cash and Cash Equivalents

Substantially all of the District's cash is invested in interest bearing accounts. The District considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

3. Investments

The District has adopted an investment policy to deposit funds in financial institutions and external investment pools. Investments are to be made in the following area:

- State of California Local Agency Investment Fund (LAIF)
- CalTRUST Funds
- Humboldt County Treasurer's Pool

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Financial Statement Elements, continued

4. Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on valuation inputs used to measure the fair value of the asset, as follows:

- **Level 1** – Valuation is based on quoted prices in active markets for identical assets.
- **Level 2** – Valuation is based on directly observable and indirectly observable inputs. These inputs are derived principally from or corroborated by observable market data through correlation or market-corroborated inputs. The concept of market-corroborated inputs incorporates observable market data such as interest rates and yield curves that are observable at commonly quoted intervals.
- **Level 3** – Valuation is based on unobservable inputs where assumptions are made based on factors such as prepayment rates, probability of defaults, loss severity and other assumptions that are internally generated and cannot be observed in the market.

5. Accounts Receivable

The District extends credit to customers in the normal course of operations. Management deems all accounts receivable as collectible at year-end. Accordingly, an allowance for doubtful accounts has not been recorded.

6. Property Taxes and Assessments

The Humboldt County Assessor's Office assesses all real and personal property within the County each year. The Humboldt County Tax Collector's Office bills and collects the District's share of property taxes and/or tax assessments. The Humboldt County Treasurer's Office remits current and delinquent property tax collections to the District throughout the year. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations.

Property taxes and assessments receivable at year-end are related to property taxes and special assessments collected by the Humboldt County, which have not been credited to the District's cash balance as of June 30. The property tax calendar is as follows:

Lien date	March 1
Levy date	July 1
Due dates	November 1 and February 1
Collection dates	December 10 and April 10

7. Materials and Supplies Inventory

Materials and supplies inventory consists primarily of water meters, pipes, and pipe fittings for construction and repair to the District's water transmission and distribution system. Inventory is valued at cost using the first-in/first-out (FIFO) method. Inventory items are charged to expense at the time that individual items are withdrawn from inventory or consumed.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Financial Statement Elements, continued

8. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at $5,000. Donated assets are recorded at acquisition value and/or historical cost at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized.

Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Governmental Activities

- Buildings and improvements – 10 to 50 years
- Other infrastructure – 10 to 50 years
- Machinery and equipment – 5 to 10 years
- Vehicles – 5 to 10 years

Business-Type Activities

- Buildings and improvements – 10 to 50 years
- Water and wastewater infrastructure – 10 to 50 years
- Machinery and equipment – 5 to 10 years
- Vehicles – 5 to 10 years

9. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of resources applicable to future periods.

10. Compensated Absences

It is the District's policy to allow employees to accumulate earned but unused vacation and sick time. The vesting method is used to calculate the liability in which 100% of earned vacation time is payable upon separation, and 50% of earned sick time is payable upon separation if requirements are met. All vacation pay and applicable sick pay is accrued when incurred in the government-wide and enterprise fund financial statements.

11. Pensions

For purposes of measuring the net pension liability and deferred outflows/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) plans (Plans) and addition to/deduction from the Plans' 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 due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

- Valuation Date: June 30, 2015
- Measurement Date: June 30, 2016
- Measurement Period: July 1, 2015 to June 30, 2016

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Financial Statement Elements, continued

12. Deferred Inflows of Resources

Deferred inflows of resources represent the acquisition of resources applicable to future periods.

13. Net Position

The government-wide financial statements utilize a net position presentation. Net position categories are as follows:

- **Net Investment in Capital Assets** – Net investment in capital assets consists of capital assets, net of accumulated depreciation and amortization, and reduced by debt balances outstanding or other long-term borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted** – Restricted consists of assets that have restrictions placed upon their use by external constraints imposed either by creditors (debt covenants), grantors, contributors, or laws and regulations of other governments or constraints imposed by law through enabling legislation.
- **Unrestricted** – Unrestricted consists of the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets or restricted components of net position.

14. Fund Balance

The financial statements, governmental funds report fund balance as non-spendable, restricted, committed, assigned, or unassigned based primarily on the extent to which the District is bound to honor constraints on how specific amounts can be spent.

- **Nonspendable fund balance –** amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.
- **Restricted fund balance** – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions enabling legislation.
- **Committed fund balance** – amounts that can only be used for specific purposes determined by formal action of the District's highest level of decision-making authority (the Board of Directors) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- **Assigned fund balance** – amounts that are constrained by the District's intent to be used for specific purposes. The intent can be established at either the highest level of decision-making, or by a body or an official designated for that purpose.
- **Unassigned fund balance** – the residual classification for the District's general fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

The Board of Directors established, modifies, or rescinds fund balance commitments and assignments by passage of an ordinance or resolution. This is done through adoption of the budget and subsequent budget amendments that occur throughout the year.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Financial Statement Elements, continued

14. Fund Balance, continued

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

Fund Balance Policy

The District believes that sound financial management principles require that sufficient funds be retained by the District to provide a stable financial base at all times. To retain this stable financial base, the District needs to maintain an unrestricted fund balance in its funds sufficient to fund cash flows of the District and to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature. Committed, assigned, and unassigned fund balances are considered unrestricted.

The purpose of the District's fund balance policy is to maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures.

(2) Cash and Investments

Cash and investments as of June 30, 2017 are classified as follows:

		Governmental Activities	Business-Type Activities	Totals
Cash and investments	$	598,567	8,098,014	8,696,581
Cash and investments – restricted		157,127	1,385,998	1,543,125
Total	$	755,694	9,484,012	10,239,706

Cash and investments as of June 30, 2017 consisted of the following:

		Unrestricted	Restricted	Total
Cash and cash equivalents				
Cash	$	940	-	940
Deposits held with financial instititions		4,097,984	182,132	4,280,116
Total cash and cash equivalents		4,098,924	182,132	4,281,056
Investments				
Deposits with Humbolt County Treasurer		3,663,250	918,317	4,581,567
Deposits held with California Local Agency Investment Fund (LAIF)		129,954	-	129,954
Deposit with CalTRUST		804,453	442,676	1,247,129
Total investments		4,597,657	1,360,993	5,958,650
Total	$	8,696,581	1,543,125	10,239,706

(2) Cash and Investments, continued

Authorized Deposits and Investments

Under the District's investment guidelines and in accordance with Section 53601 of the California Government Code, the District may invest in the California Local Agency Investment Fund (LAIF), CalTRUST Funds, and Humboldt County Treasurer's Pool. The District's investment guideline and Section 53601 of the California Government Code do contain specific provisions intended to limit its exposure to interest rate risk, credit risk, custodial risk, and concentration of credit risk.

State of California Local Agency Fund (LAIF)

LAIF is regulated by California Government Code Section 16429 and is under the management of the State of California Treasurer's Office with oversight provided by the Local Agency Investment Advisory Board.

LAIF is carried at fair value based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Amounts held with LAIF are highly liquid, as deposits can be converted to cash within a twenty-four hour period without loss of accrued interest. LAIF detail may be obtained from the State of California Treasurer's website at www.treasurer.ca.gov/pmia-laif/index.asp.

The District's deposit and withdrawal restrictions and limitations are as follows:

- Each agency in the fund may invest up to $40 million and may invest without limitation in special bond proceeds accounts.
- Same day transaction processing occurs for orders received before 10:00 a.m.
- Next day transactions processing occurs for orders received after 10:00 a.m.
- Maximum limit of 15 transactions (combination of deposits and withdrawals) per month.
- Minimum transaction amount requirement of $5,000, in increments of $1,000.
- Withdrawals of $10,000,000 or more require 24 hours advance notice.
- Prior to funds transfer, an authorized person must call LAIF to do a verbal transaction.

CalTRUST Funds

CalTRUST Short-Term and Medium-Term accounts invest in fixed income securities eligible for investment pursuant to California Government Code Sections 53601 and 53635, and leveraging within the Trust's portfolio is prohibited. The Board of Trustees may adopt investment guidelines to further restrict the types of investments held by the accounts.

CalTRUST Short-Term and Medium-Term accounts consist of funds from all participants which are pooled in each of the accounts. The District receives units in the Trust and designated shares for its investment accounts.

Humboldt County Treasurer's Pool

Humboldt County Treasurer's Pool complies with the California Government Code Sections 53601 and 53635, and the investment policy adopted by the Board of Supervisors of the County of Humboldt.

Changes in fair value that occur during a fiscal year are recognized as unrealized gains or losses and reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

(2) Cash and Investments, continued

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. Of the District's bank balances, up to $250,000 is federally insured and the remaining balance is collateralized in accordance with the code.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Code and the District's investment policy contain legal and policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The longer the maturity an investment has the greater its fair value has sensitivity to changes in market interest rates. The District's investment policy follows the Code as it relates to limits on investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates.

As of June 30, 2017 the District's authorized deposits had the following maturities:

			Remaining Maturity		
Investment Type		**Total**	**12 Months or Less**	**13 to 24 Months**	**25 Months or More**
CalTRUST Funds	$	1,247,129	202,842	-	1,044,287
California Local Agency Investment Fund		129,954	129,954	-	-
Humbolt County Treasurer		4,581,567	-	-	4,581,567
Total	$	5,958,650	332,796	-	5,625,854

(2) Cash and Cash Equivalents, continued

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of June 30, 2017 for each investment type.

Investment Type		Total	Rating at Year End
Cal Trust – Short Term Fund	$	202,842	AAf
Cal Trust – Medium Term Fund		1,044,287	A+f
California Local Agency Investment Fund		129,954	Not Rated
Humbolt County Treasurer		4,581,567	Not Rated
Total	$	5,958,650	

Concentration of Credit Risk

The District's investment policy contains various limitations on the amounts that can be invested in any one governmental agency or non-governmental issuer as stipulated by the California Government Code. The District's depository and investment portfolio as of June 30, 2017 were allocated as follows:

		2017
Cash	$	940
Deposits held with financial instititions		4,280,116
Deposits with Humbolt County Treasurer		4,581,567
Deposits held with California Local Agency Investment Fund (LAIF)		129,954
Deposit with Cal Trust		1,247,129
Total	$	10,239,706

There were no investments in any one non-governmental issuer that represent 5.0% or more of the District's total investments.

(3) Investments at Fair Value Hierarchy

Investments measured at fair value on a recurring basis, based on their fair value hierarchy at June 30, 2017 are as follows:

Investment		Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Pooled investment fund:					
Humboldt County Treasurer's Fund	$	4,581,567	-	4,581,567	-
CalTrust Medium-Term Fund		1,044,287	-	1,044,287	-
Total pooled investment fund		5,625,854	-	5,625,854	-
Investments measured at net asset value					
CalTrust Short-Term Fund		202,842			
California Local Agency Investment Fund		129,954			
		332,796			
	$	5,958,650			

(4) Capital Assets

Governmental Activities:

Changes in capital assets at June 30 were as follows:

		Balance 2016	Additions/ Transfers In	Deletions/ Transfers Out	Balance 2017
Non-depreciable assets:					
Land	$	1,553,731	7,013	-	1,560,744
Construction in Progress		2,403,942	178,169	(2,460,083)	122,028
Total non-depreciable assets		3,957,673	185,182	(2,460,083)	1,682,772
Depreciable assets:					
Buildings and improvements		2,360,140	15,995	-	2,376,135
Furniture and equipment		281,179	846	-	282,025
Park improvements		1,401,183	2,460,083	-	3,861,266
Vehicles		53,957	15,306	-	69,263
Streetlighting		517,798	-	-	517,798
Total depreciable assets		4,614,257	2,492,230	-	7,106,487
Accumulated depreciation					
Buildings and improvements		(1,553,936)	(82,525)	-	(1,636,461)
Furniture and equipment		(238,072)	(6,397)	-	(244,469)
Park improvements		(1,028,572)	(111,218)	-	(1,139,790)
Vehicles		(35,062)	(5,798)	-	(40,860)
Streetlighting		(211,088)	(19,614)	-	(230,702)
Total accumulated depreciation		(3,066,730)	(225,552)	-	(3,292,282)
Total depreciable assets, net		1,547,527	2,266,678	-	3,814,205
Total capital assets, net	$	5,505,200			5,496,977

(4) Capital Assets, continued

Business-type Activities:

Changes in capital assets at June 30 were as follows:

		Balance 2016	Additions/ Transfers In	Deletions/ Transfers Out	Balance 2017
Non-depreciable assets:					
Land	$	3,410,931	-	-	3,410,931
Construction in Progress		4,966,022	9,785,296	(283,246)	14,468,072
Total non-depreciable assets		8,376,953	9,785,296	(283,246)	17,879,003
Depreciable assets:					
Buildings and improvements		467,095	-	-	467,095
Water infrastructure		13,606,506	132,341	-	13,738,847
Wastewater infrastructure		18,423,833	198,154	-	18,621,987
Tools and equipment		1,085,891	6,811	(272)	1,092,430
Vehicles		856,514	446,434	(64,833)	1,238,115
Total depreciable assets		34,439,839	783,740	(65,105)	35,158,474
Accumulated depreciation					
Buildings and improvements		(239,749)	(16,420)	-	(256,169)
Water infrastructure		(6,361,675)	(305,129)	-	(6,666,804)
Wastewater infrastructure		(10,853,422)	(413,674)	-	(11,267,096)
Tools and equipment		(992,120)	(26,868)	272	(1,018,716)
Vehicles		(600,111)	(38,216)	64,833	(573,494)
Total accumulated depreciation		(19,047,077)	(800,307)	65,105	(19,782,279)
Total depreciable assets, net		15,392,762	(16,567)	-	15,376,195
Total capital assets, net	$	23,769,715			33,255,198

Depreciation expense was charged to various functions at June 30, 2017 as follows:

Governmental activities:		
General (Parks and Recreation)	$	205,938
Streetlighting		19,614
Total governmental activities		225,552
Business-type activities		
Water Fund		346,630
Wastewater Fund		453,677
Total business-type activities		800,307
Total depreciation expense	$	1,025,859

(5) Compensated Absences

The changes to compensated absences balances at June 30 were as follows:

Governmental Activities

Balance 2016	Earned	Taken	Balance 2017	Due within one year	Due in more than one year
$ 74,392	39,898	(27,451)	86,839	51,406	35,433

Business-type Activities

Balance 2016	Earned	Taken	Balance 2017	Due within one year	Due in more than one year
$ 198,678	106,282	(75,005)	229,955	119,305	110,650

(6) Long-term Debt

Changes in long-term debt at June 30 were as follows:

	Balance 2016	Additions	Payments	Balance 2017	Current Portion	Long-Term Portion
Governmental Activities:						
Capital lease payable						
PPFCC Lease (Umpqua Loan)	$ 1,352,733	-	(82,831)	1,269,902	82,831	1,187,071
Total capital lease payable	1,352,733	-	(82,831)	1,269,902	82,831	1,187,071
Note payable						
PG&E Loan	69,547	-	(19,955)	49,592	19,865	29,727
Total note payable	69,547	-	(19,955)	49,592	19,865	29,727
Total governmental activities	1,422,280	-	(102,786)	1,319,494	102,696	1,216,798
Business-type Activities						
Water Fund						
Notes payable						
ARRA Loan	123,807	-	(11,241)	112,566	11,298	101,268
Davis-Grunsky Act Loan	1,993,238	-	(98,688)	1,894,550	100,728	1,793,822
I-Bank Loan	801,513	-	(41,938)	759,575	43,352	716,223
Total notes payable	2,918,558	-	(151,867)	2,766,691	155,378	2,611,313
Wastewater Fund						
Bond payable:						
USDA Revenue Bonds	515,000		(70,000)	445,000	70,000	375,000
Total bond payable	515,000	-	(70,000)	445,000	70,000	375,000
Notes payable:						
Lourenco Loan	79,902	-	(52,644)	27,258	27,258	-
State Revolving Fund Loan #2	53,686	-	(26,510)	27,176	27,176	-
State Revolving Fund Loan #3	1,168,549	8,444,615	-	9,613,164	-	9,613,164
Total notes payable	1,302,137	8,444,615	(79,154)	9,667,598	54,434	9,613,164
Total business-type activities	4,735,695	8,444,615	(301,021)	12,879,289	279,812	12,599,477
Total long-term debt	$ 6,157,975	8,444,615	(403,807)	14,198,783	382,508	13,816,275

(6) Long-term Debt, continued

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 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 received 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		Principal	Interest	Total
2018	$	82,831	44,620	127,451
2019		85,798	41,652	127,450
2020		88,872	38,581	127,453
2021		92,054	35,398	127,452
2022		95,351	32,101	127,452
2023-2027		530,499	106,773	637,272
2028-2030		294,497	16,260	310,757
Total		1,269,902	315,385	1,585,287
Current		(82,831)		
Non-current	$	1,187,071		

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		Principal	Interest	Total
2018	$	19,865	-	19,865
2019		19,865	-	19,865
2020		9,862	-	9,862
Total		49,592	-	49,592
Current		(19,865)		
Non-current	$	29,727		

(6) Long-term Debt, continued

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. Semiannual 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		Principal	Interest	Total
2018	$	11,298	1,092	12,390
2019		11,411	979	12,390
2020		11,523	867	12,390
2021		11,641	749	12,390
2022		11,757	633	12,390
2023-2027		54,936	1,370	56,306
Total		112,566	5,690	118,256
Current		(11,298)		
Non-current	$	101,268		

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.

(6) Long-term Debt, continued

Davis-Grunsky Act Loan, continued

Future debt service on the loan is as follows:

Year		Principal	Interest	Total
2018	$	100,728	40,550	141,278
2019		102,821	38,457	141,278
2020		104,965	36,313	141,278
2021		107,163	34,115	141,278
2022		109,417	31,861	141,278
2023-2027		582,903	123,487	706,390
2028-2032		648,310	58,082	706,392
2033		138,243	3,031	141,274
Total		1,894,550	365,896	2,260,446
Current		(100,728)		
Non-current	$	1,793,822		

I-Bank Loan

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

Future debt service on the loan is as follows:

Year		Principal	Interest	Total
2018	$	43,352	27,146	70,498
2019		44,813	25,530	70,343
2020		46,323	23,860	70,183
2021		47,884	22,134	70,018
2022		49,498	20,350	69,848
2023-2027		273,664	72,801	346,465
2028-2031		254,041	19,414	273,455
Total		759,575	211,235	970,810
Current		(43,352)		
Non-current	$	716,223		

(6) Long-term Debt, continued

USDA Revenue Bonds

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

Future debt service is as follows:

Year		Principal	Interest	Total
2018	$	70,000	20,500	90,500
2019		70,000	17,000	87,000
2020		80,000	13,250	93,250
2021		80,000	9,250	89,250
2022		80,000	5,250	85,250
2023		65,000	1,625	66,625
Total		445,000	66,875	511,875
Current		(70,000)		
Non-current	$	375,000		

Umpqua Bank Loan

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

Future debt service on the loan is as follows:

Year		Principal	Interest	Total
2018	$	27,258	434	27,624
Total		27,258	434	27,624
Current		(27,258)		
Non-current	$	-		

(6) Long-term Debt, continued

State Revolving Fund Loans No. 2

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

Future debt service on the loan is as follows:

Year		Principal	Interest	Total
2018	$	27,176	706	27,882
Total		27,176	706	27,882
Current		(27,176)		
Non-current	$	-		

State Revolving Fund Loans No. 3

The District, in 2015, entered into a loan agreement with the State Water Resources Control Board for the purpose of financing a wastewater management facility improvement project. The loan was approved for $19,598,527 and bears interest at 1.6% per annum. Loan draws through June 30, 2016 totaled $1,168,549. Annual principal and interest payments are to begin one year after the completion of the project and are projected to begin in September 2018 and continue through September 2047. The District as an entity is obligated for the repayment of this loan and a specific revenue source is not pledged for its repayment. The District is obligated to levy taxes or assessments should it not have other revenues available for repayment of the obligation.

Projected future debt service on the loan is as follows:

Year		Principal	Interest	Total
2018	$	-	-	-
2019		462,283	212,471	674,754
2020		538,209	291,076	829,285
2021		531,716	297,569	829,285
2022		540,224	289,061	829,285
2023-2027		2,833,571	1,312,853	4,146,424
2028-2032		3,067,628	1,078,796	4,146,424
2033-2037		3,321,017	825,407	4,146,424
2038-2042		3,595,339	551,085	4,146,424
2043-2047		3,892,317	254,107	4,146,424
2048		816,225	13,060	829,285
Total		19,598,529	5,125,485	24,724,014
Current		-		
Non-current	$	19,598,529		

(7) Other Post Employment Benefit Obligations

Plan Description – Eligibility

The District administers its post-employment benefit plan, a single-employer defined benefit plan (Plan). To become eligible for post-employment medical benefits, an employee is required attain the age of 50 with 5 years of full-time service.

Plan Description – Benefits

The District offers post-employment medical benefits to retired employees who satisfy the eligibility rules. Dependents are also eligible to receive benefits subject to a limit calculated using a formula specified by the District. The contribution requirements of Plan members and the District are established and may be amended by the Board of Directors.

Funding Policy

The District is required to contribute the *Annual Required Contribution (ARC) of the Employer*, an amount actuarially determined in accordance with the parameters of GASB 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 amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate (annual required contribution / covered payroll) is 35.75% for 2017 of the annual covered payroll.

The District will pay 100% of the cost of the post-employment benefit plan. The District funds the plan on a pay-as-you-go basis and maintains reserves (and records a liability) for the difference between pay-as-you-go and the actuarially determined ARC cost.

Annual Cost

For the year ended June 30, 2017, the District's ARC cost was $454,033. The District's net OPEB payable obligation amounted to $1,538,659 for the year ended June 30, 2017. The District contributed $105,721 in age adjusted contributions for current retiree OPEB premiums for the year ended June 30, 2017.

(7) Other Post Employment Benefit Obligations, continued

The balance at June 30 consists of the following:

		2017
Annual OPEB expense:		
Annual required contribution (ARC)	$	454,033
Interest on net OPEB obligation		53,528
Adjustment to annual required contribution		(52,687)
Total annual OPEB expense		454,874
Change in net OPEB payable obligation:		
Age adjusted contributions made		(105,721)
Total change in net OPEB payable obligation		349,153
OPEB payable – beginning of year		1,189,506
OPEB payable – end of year	$	1,538,659
Governmental activities	$	506,006
Business-type activities		1,032,653
Total	$	1,538,659

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2017, and the two preceding years are as follows:

Three-Year History of Net OPEB Obligation

Fiscal Year Ended		Annual OPEB Cost	Age Adjusted Contribution	Percentage of Annual OPEB Cost Contributed		Net OPEB Obligation Payable
2017	$	454,874	105,721	23.24%	$	1,538,659
2016		401,346	92,532	23.06%		1,189,506
2015		306,377	95,767	31.26%		880,692

Funded Status and Funding Progress of the Plan

The most recent valuation (dated June 30, 2016) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of $4,222,901. The District funds on a pay-as-you-go basis and has determined to fund the total annual OPEB expense through age adjusted contributions and additions to internal reserves set aside equal to its OPEB liability. At June 30, 2017, the District's annual required OPEB expense was $454,874. Of this amount, the District made age adjusted contributions of $105,721 and has an OPEB reserves equal to the OPEB liability of $1,538,659.

The covered payroll (annual payroll of active employees covered by the plan) for the year ended June 30, 2017, was $1,269,932. The ratio of the unfunded actuarial accrued liability to annual covered payroll was 332.53% as of June 30, 2017. See page 56 for the Schedule of Funding Status.

(8) Defined Benefit Pension Plan

Plan Description

All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Defined Pension Plan (Plan or PERF C) administered by the California Public Employees' Retirement System (CalPERS). The Plan consists of a miscellaneous risk pool and a safety risk pool, which are comprised of individual employer miscellaneous and safety plans, respectively. Benefit provisions under the Plan are established by State statute and the District's resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on CalPERS website or may be obtained from their executive office at 400 P Street, Sacramento, California 95814.

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. All members are eligible for non-duty disability benefits after 10 years of service. 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. On September 12, 2012, the California Governor signed the California Public Employees' Pension Reform Act of 2013 (PEPRA) into law. PEPRA took effect January 1, 2013. The new legislation closed the District's CalPERS 2.0% at 60 Risk Pool Retirement Plan to new employee entrants, not previously employed by an agency under CalPERS, effective December 31, 2012. All employees hired after January 1, 2013, are eligible for the District's CalPERS 2.0% at 62 Retirement Plan under PEPRA.

The Plans' provision and benefits in effect at June 30, 2017, are summarized as follows:

	Classic	**PEPRA**
Hire Date	Prior to December 31, 2012	On or after January 1, 2013
Benefit formula	2% @ 55	2% @ 62
Benefit vesting schedule	5 years	5 years
Benefit payments	Monthly for life	Monthly for life
Retirement age	50	52
Monthly benefits, as a percentage of eligible compensation	1.43% to 2.42%	1.00% to 2.50%
Required employee contribution rates	7.00%	6.25%
Required employer contribution rates	8.00%	6.237%

(8) Defined Benefit Pension Plan, continued

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 July 1, following notice of a change in rate. Funding contribution for the Plan is determined annually on an actuarial basis as of June 30, by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the 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.

For the fiscal year ended June 30, 2017, the contributions for the Plan were as follows:

		2017
Contributions – employer	$	155,352
Contributions – employee (paid by employer)		74,586
Total employer paid contributions	$	229,938

Net Pension Liability

As of the fiscal year ended June 30, 2017, the District reported a net pension liability for its proportionate share of the net pension liability of each Plan as follows:

		2017
Proportionate share of net pension liability	$	1,625,303

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability for the miscellaneous risk pool. As of June 30, 2017, the net pension liability of the Plan is measured as of June 30, 2016 (the measurement date). The total pension liability for the Plan's miscellaneous risk pool used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 (the valuation date), rolled forward to June 30, 2016, 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 pension plan relative to the projected contributions of all participating employers, actuarially determined. The District's changes in proportionate share of the net pension liability for the Plan's miscellaneous risk pool as of the measurement dates June 30, 2016, was as follows:

	Proportionate Share	
Proportion – June 30, 2015	0.01728	%
Increase in proportion	0.00150	
Proportion – June 30, 2016	0.01878	%

(8) Defined Benefit Pension Plan, continued

Deferred Pension Outflows (Inflows) of Resources

For the year ended June 30, 2017, the District recognized pension expense of $201,351. As of the fiscal year ended June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description		Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$	163,266	-
Differences between actual and expected experience		4,003	-
Changes in assumptions		-	(49,133)
Net differences between projected and actual earnings on plan investments		255,721	-
Adjustment due to changes in porportions and difference in employer contributions		-	(127,894)
Total	$	422,990	(177,027)

For the year ended June 30, 2017, the District's deferred outflows of resources related to contributions subsequent to the measurement date totaled $163,266; and other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ending June 30,		Deferred Net Inflows of Resources
2018	$	(55,049)
2019		(40,405)
2020		111,915
2021		66,236

(8) Defined Benefit Pension Plan, continued

Actuarial Assumptions

The total pension liabilities in the June 30, 2015, actuarial valuations were determined using the following actuarial assumptions and methods:

Valuation date	June 30, 2015
Measurement date	June 30, 2016
Actuarial cost method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial assumption	
Discount rate	7.65%
Inflation	2.75%
Salary increase	Varies by Entry Age and Service
Mortality table*	Derived using CalPERS membership data
Period upon which actuarial experience survey assumptions were based	1997 - 2011
Post-retirement benefit increase	Contract COLA up to 2.75% until PPPA 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. For more details on this table, please refer to the April 2014 experience study report (based on CalPERS demographic data from 1997 to 2011) available online.

Discount Rate

The discount rate used to measure the total pension liability was 7.65% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, the amortization and smoothing periods recently adopted by CalPERS were utilized. The crossover test was performed for a miscellaneous agent plan and a safety agent plan, selected as being more at risk of failing the crossover test and resulting in a discount rate that would be different from the long-term expected rate of return on pension investments.

Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the Plan.

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.

(8) Defined Benefit Pension Plan, continued

Discount Rate, continued

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound 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 tables below reflect the 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.

Asset Class	Target Allocation	Real Return Years 1-10	Real Return Year 11+
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	20.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	10.0	6.83	6.95
Real Asset	10.0	4.50	5.13
Infrastructure and Forestland	2.0	4.50	5.09
Liquidity	1.0	(0.55)	(1.05)
Total	100.0%		

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

The following table presents the District's proportionate share of the net position liability for the Plan, calculated using the discount rate, as well as what the District's proportional share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

At June 30, 2017, the discount rate comparison was the following:

	Discount Rate - 1% 6.65%	Current Discount Rate 7.65%	Discount Rate + 1% 8.65%
District's Net Pension Liability	$ 2,613,852	1,625,303	808,316

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in separately issued CalPERS financial reports. See pages 57 and 58 for the Required Supplementary Schedules.

(9) Internal Transfers

Inter-fund Operational Transfers

Inter-fund receivables/payables are used to move financial resources from the General (Parks and Recreation) fund to the Measure B fund and the Street Lighting fund, as advances to temporarily support the operations of each respective Fund.

As of June 30, 2017, inter-fund receivables/payables between the District's funds were as follows:

Receivable From	Payable To		Amount
Measure B Fund	General (Parks & Recreation) Fund	$	596,568
Street Lighting Fund	General (Parks & Recreation) Fund		19,984
Payable to General Fund		$	616,552

(10) Net Position

Net investment in capital assets is calculated as follows:

		Governmental Activities	Business-type Activities	2017
Net investment in capital assets:				
Capital assets – not being depreciated	$	1,682,772	17,879,003	19,561,775
Capital assets – being depreciated		3,814,205	15,376,195	19,190,400
Long-term debt – current portion		(102,696)	(279,812)	(382,508)
Long-term debt – long-term portion		(1,216,798)	(12,599,477)	(13,816,275)
Total net investment in capital assets	$	4,177,483	20,375,909	24,553,392

Restricted net position is calculated as follows:

		Governmental Activities	Business-type Activities	2017
Restricted:				
Capacity fees	$	-	545,386	545,386
Debt service		-	840,613	840,613
Teen and community center		7,953	-	7,953
Park & Recreation capital projects - Coastal		43,093	-	43,093
Park & Recreation capital projects - Inland		106,081	-	106,081
Total restricted	$	157,127	1,385,999	1,543,126

(11) Fund Balance

Fund balances are presented in the following categories: non-spendable, restricted, committed, assigned, and unassigned (See Note 1.D.14 for a description of these categories). Fund balances and their funding composition at June 30, 2017, is as follows:

		2017
Restricted:		
Teen and community center	$	7,953
Park & Recreation capital projects - Coastal		43,093
Park & Recreation capital projects - Inland		106,081
Total restricted		157,127
Committed		
Catastrophe		109,940
Compensated absences		86,839
Other postemployment benefits		506,006
Net pension liability		508,237
Total committed		1,211,022
Unassigned:		
General (Parks and Recreation)		(195,746)
Measure B		(598,629)
Streeting lighting		(21,166)
Total unassigned		(815,541)
Total fund balance	$	552,608

(12) 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. The District is a member of the Special District Risk Management Authority (SDRMA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California special districts. The purpose of the SDRMA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage.

At June 30, 2017, the District participated in the liability and property programs of the SDRMA as follows:

- General and auto liability, public officials and employees' errors and omissions: Total risk financing self-insurance limits of $5,000,000, combined single limit at $2,500,000 per occurrence.

(12) Risk Management, continued

In addition to the above, the District also has the following insurance coverage:

- Employee dishonesty coverage up to $1,000,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverage.
- Property loss is paid at the replacement cost for property on file, if replaced within two years after the loss, otherwise paid on an actual cash value basis, to a combined total of $1.0 billion per occurrence, subject to a $1,000 deductible per occurrence.
- Boiler and machinery coverage for the replacement cost up to $100 million per occurrence, subject to a $1,000 deductible per occurrence, unless otherwise specified.
- Public officials' personal liability up to $500,000 each occurrence, with an annual aggregate of $500,000 per each elected/appointed official to which this coverage applies, subject to the terms, subject to a $500 deductible per claim.
- Workers compensation insurance with statutory limits per occurrence and Employer's Liability Coverage up to $5 million.

Settled claims have not exceeded any of the coverage amounts in the last fiscal years. There were no reductions in insurance coverage in fiscal year 2017. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no material IBNR claim payables as of June 30, 2017.

(13) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2017, that has effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 75

In June 2015, the GASB issued Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

This Statement replaces the requirements of Statement No. 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57 – *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2017. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 81

In March 2016, the GASB issued Statement No. 81 – *Irrevocable Split-Interest Agreements.* The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

(13) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 81, continued

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.

Governmental Accounting Standards Board Statement No. 83

In November 2016, the GASB issued Statement No. 83 – *Certain Asset Retirement Obligations.* This Statement (1) addresses accounting and financial reporting for certain asset retirement obligations (AROs), (2) establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs, (3) requires that recognition occur when the liability is both incurred and reasonably estimable, (4) requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred, (5) requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually, and (6) requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 84

In January 2017, the GASB issued Statement No. 84 – *Fiduciary Activities.* The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

(13) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 85

In March 2017, the GASB issued Statement No. 85 – *Omnibus 2017.* The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 86

In May 2017, the GASB issued Statement No. 86 – *Certain Debt Extinguishment Issues.* The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 87

In June 2017, the GASB issued Statement No. 87 – *Leases.* The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

(14) Commitments and Contingencies

Commitments

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.

Grant Awards

Grant funds received by the District are subject to audit by the grantor agencies. Such audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the District believes that such disallowances, if any, would not be significant.

(14) Commitments and Contingencies, continued

Litigation

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

(15) Subsequent Event

Events occurring after June 30, 2017, have been evaluated for possible adjustment to the financial statements or disclosure as of January 3, 2018, which is the date the financial statements were available to be issued. The District is not aware of any further subsequent events that would require recognition or disclosure in the financial statements.

Required Supplementary Information

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McKinleyville Community Services District
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget to Actual – General (Parks and Recreation) Fund
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance Positive
	Original	Final	Amounts	(Negative)
Revenues:	$			
Property taxes	525,000	525,000	574,220	49,220
Charges for services and facilities	586,189	586,189	575,042	(11,147)
Operating grants and contributions	1,500	1,500	50,520	49,020
Capital grants and contributions	80,000	80,000	46,728	(33,272)
Other income	15,432	15,432	24,120	8,688
Unrestricted investment earnings	10,000	10,000	8,668	(1,332)
Total revenues	1,218,121	1,218,121	1,279,298	61,177
Expenditures:				
Salaries and employee benefits	912,129	912,129	890,279	21,850
Materials and services	259,305	259,305	160,581	98,724
Capital outlay	44,320	44,320	151,263	(106,943)
Total expenditures	1,215,754	1,215,754	1,202,123	13,631
Excess(deficiency) of revenues over expenditures	2,367	2,367	77,175	74,808
Net change in fund balance	2,367	2,367	77,175	$ 74,808
Fund balance, beginning of year	1,095,228	1,095,228	1,095,228	
Fund balance, end of year	$ 1,097,595	1,097,595	1,172,403	

McKinleyville Community Services District
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget to Actual – Measure B Fund
For the Year Ended June 30, 2017

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance Positive (Negative)
Revenues:	$			
Special assessments	210,000	210,000	208,775	(1,225)
Other income	3,500	3,500	-	(3,500)
Unrestricted investment earnings	-	-	(2,401)	(2,401)
Total revenues	213,500	213,500	206,374	(7,126)
Expenditures:				
Salaries and payroll expenses	-	-	26,954	(26,954)
Employee benefits	55,759	55,759	17,972	37,787
Materials and services	30,250	30,250	98,197	(67,947)
Debt service				
Principal	79,968	79,968	82,831	(2,863)
Interest		-	47,304	(47,304)
Capital outlay	47,483	47,483	66,066	(18,583)
Total expenditures	213,460	213,460	339,324	(125,864)
Excess(deficiency) of revenues over expenditures	40	40	(132,950)	(132,990)
Net change in fund balance	40	40	(132,950)	$ (132,990)
Fund balance, beginning of year	(465,679)	(465,679)	(465,679)	
Fund balance, end of year	$ (465,639)	(465,639)	(598,629)	

McKinleyville Community Services District
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget to Actual – Street Lighting Fund
For the Year Ended June 30, 2017

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance Positive (Negative)
Revenues:	$			
Charges for services and facilities	79,084	79,084	85,002	5,918
Other income	16,750	16,750	17,802	1,052
Unrestricted investment earnings	25	25	-	(25)
Total revenues	95,859	95,859	102,804	6,945
Expenditures:				
Salaries and payroll expenses	20,851	20,851	22,556	(1,705)
Employee benefits	20,195	20,195	14,613	5,582
Materials and services	32,638	32,638	30,630	2,008
Debt service				
Principal	19,865	19,865	19,955	(90)
Capital outlay	2,000	2,000	-	2,000
Total expenditures	95,549	95,549	87,754	7,795
Excess(deficiency) of revenues over expenditures	310	310	15,050	14,740
Net change in fund balance	310	310	15,050	$ 14,740
Fund balance, beginning of year	(36,216)	(36,216)	(36,216)	
Fund balance, end of year	$ (35,906)	(35,906)	(21,166)	

McKinleyville Community Service District
Notes to the Required Supplementary Information
June 30, 2017

Basis of Budgeting

The District follows specific procedures in establishing the budgetary data reflected in the financial statements. Each year, the District's General Manager prepare and submit a capital and operating budget to the Board of Directors and adopted no later than June of each year. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all government and proprietary funds. Annual budgets are adopted on the modified accrual basis of accounting for government fund types and accrual basis for the proprietary fund. The adopted budget becomes operative on July 1.

The Board of Directors must approve all supplemental appropriations to the budget and transfers between major funds. The legal level of budgetary control is at the fund level. Budget information is presented as required supplementary information for the General (Parks and Recreation), Measure B, and Street Lighting Funds.

McKinleyville Community Service District
Schedule of Funding Status
June 30, 2017

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/1/2016	$ -	4,222,901	4,222,901	0.00%	$ 1,269,932	332.53%

Funding progress is presented for the years that an actuarial study has been prepared since the effective date of GASB Statement 45. Actuarial review and analysis of the post-employment benefits liability and funding status is performed every three years or annually if there are significant changes in the plan. The next scheduled actuarial review and analysis of the post-employment benefits liability and funding status will be performed in fiscal year 2018 based on the year ending June 30, 2017.

McKinleyville Community Service District
Schedules of the District's Proportionate Share of the Net Pension Liability
As of June 30, 2017
Last Ten Years*

Description		6/30/2017	6/30/2016	6/30/2015
District's proportion of the net pension liability(asset)		0.01878%	0.01728%	0.01805%
District's proportionate share of the net pension liability(asset)	$	1,625,303	1,186,322	1,123,351
District's covered-employee payroll	$	1,260,867	1,253,808	1,175,186
District's proportionate share of the net pension liability(asset)as a percentage of its covered-employee payroll		128.90%	94.62%	95.59%
Plan's fiduciary net position as a percentage of the total pension liability		74.06%	78.40%	83.21%

Notes:

***Changes in Benefit Terms* –** For the measurement date June 30, 2016, there were no changes in the benefit terms.

***Changes of Assumptions* –** For the measurement date June 30, 2016, there were no changes in the assumptions.

***** Historical information presented above follows the measurement periods for which GASB 68 & 71were applicable. The fiscal year ended June 30, 2015, was the first year of implementation required by GASB 68 & 71, therefore, only three years are shown.

McKinleyville Community Service District
Schedules of Pension Plan Contributions
As of June 30, 2017
Last Ten Years*

Description		6/30/2017	6/30/2016	6/30/2015
Actuarially determined contribution	$	162,865	155,352	126,683
Contributions in relation to the actuarially determined contribution		(163,266)	(155,352)	(126,683)
Contribution deficiency (excess)	$	(401)	-	-
District's covered payroll	$	1,260,867	1,253,808	1,175,186
Contribution's as a percentage of covered-employee payroll		12.92%	12.39%	10.78%

Notes:

* Historical information presented above follows the measurement periods for which GASB 68 & 71were applicable. The fiscal year ended June 30, 2015, was the first year of implementation required by GASB 68 & 71, therefore, only four years are shown.

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Report on Compliance and Internal Controls

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Independent Auditor's 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*

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 McKinleyville Community Services District (District), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 3, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Independent Auditor's Report on Internal Controls Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards, (continued)*

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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
January 3, 2018