

**HUMBOLDT COMMUNITY
SERVICES DISTRICT**

EUREKA, CALIFORNIA

BASIC FINANCIAL STATEMENTS

JUNE 30, 2019

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Humboldt Community Services District
Eureka, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the major fund of Humboldt Community Services District, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Humboldt Community Services District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, 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 our 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, we consider internal control relevant to Humboldt Community Services District'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 Humboldt Community Services District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the major fund of Humboldt Community Services District, as of June 30, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America, and the State Controller's Minimum Audit Requirements for California Special Districts.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 3-6), and the required supplementary information (page 32-34), as listed in the table of contents, 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying combining schedules of water and sewer department revenues, expenses, and changes in net position, allocated general and administrative expenses, and salaries and wages are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2020, on our consideration of Humboldt Community Services District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing Humboldt Community Services District’s internal control over financial reporting and compliance.

R. J. Ricciardi, Inc.

R. J Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
May 20, 2020

Humboldt Community Services District
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019

This section of Humboldt Community Services District's (the District's) annual financial report presents our analysis of the District's financial performance during the fiscal year ended June 30, 2019. Please read it in conjunction with the financial statements which follow this section.

FINANCIAL HIGHLIGHTS

- The District's assets exceeded its liabilities at the close of June 30, 2019 by \$11,173,112. Of this amount, \$(8,841,870) (unrestricted net position) may be used to meet the District's ongoing obligations to citizens and creditors. Unrestricted net position decreased primarily due to the implementation of GASB 75, as discussed below.
- The District's net position increased by \$2,535,963 in FY June 30, 2019. The unrestricted net position increased by \$1,566,271, primarily due to the OPEB actuarial calculations.
- The District's total assets increased by \$600,823 in FY June 30, 2019 due to capital additions.
- The District's long-term debt decreased by \$3,701,346 due to the decrease in the other post-employment benefits liability.
- During the year the District's operating revenues increased \$1,894,076 or 22%, while operating expenses decreased \$760,091 or 8.62%, primarily due to the decrease in the OPEB expense.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements consist of two components: Financial Statements and the Notes to the Financial Statements. This report also contains other supplementary information in addition to the basic financial statements.

The District operates as a utility enterprise, which means that it relies mainly on water and sewer rates and charges to fund its operation. The Financial Statements of the District report information about the District using the full accrual basis of accounting. These statements offer short and long-term financial information about the District's activities.

The Statement of Net Position includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). It also provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Fund Net Position. This statement measures the success of the District's operations over the past year and can be used to determine the District's credit worthiness and whether the District has successfully recovered all its costs through user fees and other charges.

The final financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the year. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, financing and investments. It also provides answers to questions such as: where did cash come from, what was cash used for, and what was the change in cash balance during the year.

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

Humboldt Community Services District
MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2019

FINANCIAL ANALYSIS OF THE DISTRICT

One of the most important questions asked about an entity's finances is "As a whole, are we better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Fund Net Position report information about the District's activities in a way that helps answer this question. These two statements report the net position of the District and changes to net position.

The following condensed financial information provides an overview of the District's financial activities for the fiscal years ended June 30, 2019 and June 30, 2018.

NET POSITION

Net position, (the difference between assets and liabilities) is one way to measure financial health or position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other factors such as desired reserve levels, changes in economic conditions, population growth, housing trends and government legislation.

The largest portion of the District's net position reflects its investment in capital assets (e.g. land, buildings, water supply and distribution system, sewer collection system and equipment), less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted net position, representing 3% of net position, represents resources that are subject to external restrictions on how they may be used. The remaining balance: unrestricted net position may be used to meet the District's ongoing obligations to citizens and creditors. The following table summarizes the District's net position as of June 30:

Table 1
Business-type Net Position

| | 2019 | 2018 |
|---|---------------|--------------|
| Assets: | | |
| Current and other assets | \$ 6,045,758 | \$ 5,763,391 |
| Capital assets, net of accumulated depreciation | 30,615,583 | 30,297,127 |
| Total assets | 36,661,341 | 36,060,518 |
| Deferred outflows | 832,308 | 923,652 |
| Liabilities: | | |
| Other liabilities | 806,714 | 1,649,921 |
| Long-term debt outstanding | 22,747,663 | 26,449,009 |
| Total liabilities | 23,554,377 | 28,098,930 |
| Deferred inflows | 244,855 | 248,091 |
| Net Position: | | |
| Invested in capital assets, net of related debt | 19,656,768 | 18,656,644 |
| Restricted | 358,214 | 388,646 |
| Unrestricted | (8,841,870) | (10,408,141) |
| Total net position | \$ 11,173,112 | \$ 8,637,149 |

Humboldt Community Services District
MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2019

REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

While the Statement of Net Position shows the change in financial position from one year to the next, the Statement of Revenues, Expenses and Changes in Fund Net Position provides information concerning the nature and source of these changes.

Revenue – Total operating revenue increased \$1,894,076 in 2019 as compared to 2018. Other Non-Operating Revenue increased primarily due to an increase in property tax revenues.

Expenses – Operating expenses decreased \$760,091. Non-operating expenses decreased by \$23,759. Changes include:

- Joint Operating Treatment Costs \$ 2,918,654 decrease
- Salaries & Benefits (primarily benefit decreases, including PERS & OPEB) \$ 871,730 decrease
- Purchased Water \$ 331,254 increase
- Supplies & Noncapitalized CIPs \$ 109,885 decrease
- Depreciation \$ 10,819 decrease

The following table summarizes the District's change in net position for the year ended June 30:

Table 2
Changes in Net Position

| | 2019 | 2018 | Change |
|-----------------------------|---------------|--------------|--------------|
| Operating revenues | \$ 10,441,109 | \$ 8,547,033 | \$ 1,894,076 |
| Operating expenses | 8,055,136 | 8,815,227 | 760,091 |
| Net operating income (loss) | \$ 2,385,973 | \$ (268,194) | \$ 2,654,167 |
| Investment and other income | \$ 467,485 | \$ 450,801 | \$ 16,684 |
| Interest and other expenses | 428,507 | 452,266 | 23,759 |
| Non-operating net income | \$ 38,978 | \$ (1,465) | \$ 40,443 |

CAPITAL ASSETS AND DEBT ADMINISTRATION

Table 3
Capital Assets at Year End

| | 2019 | 2018 |
|----------------------------|---------------|---------------|
| Land | \$ 685,868 | \$ 685,869 |
| Buildings and improvements | 1,009,028 | 1,009,029 |
| Water Plant and System | 23,388,057 | 23,337,755 |
| Sewer Collection System | 25,894,687 | 25,296,173 |
| Vehicles and equipment | 3,159,795 | 3,110,584 |
| Construction in progress | 1,208,408 | 362,534 |
| Subtotal | 55,345,843 | 53,801,944 |
| Accumulated depreciation | (24,730,258) | (23,504,817) |
| Net capital assets | \$ 30,615,585 | \$ 30,297,127 |

Capital Assets - At June 30, 2019, the District had \$30,615,585 (net of accumulated depreciation) invested in its water distribution and storage system, wells, sewage collection system, construction in progress, land, buildings, vehicles and equipment. Additional information regarding the District's capital assets can be found in Note 2, Section B of the Financial Statements.

Humboldt Community Services District
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2019

Long-Term Debt - At year end, the District had \$10,958,815 in long term obligations. More detailed information regarding the District's long-term liabilities can be found in Note 2, Section C of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The District's Board of Directors and management considered many factors when adopting the fiscal year 2019/2020 budget. The Board assessed the available reserves, the operating and capital needs of the District, potential customer growth, and potential regulatory impacts.

The adopted fiscal year 2019/20 budget includes a 3.3% cost of living increase for employees and forecasts a 14% increase in health insurance. It also anticipates a 4% increase in sewer treatment costs. Purchased water costs from Humboldt Bay Municipal Water District and the City of Eureka are each projected to increase 3.5%.

The District passed a five-year water and sewer rate increase, which will allow the District to cover costs of service for both the water and sewer enterprise funds. Approved rates were increased by 3% for water and 2% for sewer for fiscal year 2019-20.

The District does not include depreciation expense in its cash basis budget. The District's cash basis budget includes a capital improvement budget of \$1,294,450 for FY 19/20, which will be funded by cash reserves. The budget also includes \$323,000 to reimburse the City of Eureka for the District's share of the wastewater treatment plant CIP, which will be funded with cash reserves.

Pledged Revenues - The District has pledged future water and wastewater revenues, net of specified operating expenses and exclusive of certain expenses such as depreciation, to repay an original amount of \$16,921,015 in bonds, loans, and agreements issued in the current and prior years to obtain financing for system improvements and equipment. Total principal and interest remaining to be paid on these obligations is \$15,971,052. Annual principal and interest payments on these obligations are expected to require less than the net revenues as defined.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact the Finance Manager or General Manager at Humboldt Community Services District, 5055 Walnut Drive, Eureka, California 95503.

Humboldt Community Services District
STATEMENT OF NET POSITION
For the Year Ended June 30, 2019

ASSETS

| | |
|--|--------------|
| Current assets: | |
| Cash and investments | \$ 4,111,595 |
| Restricted cash and investments: | |
| Debt service | 64,420 |
| Capital projects | 293,794 |
| Total cash and investments | 4,469,809 |
| Accounts receivable | 771,187 |
| Assessments receivable | 370,748 |
| Prepaid items | 242,878 |
| Inventory | 191,136 |
| Total current assets | 6,045,758 |
| Capital assets: | |
| Non-depreciable assets | 1,454,878 |
| Depreciable assets (net of depreciation) | 29,160,705 |
| Total assets | 36,661,341 |

DEFERRED OUTFLOWS

| | |
|---------------------------------------|---------|
| Deferred outflows related to pensions | 832,308 |
|---------------------------------------|---------|

LIABILITIES AND NET POSITION

| | |
|---|------------|
| Current liabilities: | |
| Accounts payable | 341,165 |
| Compensated absences | 217,422 |
| Customer deposits | 122,419 |
| Accrued expenses | 125,708 |
| Total current liabilities | 806,714 |
| Long-term liabilities: | |
| Due within one year | 699,941 |
| Due in more than one year | 10,258,874 |
| Net OPEB liability | 8,741,206 |
| Net pension liability due in more than one year | 3,047,642 |
| Total long-term liabilities | 22,747,663 |
| Total liabilities | 23,554,377 |

DEFERRED INFLOWS

| | |
|--------------------------------------|-----------|
| Deferred inflows related to OPEB | 2,521,305 |
| Deferred inflows related to pensions | 244,855 |
| Total deferred inflows | 2,766,160 |

| | |
|---|---------------|
| Net position: | |
| Invested in capital assets, net of related debt | 19,656,768 |
| Restricted | 358,214 |
| Unrestricted | (8,841,870) |
| Total net position | \$ 11,173,112 |

The accompanying notes are an integral part of these financial statements.

Humboldt Community Services District
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
For the Year Ended June 30, 2019

| | |
|--|----------------------|
| Operating revenues: | |
| Water sales | \$ 5,111,935 |
| Sewer service fees | 5,311,629 |
| Other operating | 17,545 |
| Total operating revenues | <u>10,441,109</u> |
| Operating expenses: | |
| Salaries and benefits | 2,385,581 |
| General and administration | 392,751 |
| Joint treatment costs | 1,364,603 |
| Purchases power | 298,176 |
| Water purchases | 1,680,808 |
| Repairs and maintenance | 178,241 |
| Supplies | 240,239 |
| Other expenses | 179,694 |
| Depreciation | <u>1,335,043</u> |
| Total operating expenses | <u>8,055,136</u> |
| Operating income (loss) | <u>2,385,973</u> |
| Non-operating revenues (expenses): | |
| Interest revenue | 38,800 |
| Interest expense | (428,507) |
| Taxes and assessments | 393,673 |
| Other income | <u>35,012</u> |
| Total non-operating revenues (expenses) | <u>38,978</u> |
| Income (loss) before transfers | <u>2,424,951</u> |
| Transfers in | - |
| Transfers out | - |
| Total other financing sources (uses) | <u>-</u> |
| Income (loss) before capital contributions | 2,424,951 |
| Capital contributions and connection fees | <u>111,012</u> |
| Changes in net position | 2,535,963 |
| Net position, beginning of period | <u>8,637,149</u> |
| Net position, end of period | <u>\$ 11,173,112</u> |

The accompanying notes are an integral part of these financial statements.

Humboldt Community Services District
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2019

| | |
|--|---------------------|
| Cash flows from operating activities: | |
| Receipts from customers | \$ 10,278,806 |
| Payments to suppliers | (8,093,168) |
| Payments to employees | <u>161,936</u> |
| Net cash provided (used) by operating activities | <u>2,347,574</u> |
| Cash flows from non-capital financing activities: | |
| Taxes and assessments | 510,620 |
| Other revenue (expense) | <u>35,012</u> |
| Net cash provided (used) by non-capital financing activities | <u>545,632</u> |
| Cash flows from capital and related financing activities: | |
| Acquisition and construction of capital assets | (1,653,499) |
| Interest expense | (428,507) |
| Capital connection fees received | 111,012 |
| Payment on current portion of bonds | <u>(681,668)</u> |
| Net cash provided (used) by capital and related financing activities | <u>(2,652,662)</u> |
| Cash flows from investing activities: | |
| Interest earned | <u>38,800</u> |
| Net cash provided by investing activities | <u>38,800</u> |
| Net increase (decrease) in cash and cash equivalents | 279,344 |
| Cash and cash equivalents - beginning of period | <u>4,190,465</u> |
| Cash and cash equivalents - end of period | <u>\$ 4,469,809</u> |
| Reconciliation of operating income (loss) to net cash provided (used in) operating activities: | |
| Operating income (loss) | \$ 2,385,973 |
| Prior period adjustment | - |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: | |
| Depreciation | 1,335,043 |
| Changes in certain assets and liabilities: | |
| Accounts receivable | (162,303) |
| Prepaid items | 36,725 |
| Inventory | 5,608 |
| Accounts payable | (896,081) |
| Accrued expenses | 2,830 |
| Deferred outflows | 91,344 |
| Deferred inflows | 2,518,069 |
| Net pension liability | (97,889) |
| Net OPEB liability | (2,921,789) |
| Compensated absences | 33,163 |
| Customer deposits | <u>16,881</u> |
| Net cash provided (used) by operating activities | <u>\$ 2,347,574</u> |

The accompanying notes are an integral part of these financial statements.

Humboldt Community Services District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Humboldt Community Services District was formed in 1952, pursuant to the State of California Community Services District Law. The District's service area includes the unincorporated areas in the vicinity of the City of Eureka, California. The accompanying financial statements present the District and its component units, entities for which the District is considered to be financially accountable. The District has no component units. The District is governed by an elected five-member Board of Directors.

The District provides water for domestic use, irrigation, sanitation use, industrial use, fire protection and recreation. The District also provides for the collection, treatment and disposal of sewage and provides street lighting to customers within its boundaries. The District is authorized to but does not currently provide waste and storm water services. The District does not own or operate its own wastewater treatment plant, but instead contracts with the City of Eureka for such services.

B. Financial Statements

The basic financial statements (i.e., the statement of net position, the statement of revenues, expenses and changes in fund net position and statement of cash flows) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The District accounts for its water and sewer departments in two separate enterprise funds, while property tax revenues are accounted for in a separate administrative enterprise fund.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Property taxes, water service charges, water sales, wastewater fees, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period.

The District is engaged primarily in business-type activities and the District's basic financial statements consist of only the financial statements required for enterprise funds. These include management's discussion and analysis, a statement of net position, a statement of revenue, expenses, and changes in fund net position, a statement of cash flows, and these notes to the basic financial statements. The District is also an AB 8 District and receives property tax revenues and accounts for them in a separate administrative enterprise fund.

Humboldt Community Services District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (concluded)

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

D. Assets, Liabilities, and Net Position

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Fair Value Hierarchy

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are inputs - other than quoted prices included within level 1 - that are observable for an asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for an asset or liability.

If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

The District's investment policy has been to invest idle cash in demand deposits, time deposits and the Humboldt County Treasurer's Investment Pool. Investments are reported at fair value. The County Pool is operated in accordance with applicable state laws and regulations, and the reported value of the District's investment in the County Pool is the same as the fair value of the pool shares. State statutes authorize the District to invest in obligations of the U.S. Treasury, Federal Agency obligations, commercial paper, the LAIF and other instruments. The Loan and Installment Agreement underlying the issuance of Loans and Installment Purchase Agreements authorize permitted investments consistent with the State of California Government Code but broader in scope than the District's usual investment practices.

Receivables and Property Taxes

All trade receivables are not shown net of an allowance for uncollectibles.

Humboldt Community Services District
NOTES TO BASIC FINANCIAL STATEMENTS
 For the Year Ended June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, Liabilities, and Net Position (continued)

Property taxes are levied as of March 1 on property values assessed as of the same date. State statutes provide that the property tax rate be limited generally to one percent of market value, be levied by only the County, and be shared by applicable jurisdictions. The County of Humboldt collects the taxes and distributes them to taxing jurisdictions on the basis of assessed valuations subject to voter-approved debt. Property taxes are due on November 1 and March 1, and become delinquent on December 10 and April 10. The District receives property taxes pursuant to an arrangement with the County known as the "Teeter Plan". Under the plan, the County assumes responsibility for the collection of delinquent taxes and pays the full allocation to the District. The District recognizes property tax revenues in the fiscal year in which they are due to the District and accrues as receivable such taxes.

Inventories and Prepaid Items

All inventories are valued at cost based upon physical determinations made at the end of each year.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

Restricted Cash Equivalents and Investments

Cash equivalents and investments restricted for use in only capital projects or debt service are reported as noncurrent assets. The District follows the practice of reporting in this category the funds received from the issuance of the Installment Purchase Agreements for the purpose of financing the design, construction, replacement and improvement of District facilities. Special assessments receivable are restricted for the repayment of the Loan Payable to the State of California and are therefore also reported as restricted assets.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (mainly the existing water distribution and wastewater collection system), are reported in the financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets and assets constructed by developers are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives' are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed net of construction period interest revenues earned during such periods.

Property, plant, and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|--------------------------------|--------------|
| Water system | 30-40 |
| Wastewater collection system | 30-40 |
| Buildings and improvements | 30-40 |
| Vehicles, trucks and equipment | 5-15 |

Humboldt Community Services District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, Liabilities, and Net Position (continued)

Compensated Absences, Sick Leave, Other Post-Employment Benefits, Other Than Pensions and Claims

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. The liability for unpaid vacation and sick leave is recorded in the financial statements when the liability is incurred and vacation is reported as the current portion of such compensated absences. The District does provide for payment of unused sick leave at the rate of 50 percent at retirement after age 50 with five years of service. The total amount of compensated absences payable at June 30, 2019 was \$217,422. The District accounts for other post-employment benefits (OPEB), using actuarial information and by accruing as a liability the difference each year between the District's annual required contribution (ARC) and actual contributions made to the Plan for retiree medical benefits.

The District obtains insurance coverage for property and equipment, fidelity bonds, automobile liability and general liability, and workers compensation insurance through its membership in the Association of California Water Agencies Joint Powers Insurance Authority. The risk of loss is transferred from the District to the Authority in exchange for the District's payment of annual premiums. Incurred and unbilled claims, if any, are accrued as a liability when it is probable that an asset has been impaired, the amount of the obligation can be reasonably estimated, and the claim is not covered by insurance.

Deferred Outflows and Inflows of Resources

Pursuant to GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the District recognizes deferred outflows and inflows of resources.

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period. In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. A deferred inflow of resources is defined as an acquisition of net position by the District that is applicable to a future reporting period.

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 Humboldt Community Services District's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions 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.

Long-term Obligations

In enterprise fund-type financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Discounts associated with the issuance of long-term debt obligations are reported as a reduction of the carrying value of the related debt obligation, and are amortized to interest expense over the life of the debt instrument. Costs associated with the issuance of the debt are capitalized as other non-current assets and are amortized to expense over the life of the debt obligation.

Humboldt Community Services District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

D. Assets, Liabilities, and Net Position (concluded)

Net Position

In the financial statements, fund net position is reported in three categories as follows:

- Invested in capital assets, net of related debt - This category of net position reports the net book value of capital assets used in District operations including construction in progress all net of related accumulated depreciation, and reduced by the carrying value of related long-term debt issued to finance the acquisition of such assets.
- Restricted for debt service and capital projects - This category of net position reports all unspent proceeds from the issuance of long-term debt restricted for capital asset improvement, replacement, or construction net of the related long-term debt. It also includes funds restricted for debt service payment and reserve requirements.
- Unrestricted - Unrestricted net position represents all other assets net of related liabilities available for use by the District.

NOTE 2 - DETAILED NOTES

A. Cash Equivalents and Investments

Cash equivalents and investments consisted of the following at June 30:

| | 2019 | 2018 |
|-----------------------|--------------|--------------|
| Cash: | | |
| Demand accounts | \$ 2,047,160 | \$ 1,718,063 |
| County pool | 2,064,435 | 2,083,756 |
| Total cash | \$ 4,111,595 | \$ 3,801,819 |
| | 2019 | 2018 |
| Restricted cash: | | |
| County pool | \$ 358,214 | \$ 388,646 |
| Total restricted cash | \$ 358,214 | \$ 388,646 |

Custodial Credit Risk - Deposits:

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 custodial credit risk for investments is the risk that, in the event of the failure of counter-party (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.

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the District's cash on deposit or first trust deed mortgage notes with a value of 150% of the deposit as collateral for these deposits.

Humboldt Community Services District
NOTES TO BASIC FINANCIAL STATEMENTS
 For the Year Ended June 30, 2019

NOTE 2 - DETAILED NOTES (continued)

A. Cash Equivalents and Investments (concluded)

Under California Law this collateral is held in the District's name and places the District ahead of general creditors of the institution. The District has waived collateral requirements for the portion of deposits covered by federal depository insurance.

All monies in the Humboldt County Treasurer's Pool are not evidenced by specific securities; and therefore are not subject to custodial credit risk. The average number of days to maturity for investments in the County Pool is 644 days.

The following is a summary of the fair value hierarchy of the fair value of investments of the District as of June 30, 2019:

| <u>Investment Type</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Exempt</u> | <u>Total</u> |
|--|----------------|---------------------|---------------------|---------------------|
| Demand Accounts | \$ - | \$ - | \$ 2,047,160 | \$ 2,047,160 |
| Humboldt Co. Treasurer's Investment Pool | - | <u>2,422,649</u> | - | <u>2,422,649</u> |
| Total Investments | <u>\$ -</u> | <u>\$ 2,422,649</u> | <u>\$ 2,047,160</u> | <u>\$ 4,469,809</u> |

Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. The Humboldt County Treasurer's Pool classified in Level 2 of the fair value hierarchy, is valued using quoted prices for a non-active market portfolio at fiscal year-end. Fair value is defined as the quoted market value on the last trading day of the period. These prices are obtained from various pricing sources by the custodian bank.

Credit Risk

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. The actual ratings as of June 30, 2019 are provided by Standard and Poor's except as noted.

| <u>Investment Type</u> | <u>Total</u> |
|---|---------------------|
| Money Market Mutual Funds | \$ - |
| Not rated: | |
| Demand Accounts | 2,047,160 |
| Humboldt County Treasurer's Investment Pool | <u>2,422,649</u> |
| Total cash and investments | <u>\$ 4,469,809</u> |

Credit Risk - State law limits investments in various securities to certain levels of risk ratings issued by nationally recognized statistical rating organizations. It is the District's policy to comply with those requirements. The Humboldt County Treasurer's Pool was unrated.

Humboldt Community Services District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

NOTE 2 - DETAILED NOTES (continued)

B. Capital Assets

Capital asset activity for the year ended June 30, 2019 was as follows:

| <u>Business-type Activities - Water</u> | <u>Balance</u> <u>6/30/18</u> | <u>Increase</u> | <u>Decrease</u> | <u>Balance</u> <u>6/30/19</u> |
|--|----------------------------------|-------------------|------------------|----------------------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 391,458 | \$ - | \$ - | \$ 391,458 |
| Construction in progress | <u>123,502</u> | <u>667,103</u> | <u>21,596</u> | <u>769,009</u> |
| Total capital assets, not being depreciated | <u>514,960</u> | <u>667,103</u> | <u>21,596</u> | <u>1,160,467</u> |
| Capital assets, being depreciated: | | | | |
| General buildings and structures | 575,146 | - | - | 575,146 |
| Water plant and distribution system | 23,337,755 | 50,302 | - | 23,388,057 |
| Vehicles | 1,162,156 | - | - | 1,162,156 |
| Equipment | <u>665,868</u> | <u>90,520</u> | <u>62,471</u> | <u>693,917</u> |
| Total capital assets, being depreciated | <u>25,740,925</u> | <u>140,822</u> | <u>62,471</u> | <u>25,819,276</u> |
| Less accumulated depreciation for: | | | | |
| General buildings and structures | (335,747) | (12,551) | - | (348,298) |
| Water plant and distribution system | (12,836,206) | (560,121) | - | (13,396,327) |
| Vehicles | (689,150) | (74,749) | - | (763,899) |
| Equipment | <u>(568,972)</u> | <u>(26,968)</u> | <u>(62,471)</u> | <u>(533,469)</u> |
| Total accumulated depreciation | <u>(14,430,075)</u> | <u>(674,389)</u> | <u>(62,471)</u> | <u>(15,041,993)</u> |
| Total capital assets being depreciated – net | <u>11,310,850</u> | <u>(533,567)</u> | <u>-</u> | <u>10,777,283</u> |
| Capital assets – net | <u>\$ 11,825,810</u> | <u>\$ 133,536</u> | <u>\$ 21,596</u> | <u>\$ 11,937,750</u> |

Humboldt Community Services District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

NOTE 2 - DETAILED NOTES (continued)

B. Capital Assets (concluded)

| <u>Business-type Activities - Sewer</u> | Balance 6/30/18 | Increase | Decrease | Balance 6/30/19 |
|--|----------------------|-------------------|--------------------|----------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 294,410 | \$ - | \$ - | \$ 294,410 |
| Construction in progress | <u>239,030</u> | <u>211,960</u> | <u>11,593</u> | <u>439,397</u> |
| Total capital assets, not being depreciated | <u>533,440</u> | <u>211,960</u> | <u>11,593</u> | <u>733,807</u> |
| Capital assets, being depreciated: | | | | |
| General buildings and structures | 433,882 | - | - | 433,882 |
| Sewer collection system | 25,296,173 | 598,514 | - | 25,894,687 |
| Vehicles | 749,930 | - | - | 749,930 |
| Equipment | <u>532,631</u> | <u>21,161</u> | <u>-</u> | <u>553,792</u> |
| Total capital assets, being depreciated | <u>27,012,616</u> | <u>619,675</u> | <u>-</u> | <u>27,632,291</u> |
| Less accumulated depreciation for: | | | | |
| General buildings and structures | (273,380) | (11,140) | - | (284,520) |
| Sewer collection system | (7,841,130) | (584,973) | - | (8,426,103) |
| Vehicles | (501,662) | (43,712) | - | (545,374) |
| Equipment | <u>(458,568)</u> | <u>(20,828)</u> | <u>(47,128)</u> | <u>(432,268)</u> |
| Total accumulated depreciation | <u>(9,074,740)</u> | <u>(660,653)</u> | <u>(47,128)</u> | <u>(9,688,265)</u> |
| Total capital assets being depreciated – net | <u>17,937,876</u> | <u>(40,978)</u> | <u>(47,128)</u> | <u>17,944,026</u> |
| Capital assets – net | <u>\$ 18,471,316</u> | <u>\$ 170,982</u> | <u>\$ (35,535)</u> | <u>\$ 18,677,833</u> |

C. Long-Term Debt

Long-term debt activity for the year ended June 30, 2019 was as follows:

| <u>Business-Type Activity</u> | Beginning Balance | Additions | Deletions | Ending Balance | Amount Due in One Year |
|---------------------------------------|----------------------|-------------|---------------------|---------------------|------------------------------|
| State water loan | \$ 887,947 | \$ - | \$ 150,086 | \$ 737,861 | \$ 154,905 |
| State loan | 42,857 | - | 3,927 | 38,930 | 5,028 |
| 2012 loan & installments | 2,491,452 | - | 261,439 | 2,230,013 | 274,207 |
| 2014 WW Revenue Bonds | 7,895,000 | - | 185,000 | 7,710,000 | 190,000 |
| 2014 WW Revenue Bonds premium, net | 95,760 | - | 7,588 | 88,172 | - |
| Van Con loan | 227,467 | - | 73,628 | 153,839 | 75,801 |
| Other post-employment benefits | <u>11,662,995</u> | <u>-</u> | <u>2,921,789</u> | <u>8,741,206</u> | <u>-</u> |
| Total | <u>\$23,303,478</u> | <u>\$ -</u> | <u>\$ 3,603,457</u> | <u>\$19,700,021</u> | <u>\$ 699,941</u> |

Humboldt Community Services District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

NOTE 2 - DETAILED NOTES (continued)

C. Long-Term Debt (continued)

2012 Loans & Installment Sale Agreements

On August 15, 2012, four installment agreements were issued to refund the District's 1981 Water Revenue Bonds, 2006 Installment Agreement and 2001 loan. Proceeds were also used to fund the District's share of the Martin Slough Wastewater Interceptor Project. The installment agreements with Municipal Finance Corporation bear interest at 4.25, 3.10, 3.25, and 3.50 percent per annum. The agreement, original issues of \$2,372,000, \$704,000, \$996,000 and \$415,000 respectively, are payable each September 1 and March 1 through 2032. The second installment agreement was paid in full in fiscal year 2017. The agreement is secured by a first pledge of all District system revenue after operating and maintenance costs. The District is obligated to fix rates and collect charges and manage operation of the system for each year so as to yield system net revenues equal to at least 120 percent of annual debt service.

| Loan #1 | | | |
|------------------|---------------------|-------------------|---------------------|
| Year End June 30 | Principal | Interest | Total |
| 2020 | \$ 101,755 | \$ 75,845 | \$ 177,600 |
| 2021 | 106,126 | 71,474 | 177,600 |
| 2022 | 110,684 | 66,916 | 177,600 |
| 2023 | 115,438 | 62,162 | 177,600 |
| 2024 | 120,396 | 57,204 | 177,600 |
| 2025 | 125,567 | 52,033 | 177,600 |
| 2026 | 130,961 | 46,639 | 177,600 |
| 2027 | 136,586 | 41,014 | 177,600 |
| 2028 | 142,452 | 35,148 | 177,600 |
| 2029 | 148,571 | 29,029 | 177,600 |
| 2030 | 154,952 | 22,648 | 177,600 |
| 2031 | 161,607 | 15,993 | 177,600 |
| 2032 | 168,549 | 9,051 | 177,600 |
| 2033 | <u>83,116</u> | <u>1,830</u> | <u>84,946</u> |
| Total | <u>\$ 1,806,760</u> | <u>\$ 586,986</u> | <u>\$ 2,393,746</u> |

| Loan #3 | | | |
|------------------|-------------------|------------------|-------------------|
| Year End June 30 | Principal | Interest | Total |
| 2020 | \$ 128,273 | \$ 7,327 | \$ 135,600 |
| 2021 | <u>128,995</u> | <u>3,125</u> | <u>132,120</u> |
| Total | <u>\$ 257,268</u> | <u>\$ 10,452</u> | <u>\$ 267,720</u> |

Humboldt Community Services District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

NOTE 2 - DETAILED NOTES (continued)

C. Long-Term Debt (continued)

| Year End June 30 | Loan #4 | | |
|------------------|------------|-----------|------------|
| | Principal | Interest | Total |
| 2020 | \$ 44,179 | \$ 5,321 | \$ 49,500 |
| 2021 | 45,738 | 3,762 | 49,500 |
| 2022 | 47,353 | 2,147 | 49,500 |
| 2023 | 25,716 | 450 | 26,166 |
| Total | \$ 162,986 | \$ 11,680 | \$ 174,666 |

State Water Loan - Safe Drinking Water

The District entered into a loan agreement with the State of California Department of Water Resources in an original amount of \$3,399,563 for the purpose of obtaining financing to construct and acquire domestic water facilities within a geographical area known as Freshwater and Mitchell Road. The loan bears interest at 3.2136 percent, is payable in semi-annual installments each April 1 and October 1 through October 1, 2023. The District's obligation to make the loan payments is secured by a security interest on the real and personal property within the area. The District is required to maintain a reserve fund equal to two semi-annual payments or \$177,430.

In connection with the acquisition and construction of this project, the District used the loan proceeds to finance the project and issued one special assessment bond in an original amount of \$2,622,624. The special assessment bond is secured by special assessments on the properties within the project area. The District owns the bond and reports this investment in its financial statements as special assessments receivable.

Future debt service on the State Water Loan is:

| <u>Years</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------|------------------|-----------------|--------------|
| 2020 | \$ 154,905 | \$ 22,525 | \$ 177,430 |
| 2021 | 160,004 | 17,426 | 177,430 |
| 2022 | 165,149 | 12,280 | 177,429 |
| 2023 | 170,499 | 6,930 | 177,429 |
| 2024 | 87,304 | 1,407 | 88,711 |
| Totals | \$ 737,861 | \$ 60,568 | \$ 798,429 |

Humboldt Community Services District
NOTES TO BASIC FINANCIAL STATEMENTS
 For the Year Ended June 30, 2019

NOTE 2 - DETAILED NOTES (continued)

C. Long-Term Debt (continued)

State Loan - Davis Grunsky

The District assumed a loan agreement with the State Department of Water Resources for the purpose of acquiring a water system in the King Salmon area. The loan is secured by a pledge of water revenues. The loan was for \$166,000, bears interest at 2.50 percent and matures January 1, 2026. Future debt service on the original loan amount is:

| <u>Years</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------|------------------|-----------------|------------------|
| 2020 | \$ 5,028 | \$ 949 | \$ 5,977 |
| 2021 | 5,155 | 822 | 5,977 |
| 2022 | 5,283 | 694 | 5,977 |
| 2023 | 5,415 | 562 | 5,977 |
| 2024 | 5,551 | 426 | 5,977 |
| 2025 | 5,689 | 288 | 5,977 |
| 2026 | <u>5,831</u> | <u>144</u> | <u>5,975</u> |
| Totals | <u>\$ 37,952</u> | <u>\$ 3,885</u> | <u>\$ 41,837</u> |

2014 Wastewater Revenue Bonds

The District issued Wastewater Revenue bonds through the California Municipal Finance Authority in order to complete financing of the District's share of the Martin Slough Wastewater Interceptor Project. Interest on the bonds is payable semiannually on June 1 and December 1 in each year, commencing June 1, 2015, and matures on June 1, 2044. Future debt service on the original loan amount is as follows:

Humboldt Community Services District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

NOTE 2 - DETAILED NOTES (concluded)

C. Long-Term Debt (concluded)

| <u>Year End June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------------------|---------------------|---------------------|----------------------|
| 2020 | \$ 190,000 | \$ 293,174 | \$ 483,174 |
| 2021 | 200,000 | 285,576 | 485,576 |
| 2022 | 210,000 | 277,576 | 487,576 |
| 2023 | 215,000 | 269,176 | 484,176 |
| 2024 | 225,000 | 260,576 | 485,576 |
| 2025 | 235,000 | 251,576 | 486,576 |
| 2026 | 245,000 | 242,176 | 487,176 |
| 2027 | 250,000 | 234,826 | 484,826 |
| 2028 | 260,000 | 227,012 | 487,012 |
| 2029 | 265,000 | 218,562 | 483,562 |
| 2030 | 275,000 | 209,618 | 484,618 |
| 2031 | 285,000 | 199,994 | 484,994 |
| 2032 | 295,000 | 190,018 | 485,018 |
| 2033 | 305,000 | 179,694 | 484,694 |
| 2034 | 315,000 | 169,018 | 484,018 |
| 2035 | 330,000 | 156,000 | 486,000 |
| 2036 | 340,000 | 144,400 | 484,400 |
| 2037 | 355,000 | 130,800 | 485,800 |
| 2038 | 370,000 | 116,600 | 486,600 |
| 2039 | 385,000 | 101,800 | 486,800 |
| 2040 | 400,000 | 86,400 | 486,400 |
| 2041 | 415,000 | 70,400 | 485,400 |
| 2042 | 430,000 | 53,800 | 483,800 |
| 2043 | 450,000 | 36,600 | 486,600 |
| 2044 | <u>465,000</u> | <u>18,600</u> | <u>483,600</u> |
| Total | <u>\$ 7,710,000</u> | <u>\$ 4,423,972</u> | <u>\$ 12,133,972</u> |

VacCon Loan

The District entered into a loan agreement with Santander Leasing, LLC with an original amount of \$368,452 for the purpose of obtaining financing to purchase a VacCon Model VX312LHE/1100 Hydro-Excavator. The loan bears interest at 2.95 percent, is payable in annual installments each November 1 through November 1, 2020. Future debt service on the original lease amount is as follows:

| <u>Years</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------|-------------------|-----------------|-------------------|
| 2020 | \$ 75,801 | \$ 4,540 | \$ 80,341 |
| 2021 | <u>78,038</u> | <u>2,303</u> | <u>80,341</u> |
| Totals | <u>\$ 153,839</u> | <u>\$ 6,843</u> | <u>\$ 160,682</u> |

Humboldt Community Services District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

NOTE 3 - OTHER INFORMATION

A. Risk Management

The District obtains general liability, property, automobile, and workers compensation insurance through its membership in the Association of California Water Agencies Joint Powers Insurance Authority (the Authority). The Authority is responsible for the first \$1 million per claim under its liability coverage program, and members are covered up to \$50 million for liability claims under the Authority's purchased excess insurance policies with a \$60 million aggregate limit on \$20 million excess layer, and \$30 million aggregate on each of the next \$10 million excess layers. Members are covered for \$100 million in regard to property and equipment through the Authority's purchased excess coverage. Workers compensation coverage is provided to the District equal to statutory limits. The Authority also provides automobile liability coverage and errors and omissions coverage up to \$50 million, and employee fidelity coverage up to \$100,000. There were no significant changes in coverage in fiscal year 2019 as regards the aggregate limits on excess coverage.

The District paid no material uninsured losses during the last three fiscal years.

Liabilities of the District are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. There were no material uninsured claim liabilities at June 30, 2019.

B. Contingencies and Commitments

Litigation - In the opinion of the District's general counsel, there is no pending or threatened litigation which would have a material adverse impact on the accompanying financial statements. There is one pending claim with the City of Eureka. This is related to the Martin Slough Wastewater Interceptor Project. The outcome of this claim cannot be determined at this time.

C. Retirement System

Plan Description - All qualified permanent and probationary employees are eligible to participate in the District's separate Miscellaneous Employee Pension Plans, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and District resolution.

CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided - CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service.

Humboldt Community Services District
NOTES TO BASIC FINANCIAL STATEMENTS
 For the Year Ended June 30, 2019

NOTE 3 - OTHER INFORMATION (continued)

C. Retirement System (continued)

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.

The Plan provisions and benefits in effect at June 30, 2019, are summarized as follows:

| | Miscellaneous | |
|--|-----------------------------|--------------------------------|
| | Prior to January 1, 2013 | On or after January 1, 2013 |
| Hire date | 2% @ 55 | 2% @ 62 |
| Benefit formula | 5 years service | 5 years service |
| Benefit vesting schedule | monthly for life | monthly for life |
| Benefit payments | 50 - 55 | 52 - 67 |
| Retirement age | 2.0% to 2.7% | 1.0% to 2.5% |
| Monthly benefits, as a % of eligible compensations | 7% | 6.5% |
| Required employee contribution rates | 16.452% | 6.5% |
| Required employer contribution rates | | |

The District's Miscellaneous Plans are part of the public agency cost-sharing multiple-employer defined benefit pension plan (PERF C), which is administered by the California Public Employees' Retirement System (CalPERS). PERF C consists of a miscellaneous pool and a safety pool (also referred to as "risk pools"), which are comprised of individual employer miscellaneous and safety rate plans, respectively. Individual employers may sponsor more than one miscellaneous and safety rate plan. The employer participates in one cost-sharing multiple-employer defined benefit pension plan regardless of the number of rate plans the employer sponsors. The District sponsors two miscellaneous rate plans.

Contributions - Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plans are 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 year ended June 30, 2019, the contributions recognized as part of pension expense for each Plan were as follows:

| | Miscellaneous |
|--------------------------|---------------|
| Contributions - employer | \$337,894 |

As of June 30, 2019, the District reported net pension liabilities for its proportionate shares of the net pension liability of the Miscellaneous Plans as follows:

| | Proportionate Share of Net Pension Liability |
|---------------|--|
| Miscellaneous | <u>\$ 3,047,642</u> |

Humboldt Community Services District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

NOTE 3 - OTHER INFORMATION (continued)

C. Retirement System (continued)

The District's net pension liability for the Plans is measured as the proportionate share of the net pension liability. The net pension liability of the Plans is measured as of June 30, 2018, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 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 plans relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for each Plan as of June 30, 2017 and 2018 was as follows:

| | Miscellaneous |
|------------------------------|---------------|
| Proportion - June 30, 2017 | .032% |
| Proportion - June 30, 2018 | .032% |
| Change – Increase (Decrease) | .000% |

For the year ended June 30, 2018, the District recognized pension expense of \$328,113. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Pension contributions subsequent to measurement date | \$ 337,894 | \$ - |
| Differences between actual and expected experience | 116,933 | 35,791 |
| Changes in assumptions | 347,440 | 85,151 |
| Net differences between projected and actual earnings on plan investments | 15,067 | - |
| Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions | 14,974 | 119,913 |
| Total | \$ 832,308 | \$ 240,855 |

\$337,894 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

| <u>Year Ended June 30</u> | | |
|---------------------------|--|------------|
| 2020 | | \$ 258,833 |
| 2021 | | 132,626 |
| 2022 | | (114,489) |
| 2023 | | (27,412) |
| Thereafter | | - |

Actuarial Assumptions - The total pension liabilities in the June 30, 2017 actuarial valuations were determined using the following actuarial assumptions:

Humboldt Community Services District
NOTES TO BASIC FINANCIAL STATEMENTS
 For the Year Ended June 30, 2019

NOTE 3 - OTHER INFORMATION (continued)

C. Retirement System (continued)

| | |
|---------------------------|--|
| Valuation Date | June 30, 2017 |
| Measurement Date | June 30, 2018 |
| Actuarial Cost Method | Entry-Age Normal Cost Method |
| Actuarial Assumptions: | |
| Discount Rate | 7.15% |
| Inflation | 2.75% |
| Payroll Growth | 3.0% |
| Projected Salary Increase | Varies by Entry Age and Service |
| Investment Rate of Return | 7.15% (1) |
| Mortality | Derived using CalPERS Membership Data for all Funds (2) |

(1) Net of pension plan investment expenses, including inflation.

(2) 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 CalPERS 2014 experience study report available on CalPERS' website.

Discount Rate – The discount rate used to measure the total pension liability was 7.15% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15 percent will be applied to all plans in the Public Employees' Retirement Fund (PERF). The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained from the CalPERS website under the GASB 68 section.

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 (PERF) cash flows. Using historical returns of all the Public Employees Retirement Funds' asset classes (which includes the agent plan and two cost-sharing plans or PERF A, B, and C funds), expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each PERF fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits of cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects 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. These rates of return are net of administrative expenses.

Humboldt Community Services District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

NOTE 3 - OTHER INFORMATION (continued)

C. Retirement System (concluded)

| <u>Asset Class</u> | <u>New Strategic Allocation</u> |
|---------------------|---------------------------------|
| Global Equity | 51% |
| Global Fixed Income | 20% |
| Real Assets | 12% |
| Private Equity | 10% |
| Inflation Sensitive | 6% |
| Liquidity | <u>1%</u> |
| Total | <u>100%</u> |

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the District's proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

| | <u>Miscellaneous</u> |
|-----------------------|----------------------|
| 1% Decrease | 6.15% |
| Net Pension Liability | \$4,661,457 |
| Current Discount Rate | 7.15% |
| Net Pension Liability | \$3,047,642 |
| 1% Increase | 8.15% |
| Net Pension Liability | \$1,715,464 |

Pension Plan Fiduciary Net Position - Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS' financial reports.

D. Wastewater Contract with the City of Eureka

The District is a party to a contract with the City of Eureka (the City) pertaining to the construction and operation of the City's treatment plant. The District does not have an ownership interest in the City's treatment plant, but does have treatment capacity rights. Under the arrangement, the District is obligated to pay to the City 32.1 percent of all debt service and capital improvement costs. Operations and maintenance costs are shared based upon each party's volume of flow of wastewater modified under a stipulated formula. Payments made by the District during the construction of the City's facility have been capitalized as prepaid treatment costs and are amortized to expense over the life of the contractual arrangement.

E. Segment Information

The District has issued separate revenue bonds to finance its water department. The District's water and sewer departments are accounted for in two funds, but investors in those bonds rely solely on the revenue generated by the individual activity for repayment. Summary information for each department is presented below. The water department operates the District's water supply system. The sewer department operates the District's sewerage pumping, collection, and treatment system.

Humboldt Community Services District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

NOTE 3 - OTHER INFORMATION (continued)

E. Segment Information (concluded)

CONDENSED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION:

| | Water Department | Sewer Department |
|-----------------------------------|---------------------|---------------------|
| Operating revenues (pledged) | \$ 5,111,935 | \$ 5,329,174 |
| Depreciation expense | (674,388) | (660,655) |
| Other operating expenses | (3,738,436) | (2,907,810) |
| Operating income (loss) | 699,111 | 1,760,709 |
| | | |
| Non-operating revenues (expenses) | | |
| Investment income | 25,016 | 4,212 |
| Interest expense | (43,486) | (385,021) |
| Other revenue (expense) | 42,439 | - |
| Capital contributions | 54,810 | 56,202 |
| Change in net position | \$ 777,890 | \$ 1,436,102 |

F. Other Post-Employment Benefits (OPEB)

Plan Administration - The District provides health and welfare benefit plans, including medical, dental and vision benefits. Current employees, spouses, and dependents receive District-paid medical insurance through a choice of Blue Cross HMO (CaliforniaCare), Blue Cross Advantage and Classic Preferred Provider Organizations (PPO), as well as dental and vision insurance, all offered through the Association of California Water Agencies (ACWA) Joint Powers Insurance Authority.

Benefits provided - Employees hired prior to January 1, 2009 who retire from the District after having met PERS retirement guidelines (the later of age 50 and 5 years of service) are eligible to receive lifetime District-paid medical, dental and vision benefits, subject to rules applicable to active employees. Benefits include dependent coverage, subject to a retiree contribution of \$20 per month. Surviving spouses, domestic partners, and eligible dependent children of deceased employees are entitled to continue health coverage and receive a District contribution equal to 5% of premium per full year of service with the District, to a maximum of 75% of premium.

Employees hired on or after January 1, 2009 must be regular full-time employees and be a minimum of 55 years of age and have maintained active employment with the District for a minimum of ten years (20,800 hours of service). The District pays a percentage of the retiree's premium (including dependent coverage) equal to 50% plus an additional 5% per year of service to a maximum of 100% of premium for retirees with 20 or more years of service. A surviving spouse or domestic partner may continue coverage at the same District percentage as the retiree provided the survivor has not remarried nor entered into a new domestic partnership.

Retired Directors who took office prior to January 1, 1995 are eligible for District-paid benefits according to the rules for employees hired prior to January 1, 2009, as described above. No current Directors will qualify.

Humboldt Community Services District
NOTES TO BASIC FINANCIAL STATEMENTS
 For the Year Ended June 30, 2019

NOTE 3 - OTHER INFORMATION (continued)

F. Other Post-Employment Benefits (OPEB) (continued)

Plan Membership – At July 1, 2018, membership consisted of the following:

| | |
|--|------------------|
| Active plan members | 20 |
| Inactive employees or beneficiaries currently receiving benefit payments | <u>20</u> |
| Total | <u><u>40</u></u> |

Contributions - The District currently finances benefits on a pay-as-you-go basis.

Net OPEB Liability - The District’s Net OPEB Liability was measured as of June 30, 2018, and the Total OPEB Liability used to calculate the Net OPEB Liability was determined by an actuarial valuation dated July 1, 2018 (June 30, 2018). Standard actuarial update procedures were used to project/discount from valuation to measurement dates.

Actuarial Assumptions - The total OPEB liability was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified.

| | |
|----------------------------|--|
| Salary increases | 3.00% |
| Inflation rate | 3.00% |
| Healthcare cost trend rate | 6.00% for 2018 decreasing 0.10 percent each year to an ultimate rate of 5.00 percent for 2028 and later years. |

Pre-retirement mortality rates were based on the RP-2014 Employee Mortality Table for Males or Females, as appropriate, without projection. Post-retirement mortality rates were based on the RP-2014 Health Annuitant Mortality Table for Males or Females, as appropriate, without projection.

Actuarial assumptions used in the July 1, 2018 valuation were based on a review of plan experience during the period July 1, 2016 to June 30, 2018.

Discount Rate – GASB 75 requires a discount rate that reflects the following:

- a) The long-term expected rate of return on OPEB plan investments - to the extent that the OPEB plan’s fiduciary net position (if any) is projected to be enough to make projected benefit payments and assets are expected to be invested using a strategy to achieve that return;
- b) A yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher— to the extent that the conditions in (a) are not met.

To determine a resulting single (blended) rate, the amount of the plan's projected fiduciary net position (if any) and the amount of projected benefit payments is compared in each period of projected benefit payments. The discount rate used to measure the District's Total OPEB liability is based on these requirements and the following information:

Humboldt Community Services District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

NOTE 3 - OTHER INFORMATION (continued)

F. Other Post-Employment Benefits (OPEB) (continued)

| Reporting Date | Measurement Date | Long-Term Expected return on Plan Investments (if any) | Municipal Bond 20-Year High Grade Rate Index | Discount Rate |
|----------------|------------------|--|--|---------------|
| June 30, 2018 | June 30, 2017 | 4.00% | 3.13% | 3.13% |
| June 30, 2019 | June 30, 2018 | 4.00% | 3.62% | 3.62% |

The components of the net OPEB liability were as follows:

| | |
|---|---------------------|
| Total OPEB liability | \$ 8,741,206 |
| Plan fiduciary net position | <u>-</u> |
| Net OPEB liability | <u>\$ 8,741,206</u> |
| Measurement date | June 30, 2018 |
| Reporting date | June 30, 2019 |
| Covered payroll | \$ 1,345,918 |
| Net OPEB liability (asset) as a percentage of covered payroll | 649.46% |
| Plan fiduciary net position as a percentage of the total OPEB liability | 0.00% |

Schedule of Changes in Net OPEB Liability (July 1, 2017 to June 30, 2018):

| | |
|--|----------------------|
| Total OPEB Liability | |
| Service cost | \$ 375,038 |
| Interest | 359,659 |
| Changes of benefit terms | - |
| Differences between actual and expected experience | (1,649,568) |
| Changes of assumptions | (1,659,644) |
| Benefit payments | <u>(347,274)</u> |
| Net change in total OPEB liability | <u>(2,921,789)</u> |
| Total OPEB Liability – July 1, 2017 (a) | <u>11,662,995</u> |
| Total OPEB Liability – June 30, 2018 (b) | <u>\$ 8,741,206</u> |
| Plan Fiduciary Net Position | |
| Contributions – employer ¹ | \$ 347,274 |
| Net investment income | - |
| Benefit payments ¹ | (347,274) |
| Trustee fees | - |
| Administrative expense | <u>-</u> |
| Net Change in Plan Fiduciary Net Position | <u>-</u> |
| Plan Fiduciary Net Position – July 1, 2017 (c) | <u>-</u> |
| Plan Fiduciary Net Position – June 30, 2018 (d) | <u>\$ -</u> |
| Total OPEB Liability – July 1, 2017 (c) – (a) | <u>\$ 11,662,995</u> |
| Total OPEB Liability – June 30, 2018 (d) – (b) | <u>\$ 8,741,206</u> |

¹ Amount includes implicit subsidy associated with benefits paid.

Humboldt Community Services District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

NOTE 3 - OTHER INFORMATION (continued)

F. Other Post-Employment Benefits (OPEB) (continued)

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate – The following presents the net OPEB liability, as well as what the net OPEB Liability would be if it were calculated using a discount rate that is one percentage point lower (2.62%) or one percentage point higher (4.62%) than the current discount rate:

| Plan's Net OPEB Liability/(Asset) | | |
|-----------------------------------|----------------------------------|-------------------------------|
| Discount Rate - 1% (2.62%) | Current Discount Rate (3.62%) | Discount Rate + 1% (4.62%) |
| \$ 10,031,975 | \$ 8,741,206 | \$ 7,681,309 |

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates – The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (5.00 percent decreasing to 4.00 percent) or 1-percentage-point higher (7.00 percent decreasing to 6.00 percent) than the current healthcare cost trend rates:

| Plan's Net OPEB Liability/(Asset) | | |
|--|--|--|
| Healthcare Cost | | |
| 1% Decrease (5.00% decreasing to 4.00%) | Trend Rates (6.00% decreasing to 6.00%) | 1% Increase (7.00% decreasing to 6.00%) |
| \$ 7,604,903 | \$ 8,741,206 | \$ 10,135,604 |

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2019 the District recognized OPEB expense of \$(53,210). At June 30, 2019, the District's deferred outflows of resources and deferred inflows of resources to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Differences between actual and expected experience ^{3,4} | \$ - | \$ 1,256,814 |
| Changes in assumptions or other inputs ^{3,4} | - | 1,264,491 |
| Net differences between projected and actual earnings on OPEB plan investments ^{3,4} | - | - |
| Total | \$ - ⁵ | \$ 2,521,305 |

³ Measured at June 30, 2018;

⁴ See Schedule of Deferred Outflows and Inflows of Resources for additional information;

⁵ Does not include District contributions (plus associated implicit subsidy) made after the measurement, which will be recognized as a reduction of the Net OPEB Liability in the year ending June 30, 2020.

Humboldt Community Services District
NOTES TO BASIC FINANCIAL STATEMENTS
 For the Year Ended June 30, 2019

NOTE 3 - OTHER INFORMATION (concluded)

F. Other Post-Employment Benefits (OPEB) (concluded)

Amounts reported as deferred outflows and deferred inflows of resources will be recognized in OPEB expense as follows:

| <u>Fiscal Year Ended</u> | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--------------------------|---|--|
| 6/30/20 | \$ - | \$ (787,907) |
| 6/30/21 | - | (787,907) |
| 6/30/22 | - | (787,907) |
| 6/30/23 | - | (157,584) |
| Thereafter | - | - |

NOTE 4 - SUBSEQUENT EVENT - CORONAVIRUS PANDEMIC

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) began to spread among various countries, including the United States. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, multiple jurisdictions in the U.S., including California, have declared a state of emergency and issued shelter-in-place orders in response to the outbreak. The immediate impact to the District's operations includes restrictions on employees' and volunteers' ability to work, and it is anticipated that the impacts from this pandemic will continue for some time. As of the report date, the financial impact of the coronavirus outbreak cannot be measured.

Humboldt Community Services District
SCHEDULE OF THE PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY (ASSET)
MISCELLANEOUS
 June 30, 2019

| Measurement Date, June 30 | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|--------------|--------------|--------------|--------------|--------------|
| Proportion of the net pension liability | 0.03163% | 0.03172% | 0.03194% | 0.03184% | 0.03388% |
| Proportion share of the net pension liability | \$ 3,047,642 | \$ 3,145,531 | \$ 2,763,721 | \$ 2,185,093 | \$ 2,108,429 |
| Covered - employee payroll | \$ 1,265,800 | \$ 1,208,835 | \$ 1,171,978 | \$ 1,084,415 | \$ 888,096 |
| Proportionate share of the net pension liability as percentage of covered-employee payroll | 240.77% | 260.21% | 235.82% | 201.50% | 237.41% |
| Plan fiduciary net position as a percentage of the total pension liability | 75.26% | 73.31% | 74.06% | 78.40% | 79.76% |

* Fiscal year 2014 was the 1st year of implementation.

Humboldt Community Services District
SCHEDULE OF CONTRIBUTIONS - MISCELLANEOUS
 June 30, 2019

| <u>Fiscal Year Ending June 30</u> | Miscellaneous Plan | | | | |
|--|--------------------|------------------|------------------|------------------|------------------|
| | 2019 | 2018 | 2017 | 2016 | 2015 |
| Contractually required contribution (actuarially determined) | \$ 337,870 | \$ 292,343 | \$ 262,346 | \$ 236,976 | \$ 136,802 |
| Contributions in relation to the actuarially determined contributions | <u>(337,894)</u> | <u>(292,343)</u> | <u>(262,346)</u> | <u>(236,976)</u> | <u>(136,802)</u> |
| Contribution deficiency (excess) | <u>\$ (24)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered - employee payroll | \$1,304,352 | \$1,265,800 | \$1,208,835 | \$1,171,978 | \$1,084,415 |
| Contributions as a percentage of covered-employee payroll | 25.91% | 23.10% | 21.70% | 20.22% | 12.62% |

Notes to Schedule:

Benefit Changes: There were no changes to benefit terms that applied to all members of the Public Agency Pool.
 Changes of Assumptions: There were no changes of assumptions.

* Fiscal year 2015 was the 1st year of implementation.

Humboldt Community Services District
SCHEDULE OF CHANGE IN THE NET OPEB LIABILITY AND RELATED RATIOS
For the Year Ended June 30, 2019

| Total OPEB Liability | 2019 | 2018 |
|--|------------------|-------------------|
| Service cost | \$ 375,038 | \$ 364,115 |
| Interest | 359,659 | 347,573 |
| Difference between expected and actual experience | (1,649,568) | - |
| Changes of assumptions | (1,659,644) | - |
| Benefit payments, included refunds of employee contributions | (347,274) | (304,176) |
| Implicit rate subsidy fulfilled | - | - |
| Net change in total OPEB liability | (2,921,789) | 407,512 |
| Total OPEB liability - beginning of year | 11,662,995 | 11,255,483 |
| Total OPEB liability - end of year | \$ 8,741,206 | \$ 11,662,995 |
| Plan Fiduciary Net Position | | |
| Net investment income | \$ - | \$ - |
| Contributions | | |
| Employer - explicit subsidy | 347,274 | 304,176 |
| Employer - implicit subsidy | - | - |
| Benefit payments, included refunds of employee contributions | (347,274) | (304,176) |
| Implicit rate subsidy fulfilled | - | - |
| Administrative expense | - | - |
| Net change in plan fiduciary net position | - | - |
| Plan fiduciary net position - beginning of year | - | - |
| Plan fiduciary net position - end of year | \$ - | \$ - |
| District's net OPEB liability - end of year | \$ 8,741,206 | \$ 11,662,995 |
| Plan fiduciary net position as a percentage of the total OPEB liability | 0.00% | 0.00% |
| Covered-employee payroll | \$ 1,345,918 | \$ 1,232,490 |
| Net OPEB liability as a percentage of covered-employee payroll | 649.46% | 946.30% |

The schedules present information to illustrate changes in the District's changes in the net OPEB liability over a ten-year period when the information is available.

Humboldt Community Services District
COMBINING STATEMENT OF NET POSITION
For the Year Ended June 30, 2019

| <u>ASSETS</u> | Admin & Street Lights | Water System | Sewer System | Totals |
|---|--------------------------|---------------------|---------------------|----------------------|
| Current assets: | | | | |
| Cash and investments | \$ 742,795 | \$ 3,752,746 | \$ (383,946) | \$ 4,111,595 |
| Restricted cash and investments: | | | | |
| Debt service | - | - | 64,420 | 64,420 |
| Capital projects | - | 293,794 | - | 293,794 |
| Total cash and investments | <u>742,795</u> | <u>4,046,540</u> | <u>(319,526)</u> | <u>4,469,809</u> |
| Accounts receivable | 25,603 | 370,219 | 375,365 | 771,187 |
| Assessments receivable | - | 370,748 | - | 370,748 |
| Prepaid items | 125,883 | 3,357 | 113,638 | 242,878 |
| Inventory | - | 143,352 | 47,784 | 191,136 |
| Total current assets | <u>894,281</u> | <u>4,934,216</u> | <u>217,261</u> | <u>6,045,758</u> |
| Capital assets: | | | | |
| Non-depreciable assets | - | 1,160,467 | 294,411 | 1,454,878 |
| Depreciable assets (net of depreciation) | - | 10,777,283 | 18,383,422 | 29,160,705 |
| Total assets | <u>894,281</u> | <u>16,871,966</u> | <u>18,895,094</u> | <u>36,661,341</u> |
| <u>DEFERRED OUTFLOWS</u> | | | | |
| Deferred outflows related to pensions | - | 474,416 | 357,892 | 832,308 |
| <u>LIABILITIES AND NET POSITION</u> | | | | |
| Current liabilities: | | | | |
| Accounts payable | 46,183 | 253,057 | 41,925 | 341,165 |
| Compensated absences | 217,422 | - | - | 217,422 |
| Customer deposits | 122,419 | - | - | 122,419 |
| Accrued expenses | 38,067 | 19,317 | 68,324 | 125,708 |
| Total current liabilities | <u>424,091</u> | <u>272,374</u> | <u>110,249</u> | <u>806,714</u> |
| Long-term liabilities: | | | | |
| Due within one year | - | 325,099 | 374,842 | 699,941 |
| Due in more than one year | - | 858,691 | 9,400,183 | 10,258,874 |
| Net OPEB liability | - | 4,982,487 | 3,758,719 | 8,741,206 |
| Net pension liability due in more than one year | - | 1,737,156 | 1,310,486 | 3,047,642 |
| Total long-term liabilities | <u>-</u> | <u>7,903,433</u> | <u>14,844,230</u> | <u>22,747,663</u> |
| Total liabilities | <u>424,091</u> | <u>8,175,807</u> | <u>14,954,479</u> | <u>23,554,377</u> |
| <u>DEFERRED INFLOWS</u> | | | | |
| Deferred inflows related to OPEB | - | 1,437,144 | 1,084,161 | 2,521,305 |
| Deferred inflows related to pensions | - | 139,567 | 105,288 | 244,855 |
| Total deferred inflows | <u>-</u> | <u>1,576,711</u> | <u>1,189,449</u> | <u>2,766,160</u> |
| Net position: | | | | |
| Invested in capital assets, net of related debt | - | 10,753,960 | 8,902,808 | 19,656,768 |
| Restricted | - | 293,794 | 64,420 | 358,214 |
| Unrestricted | 470,190 | (3,453,890) | (5,858,170) | (8,841,870) |
| Total net position | <u>\$ 470,190</u> | <u>\$ 7,593,864</u> | <u>\$ 3,109,058</u> | <u>\$ 11,173,112</u> |

The accompanying notes are an integral part of these financial statements.

Humboldt Community Services District
COMBINING SCHEDULE OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
For the Year Ended June 30, 2019

| | Water System | Sewer System | Admin & Street Lights | Totals |
|--|---------------------|---------------------|--------------------------|----------------------|
| Operating revenues: | | | | |
| Water sales | \$ 5,111,935 | \$ - | \$ - | \$ 5,111,935 |
| Sewer service fees | - | 5,311,629 | - | 5,311,629 |
| Other operating | - | 17,545 | - | 17,545 |
| | <u>5,111,935</u> | <u>5,329,174</u> | <u>-</u> | <u>10,441,109</u> |
| Total operating revenues | | | | |
| Operating expenses: | | | | |
| Salaries and benefits | 1,313,917 | 1,071,664 | - | 2,385,581 |
| General and administration | 194,568 | 194,568 | 3,663 | 392,799 |
| Joint treatment costs | - | 1,364,555 | - | 1,364,555 |
| Purchases power | 172,216 | 55,776 | 70,184 | 298,176 |
| Water purchases | 1,680,808 | - | - | 1,680,808 |
| Repairs and maintenance | 111,678 | 66,563 | - | 178,241 |
| Supplies | 165,631 | 74,608 | - | 240,239 |
| Other expenses | 99,618 | 80,076 | - | 179,694 |
| Depreciation | 674,388 | 660,655 | - | 1,335,043 |
| | <u>4,412,824</u> | <u>3,568,465</u> | <u>73,847</u> | <u>8,055,136</u> |
| Total operating expenses | | | | |
| Operating income (loss) | <u>699,111</u> | <u>1,760,709</u> | <u>(73,847)</u> | <u>2,385,973</u> |
| Non-operating revenues (expenses): | | | | |
| Interest revenue | 25,016 | 4,212 | 9,572 | 38,800 |
| Interest expense | (43,486) | (385,021) | - | (428,507) |
| Taxes and assessments | 21,097 | - | 372,576 | 393,673 |
| Other income | 21,342 | - | 13,670 | 35,012 |
| | <u>23,969</u> | <u>(380,809)</u> | <u>395,818</u> | <u>38,978</u> |
| Total non-operating revenues (expenses) | | | | |
| Income (loss) before transfers | <u>723,080</u> | <u>1,379,900</u> | <u>321,971</u> | <u>2,424,951</u> |
| Transfers in | - | - | - | - |
| Transfers out | - | - | - | - |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Income (loss) before capital contributions | 723,080 | 1,379,900 | 321,971 | 2,424,951 |
| Capital Contributions and connection fees | <u>54,810</u> | <u>56,202</u> | <u>-</u> | <u>111,012</u> |
| Changes in net position | 777,890 | 1,436,102 | 321,971 | 2,535,963 |
| Net position, beginning of period | <u>6,815,974</u> | <u>1,672,956</u> | <u>148,219</u> | <u>8,637,149</u> |
| Net position, end of period | <u>\$ 7,593,864</u> | <u>\$ 3,109,058</u> | <u>\$ 470,190</u> | <u>\$ 11,173,112</u> |

Humboldt Community Services District
WATER DEPARTMENT
COMBINING SCHEDULE OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
For the Year Ended June 30, 2019

| | Original Water System | Humboldt Hill Water System | Mitchell Road Water System | Totals |
|--|-----------------------------|----------------------------------|----------------------------------|-------------------|
| Operating revenues: | | | | |
| Water sales | \$ 3,712,420 | \$ 955,684 | \$ 443,831 | \$ 5,111,935 |
| Total operating revenues | <u>3,712,420</u> | <u>955,684</u> | <u>443,831</u> | <u>5,111,935</u> |
| Operating expenses: | | | | |
| Salaries and benefits | 1,054,309 | 174,127 | 85,481 | 1,313,917 |
| General and administration | 140,089 | 42,805 | 11,674 | 194,568 |
| Purchases power | 63,254 | 99,455 | 9,507 | 172,216 |
| Water purchases | 1,142,950 | 420,202 | 117,656 | 1,680,808 |
| Repairs and maintenance | 75,373 | 28,479 | 7,826 | 111,678 |
| Supplies | 105,028 | 47,630 | 12,973 | 165,631 |
| Other expenses | 57,677 | 34,272 | 7,669 | 99,618 |
| Depreciation | 368,730 | 175,948 | 129,710 | 674,388 |
| Total operating expenses | <u>3,007,410</u> | <u>1,022,918</u> | <u>382,496</u> | <u>4,412,824</u> |
| Operating income (loss) | <u>705,010</u> | <u>(67,234)</u> | <u>61,335</u> | <u>699,111</u> |
| Non-operating revenues (expenses): | | | | |
| Interest revenue | 13,169 | 4,853 | 6,994 | 25,016 |
| Interest expense | (12,066) | (4,130) | (27,290) | (43,486) |
| Other income (expense) | 14,229 | 5,617 | 1,496 | 21,342 |
| Taxes and assessments | - | - | 21,097 | 21,097 |
| Total non-operating revenues (expenses) | <u>15,332</u> | <u>6,340</u> | <u>2,297</u> | <u>23,969</u> |
| Income (loss) before transfers | <u>720,342</u> | <u>(60,894)</u> | <u>63,632</u> | <u>723,080</u> |
| Transfers in | - | - | - | - |
| Transfers out | - | - | - | - |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Income (loss) before capital contributions | 720,342 | (60,894) | 63,632 | 723,080 |
| Capital contributions and connection fees | <u>42,630</u> | <u>12,180</u> | <u>-</u> | <u>54,810</u> |
| Changes in net position | <u>\$ 762,972</u> | <u>\$ (48,714)</u> | <u>\$ 63,632</u> | <u>\$ 777,890</u> |

Humboldt Community Services District
SEWER DEPARTMENT
COMBINING SCHEDULE OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
For the Year Ended June 30, 2019

| | General Sewer System | Humboldt Hill Sewer System | Totals |
|--|----------------------------|----------------------------------|---------------------|
| Operating revenues: | | | |
| Sewer service fees | \$ 4,141,780 | \$ 1,169,849 | \$ 5,311,629 |
| Other | 11,982 | 5,563 | 17,545 |
| Total operating revenues | <u>4,153,762</u> | <u>1,175,412</u> | <u>5,329,174</u> |
| Operating expenses: | | | |
| Salaries and benefits | 824,055 | 247,609 | 1,071,664 |
| General and administration | 151,763 | 42,805 | 194,568 |
| Joint treatment costs | 1,075,455 | 289,100 | 1,364,555 |
| Purchases power | 41,508 | 14,268 | 55,776 |
| Repairs and maintenance | 48,636 | 17,927 | 66,563 |
| Supplies | 53,468 | 21,140 | 74,608 |
| Other expenses | 58,635 | 21,441 | 80,076 |
| Depreciation | 556,822 | 103,833 | 660,655 |
| Total operating expenses | <u>2,810,342</u> | <u>758,123</u> | <u>3,568,465</u> |
| Operating income (loss) | <u>1,343,420</u> | <u>417,289</u> | <u>1,760,709</u> |
| Non-operating revenues (expenses): | | | |
| Interest revenue | 3,073 | 1,139 | 4,212 |
| Interest expense | (277,215) | (107,806) | (385,021) |
| Total non-operating revenues (expenses) | <u>(274,142)</u> | <u>(106,667)</u> | <u>(380,809)</u> |
| Income (loss) before transfers | <u>1,069,278</u> | <u>310,622</u> | <u>1,379,900</u> |
| Transfers in | - | - | - |
| Transfers out | - | - | - |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>-</u> |
| Income (loss) before capital contributions | 1,069,278 | 310,622 | 1,379,900 |
| Capital contributions and connection fees | 44,370 | 11,832 | 56,202 |
| Changes in net position | <u>\$ 1,113,648</u> | <u>\$ 322,454</u> | <u>\$ 1,436,102</u> |

Humboldt Community Services District
SCHEDULE OF ALLOCATED GENERAL AND ADMINISTRATIVE EXPENSES
 For the Year Ended June 30, 2019

| | |
|--|---------------------|
| Allocated general and administrative expenses: | |
| Insurance | \$ 58,055 |
| Purchases power | 54,429 |
| Repairs and maintenance | 42,388 |
| Supplies | 13,280 |
| Other expenses | <u>220,984</u> |
| Subtotal for allocated general and administrative expenses | 389,136 |
| Allocated to salaries and benefits | <u>1,312,625</u> |
| Total | <u>\$ 1,701,761</u> |

General and administrative expenses were allocated to the following departments:

| | |
|--------------------------|-------------------|
| General water | \$ 140,089 |
| Humboldt Hill Water | 42,805 |
| Freshwater/Mitchell Road | 11,674 |
| General sewer | 151,763 |
| Humboldt Hill sewer | <u>42,805</u> |
| Total | <u>\$ 389,136</u> |

Salaries and benefits breakdown:

| | |
|---------------------------------|---------------------|
| Salaries and wages | \$ 264,919 |
| Vacation, sick, and holiday pay | 69,302 |
| Group insurance | 691,245 |
| Other benefits | <u>287,159</u> |
| Total | <u>\$ 1,312,625</u> |

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
Humboldt Community Services District
Eureka, California

We have audited the basic financial statements, as listed in the table of contents, of Humboldt Community Services District as of and for the year ended June 30, 2019, and have issued our report thereon dated May 20, 2020. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control 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 Humboldt Community Services District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters that we reported to management of Humboldt Community Services District in a separate letter.

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

R.J. Ricciardi, Inc.

R.J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
May 20, 2020