

**HUMBOLDT COMMUNITY
SERVICES DISTRICT**

EUREKA, CALIFORNIA

BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

TABLE OF CONTENTS

	<u>PAGE</u>
FINANCIAL SECTION:	
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-7
Basic Financial Statements:	
Statement of Net Position	8
Statement of Revenues, Expenses, and Changes in Fund Net Position	9
Statement of Cash Flows	10
Notes to Basic Financial Statements	11-31
REQUIRED SUPPLEMENTARY INFORMATION:	
Schedule of the Proportionate Share of Net Pension Liability (Asset)	32
Schedule of Contributions	33
Schedule of Change in the Net OPEB Liability and Related Ratios	34
OTHER SUPPLEMENTARY INFORMATION:	
Combining Statement of Net Position	35
Combining Schedule of Revenues, Expenses, and Changes in Fund Net Position	36
Combining Schedule of Revenues, Expenses, and Changes in Fund Net Position - Water Department	37
Combining Schedule of Revenues, Expenses, and Changes in Fund Net Position - Sewer Department	38
Schedule of Allocated General and Administrative Expenses	39
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	40-41

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, 2018, 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, 2018, 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 3-7), 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 29, 2019, 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 29, 2019

Humboldt Community Services District
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018

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, 2018. 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, 2018 by \$8,637,149. Of this amount, \$(10,408,141) (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 decreased by \$9,235,848 in FY June 30, 2018. The unrestricted net position decreased by \$9,641,464, primarily due to the implementation of GASB 75, as discussed below.
- The District's total assets increased by \$795,083 in FY June 30, 2018 due to capital additions.
- The District's long-term debt increased by \$9,192,989 due to the increase in other post-employment benefits due to implementation of GASB 75 as discussed below, and a new equipment loan.
- During the year the District's operating revenues increased \$1,461,016 or 21%, while operating expenses increased \$1,198,635 or 15.74%.
- Implementation of Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions (OPEB) resulted in a prior period adjustment decreasing total beginning net position by \$9,063,791 while at the same time increasing the beginning OPEB liability by the same amount.
- The District provides generous retiree health benefits, with retirees receiving from 50 to 100 percent of their health insurance, depending upon the date employment began and length of service. Under GASB 45, the liability was recognized within a footnote of the financial statements, with only a portion of the total liability recorded as a liability. GASB 75 replaces GASB 45 and affects years beginning after June 15, 2017. GASB 75 requires the entire liability to be reported on the financial statements rather than a portion.

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's 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.

Humboldt Community Services District
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018

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.

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, 2018 and June 30, 2017.

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 6% 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.

Humboldt Community Services District
MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2018

The following table summarizes the District's net position as of June 30:

Table 1
Business-type Net Position

	2018	2017
Assets:		
Current and other assets	\$ 5,763,391	\$ 5,749,072
Capital assets, net of accumulated depreciation	<u>30,297,127</u>	<u>29,516,363</u>
Total assets	<u>36,060,518</u>	<u>35,265,435</u>
Deferred outflows	<u>923,652</u>	<u>755,217</u>
Liabilities:		
Other liabilities	1,649,921	570,688
Long-term debt outstanding	<u>26,449,009</u>	<u>17,256,020</u>
Total liabilities	<u>28,098,930</u>	<u>17,826,708</u>
Deferred inflows	<u>248,091</u>	<u>320,947</u>
Net Position:		
Invested in capital assets, net of related debt	18,656,644	18,277,940
Restricted	388,646	361,734
Unrestricted	<u>(10,408,141)</u>	<u>(766,677)</u>
Total net position	<u>\$ 8,637,149</u>	<u>\$ 17,872,997</u>

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 \$1,461,016 in 2018 as compared to 2017. Other Non-Operating Revenue decreased because of a decrease in property taxes and assessment revenues.

Expenses – Operating expenses increased \$1,198,635. Non-operating expenses decreased by \$28,306. Increases include:

• Joint Operating Treatment Costs	\$420,647
• Salaries & Benefits (primarily benefit increases, including PERS & OPEB)	\$471,392
• Purchased Water	\$ 74,970
• Supplies & Noncapitalized CIPs	\$101,495
• Depreciation	\$ 51,791

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

Table 2
Changes in Net Position

	2018	2017	Change
Operating revenues	\$ 8,547,033	\$ 7,086,017	\$ 1,461,016
Operating expenses	<u>8,815,227</u>	<u>7,616,592</u>	<u>(1,198,635)</u>
Net operating income (loss)	<u>\$ (268,194)</u>	<u>\$ (530,575)</u>	<u>\$ 262,381</u>
Investment and other income	\$ 450,801	\$ 501,749	\$ (50,948)
Interest and other expenses	<u>452,266</u>	<u>480,572</u>	<u>28,306</u>
Non-operating net income	<u>\$ (1,465)</u>	<u>\$ 21,177</u>	<u>\$ (22,642)</u>

Humboldt Community Services District
MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2018

CAPITAL ASSETS AND DEBT ADMINISTRATION

Table 3
Capital Assets at Year End

	2018	2017
Land	\$ 685,868	\$ 685,869
Buildings and improvements	1,009,028	1,009,029
Water Plant and System	23,337,755	23,210,692
Sewer Collection System	25,296,173	23,422,145
Vehicles and equipment	3,110,584	3,128,578
Construction in progress	362,534	280,672
Subtotal	53,801,942	51,736,985
Accumulated depreciation	(23,504,815)	(22,220,623)
Net capital assets	\$ 30,297,127	\$ 29,516,362

Capital Assets - At June 30, 2018, the District had \$30,297,127 (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.

Long-Term Debt - At year end, the District had \$11,640,483 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 2018/2019 budget. The Board assessed the available reserves, the operating and capital needs of the District, potential customer growth, and potential regulatory impacts. The Budgeted was amended on February 12, 2019.

The adopted fiscal year 2018/19 budget includes a 2.8% cost of living increase for employees and forecasts a 14% increase in health insurance. It also anticipates an 8.4% increase in sewer treatment costs. Purchased water costs from Humboldt Bay Municipal Water District and the City of Eureka are projected to increase 15.8% and 13.5% respectively.

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 10% for water and 7% for sewer for fiscal year 2018-19.

The District does not include depreciation expense in its cash basis budget. The District's cash basis budget includes a capital improvement budget of \$1,044,523 for FY 18/19, which will be funded by cash reserves. The budget also includes \$828,597 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 \$17,083,075. Annual principal and interest payments on these obligations are expected to require less than the net revenues as defined.

Humboldt Community Services District
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018

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, 2018

ASSETS

Current assets:	
Cash and investments	\$ 3,801,819
Restricted cash and investments:	
Debt service	62,522
Capital projects	326,124
Total cash and investments	<u>4,190,465</u>
Accounts receivable	608,884
Assessments receivable	487,695
Prepaid items	279,603
Inventory	196,744
Total current assets	<u>5,763,391</u>
Capital assets:	
Non-depreciable assets	809,371
Depreciable assets (net of depreciation)	<u>29,487,756</u>
Total assets	<u>36,060,518</u>

DEFERRED OUTFLOWS

Deferred outflows related to pensions	<u>923,652</u>
---------------------------------------	----------------

LIABILITIES AND NET POSITION

Current liabilities:	
Accounts payable	1,237,246
Compensated absences	184,259
Customer deposits	105,538
Accrued expenses	122,878
Total current liabilities	<u>1,649,921</u>
Long-term liabilities:	
Due within one year	678,060
Due in more than one year	10,962,423
Net OPEB liability	11,662,995
Net pension liability due in more than one year	<u>3,145,531</u>
Total long-term liabilities	<u>26,449,009</u>
Total liabilities	<u>28,098,930</u>

DEFERRED INFLOWS

Deferred inflows related to pensions	<u>248,091</u>
--------------------------------------	----------------

Net position:	
Invested in capital assets, net of related debt	18,656,644
Restricted	388,646
Unrestricted	<u>(10,408,141)</u>
Total net position	<u>\$ 8,637,149</u>

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, 2018

Operating revenues:	
Water sales	\$ 4,593,715
Sewer service fees	3,961,429
Other operating	(8,111)
Total operating revenues	<u>8,547,033</u>
Operating expenses:	
Salaries and benefits	3,257,311
General and administration	330,261
Joint treatment costs	1,554,051
Purchases power	280,601
Water purchases	1,349,554
Repairs and maintenance	196,210
Supplies	350,124
Other expenses	151,253
Depreciation	<u>1,345,862</u>
Total operating expenses	<u>8,815,227</u>
Operating income (loss)	<u>(268,194)</u>
Non-operating revenues (expenses):	
Interest revenue	49,305
Interest expense	(452,266)
Taxes and assessments	380,706
Other income	<u>20,790</u>
Total non-operating revenues (expenses)	<u>(1,465)</u>
Income (loss) before transfers	<u>(269,659)</u>
Transfers in	-
Transfers out	-
Total other financing sources (uses)	<u>-</u>
Income (loss) before capital contributions	(269,659)
Capital contributions and connection fees	<u>97,607</u>
Changes in net position	<u>(172,052)</u>
Net position, beginning of period	17,872,992
Prior period adjustment	<u>(9,063,791)</u>
Net position, beginning of period restated	<u>8,809,201</u>
Net position, end of period	<u><u>\$ 8,637,149</u></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, 2018

Cash flows from operating activities:	
Receipts from customers	\$ 8,388,345
Payments to suppliers	(412,824)
Payments to employees	<u>(3,104,167)</u>
Net cash provided (used) by operating activities	<u>4,871,354</u>
Cash flows from non-capital financing activities:	
Taxes and assessments	505,648
Other revenue (expense)	<u>20,790</u>
Net cash provided (used) by non-capital financing activities	<u>526,438</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(2,126,631)
Interest expense	(452,266)
Capital connection fees received	97,607
Payment on current portion of bonds	<u>(2,851,816)</u>
Net cash provided (used) by capital and related financing activities	<u>(5,333,106)</u>
Cash flows from investing activities:	
Interest earned	<u>49,305</u>
Net cash provided by investing activities	<u>49,305</u>
Net increase (decrease) in cash and cash equivalents	113,991
Cash and cash equivalents - beginning of period	<u>4,076,474</u>
Cash and cash equivalents - end of period	<u>\$ 4,190,465</u>
Reconciliation of operating income (loss) to net cash provided (used in) operating activities:	
Operating income (loss)	\$ (268,194)
Prior period adjustment	(9,063,791)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	1,345,862
Changes in certain assets and liabilities:	
Accounts receivable	(158,688)
Prepaid items	20,211
Inventory	113,207
Accounts payable	1,052,495
Accrued expenses	(10,286)
Deferred outflows	(168,435)
Deferred inflows	(72,856)
Net pension liability	381,810
Net OPEB liability	11,662,995
Compensated absences	22,911
Customer deposits	<u>14,113</u>
Net cash provided (used) by operating activities	<u>\$ 4,871,354</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, 2018

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. The District is also an AB 8 District and receives property tax revenues and accounts for them in a separate administrative enterprise fund. 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.

Humboldt Community Services District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

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, 2018

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, 2018

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, 2018 was \$184,259. 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, 2018

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:

	2018	2017
Cash:		
Demand accounts	\$ 1,718,063	\$ 1,117,599
County pool	2,083,756	2,597,141
Total cash	\$ 3,801,819	\$ 3,714,740
	2018	2017
Restricted cash:		
County pool	\$ 388,646	\$ 361,734
Total restricted cash	\$ 388,646	\$ 361,734

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, 2018

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, 2018:

<u>Investment Type</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Exempt</u>	<u>Total</u>
Demand Accounts	\$ -	\$ -	\$ 1,718,063	\$ 1,718,063
Humboldt Co. Treasurer's Investment Pool	-	<u>2,472,402</u>	-	<u>2,472,402</u>
Total Investments	<u>\$ -</u>	<u>\$ 2,472,402</u>	<u>\$ 1,718,063</u>	<u>\$ 4,190,465</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, 2018 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	1,718,063
Humboldt County Treasurer's Investment Pool	<u>2,472,402</u>
Total cash and investments	<u>\$ 4,190,465</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, 2018

NOTE 2 - DETAILED NOTES (continued)

B. Capital Assets

Capital asset activity for the year ended June 30, 2018 was as follows:

<u>Business-type Activities - Water</u>	<u>Balance</u> <u>6/30/17</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>6/30/18</u>
Capital assets, not being depreciated:				
Land	\$ 391,458	\$ -	\$ -	\$ 391,458
Construction in progress	<u>23,845</u>	<u>101,605</u>	<u>1,948</u>	<u>123,502</u>
Total capital assets, not being depreciated	<u>415,303</u>	<u>101,605</u>	<u>1,948</u>	<u>514,960</u>
Capital assets, being depreciated:				
General buildings and structures	575,146	-	-	575,146
Water plant and distribution system	23,210,692	127,063	-	23,337,755
Vehicles	1,183,925	-	21,769	1,162,156
Equipment	<u>654,355</u>	<u>11,513</u>	<u>-</u>	<u>665,868</u>
Total capital assets, being depreciated	<u>25,624,118</u>	<u>138,576</u>	<u>21,769</u>	<u>25,740,925</u>
Less accumulated depreciation for:				
General buildings and structures	(323,197)	(12,550)	-	(335,747)
Water plant and distribution system	(12,277,991)	(558,215)	-	(12,836,206)
Vehicles	(625,184)	(99,118)	(35,152)	(689,150)
Equipment	<u>(546,504)</u>	<u>(22,468)</u>	<u>-</u>	<u>(568,972)</u>
Total accumulated depreciation	<u>(13,772,876)</u>	<u>(692,351)</u>	<u>(35,152)</u>	<u>(14,430,075)</u>
Total capital assets being depreciated – net	<u>11,851,242</u>	<u>(553,775)</u>	<u>(13,383)</u>	<u>11,310,850</u>
Capital assets – net	<u>\$ 12,266,545</u>	<u>\$ (452,170)</u>	<u>\$ (11,435)</u>	<u>\$ 11,825,810</u>

Humboldt Community Services District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 2 - DETAILED NOTES (continued)

B. Capital Assets (concluded)

<u>Business-type Activities - Sewer</u>	Balance 6/30/17	Increase	Decrease	Balance 6/30/18
Capital assets, not being depreciated:				
Land	\$ 294,410	\$ -	\$ -	\$ 294,410
Construction in progress	<u>256,827</u>	<u>36,299</u>	<u>54,096</u>	<u>239,030</u>
Total capital assets, not being depreciated	<u>551,237</u>	<u>36,299</u>	<u>54,096</u>	<u>533,440</u>
Capital assets, being depreciated:				
General buildings and structures	433,882	-	-	433,882
Sewer collection system	23,422,145	1,874,028	-	25,296,173
Vehicles	766,352	-	16,423	749,930
Equipment	<u>523,946</u>	<u>8,685</u>	<u>-</u>	<u>532,631</u>
Total capital assets, being depreciated	<u>25,146,325</u>	<u>1,882,713</u>	<u>16,423</u>	<u>27,012,616</u>
Less accumulated depreciation for:				
General buildings and structures	(262,237)	(11,143)	-	(273,380)
Sewer collection system	(7,278,290)	(562,840)	-	(7,841,130)
Vehicles	(466,085)	(62,095)	(26,518)	(501,662)
Equipment	<u>(441,135)</u>	<u>(17,433)</u>	<u>-</u>	<u>(458,568)</u>
Total accumulated depreciation	<u>(8,447,747)</u>	<u>(631,330)</u>	<u>(26,518)</u>	<u>(9,074,740)</u>
Total capital assets being depreciated – net	<u>16,698,578</u>	<u>1,251,383</u>	<u>(10,095)</u>	<u>17,937,876</u>
Capital assets – net	<u>\$ 17,249,815</u>	<u>\$ 1,287,682</u>	<u>\$ 44,001</u>	<u>\$ 18,471,316</u>

C. Long-Term Debt

Long-term debt activity for the year ended June 30, 2018 was as follows:

<u>Business-Type Activity</u>	Beginning Balance	Additions	Deletions	Ending Balance	Amount Due in One Year
State water loan	\$ 1,033,324	\$ -	\$ 145,377	\$ 887,947	\$ 150,086
State loan	47,644	-	4,787	42,857	4,907
2014 PG&E loan	1,066	-	1,066	-	-
2012 loan & installments	2,749,479	-	258,027	2,491,452	264,439
2014 WW Revenue Bonds	8,075,000	-	180,000	7,895,000	185,000
2014 WW Revenue Bonds premium, net	95,110	650	-	95,760	-
Van Con loan	298,984	-	71,517	227,467	73,628
Other post-employment benefits	<u>2,191,692</u>	<u>9,471,303</u>	<u>-</u>	<u>11,662,995</u>	<u>-</u>
Total	<u>\$ 14,492,299</u>	<u>\$ 9,471,953</u>	<u>\$ 660,774</u>	<u>\$ 23,303,478</u>	<u>\$ 678,060</u>

Humboldt Community Services District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

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 Sewer Intercept 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
2019	\$ 97,564	\$ 80,036	\$ 177,600
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	83,116	1,830	84,946
Total	\$ 1,904,324	\$ 667,022	\$ 2,571,346

Loan #3			
Year End June 30	Principal	Interest	Total
2019	\$ 124,203	\$ 11,397	\$ 135,600
2020	128,273	7,327	135,600
2021	128,995	3,125	132,120
Total	\$ 381,471	\$ 21,849	\$ 403,320

Humboldt Community Services District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 2 - DETAILED NOTES (continued)

C. Long-Term Debt (continued)

Year End June 30	Loan #4		
	Principal	Interest	Total
2019	\$ 42,672	\$ 6,828	\$ 49,500
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	\$ 205,658	\$ 18,508	\$ 224,166

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>
2019	\$ 150,086	\$ 27,343	\$ 177,429
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	\$ 887,947	\$ 87,911	\$ 975,858

Humboldt Community Services District
NOTES TO BASIC FINANCIAL STATEMENTS
 For the Year Ended June 30, 2018

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>
2019	\$ 4,906	\$ 1,071	\$ 5,977
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>\$ 42,858</u>	<u>\$ 4,956</u>	<u>\$ 47,814</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 Intereceptor 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, 2018

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>
2019	\$ 185,000	\$ 300,576	\$ 485,576
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>\$ 7,895,000</u>	<u>\$ 4,724,548</u>	<u>\$ 12,619,548</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>
2019	\$ 73,628	\$ 6,713	\$ 80,341
2020	75,801	4,540	80,341
2021	<u>78,038</u>	<u>2,303</u>	<u>80,341</u>
Totals	<u>\$ 227,467</u>	<u>\$ 13,556</u>	<u>\$ 241,023</u>

Humboldt Community Services District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

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 2018 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, 2018.

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 Interceptor construction 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, 2018

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, 2018, 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, 2018, the contributions recognized as part of pension expense for each Plan were as follows:

	Miscellaneous
Contributions - employer	\$262,346

As of June 30, 2018, 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	\$ 3,145,531

Humboldt Community Services District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

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, 2017, 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, 2016 rolled forward to June 30, 2017 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, 2016 and 2017 was as follows:

	Miscellaneous
Proportion - June 30, 2016	.032%
Proportion - June 30, 2017	.032%
Change – Increase (Decrease)	.000%

For the year ended June 30, 2017, the District recognized pension expense of \$227,766. At June 30, 2018, 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	\$ 292,343	\$ -
Differences between actual and expected experience	3,894	55,787
Changes in assumptions	483,140	36,840
Net differences between projected and actual earnings on plan investments	109,266	-
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	35,009	155,464
Total	\$ 923,652	\$ 248,091

\$292,243 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, 2019. 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>		
2019		\$ 19,099
2020		270,913
2021		158,080
2022		(64,873)
Thereafter		-

Actuarial Assumptions - The total pension liabilities in the June 30, 2016 actuarial valuations were determined using the following actuarial assumptions:

Humboldt Community Services District
NOTES TO BASIC FINANCIAL STATEMENTS
 For the Year Ended June 30, 2018

NOTE 3 - OTHER INFORMATION (continued)

C. Retirement System (continued)

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
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.

Change of Assumptions - In 2017, the accounting discount rate was reduced from 7.65% to 7.15%.

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 that can be obtained from the CalPERS website.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB Statement Nos. 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as they have changed their methodology.

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund.

Humboldt Community Services District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 3 - OTHER INFORMATION (continued)

C. Retirement System (concluded)

The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects 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.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1-10</u>	<u>Real Return Years 11+</u>
Global Equity	47%	4.90%	5.38%
Global Fixed Income	19%	0.80	2.27%
Inflation Sensitive	6%	0.60	1.39%
Private Equity	12%	6.60	6.63%
Real Estate	11%	2.80	5.21%
Infrastructure and Forestland	3%	3.90	5.36%
Liquidity	<u>2%</u>	(0.40)	(0.90)%
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	\$4,738,099
Current Discount Rate	7.15%
Net Pension Liability	\$3,145,531
1% Increase	8.15%
Net Pension Liability	\$1,826,538

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.

Humboldt Community Services District
NOTES TO BASIC FINANCIAL STATEMENTS
 For the Year Ended June 30, 2018

NOTE 3 - OTHER INFORMATION (continued)

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.

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

	Water Department	Sewer Department
Operating revenues (pledged)	\$ 4,593,715	\$ 3,953,318
Depreciation expense	(692,351)	(653,511)
Other operating expenses	(4,001,054)	(3,396,706)
Operating income (loss)	(99,690)	(96,899)
Non-operating revenues (expenses)		
Investment income	27,481	21,824
Interest expense	(53,426)	(398,840)
Other revenue (expense)	7,750	-
Capital contributions	35,562	62,045
Change in net position	\$ (82,323)	\$ (411,870)

F. Other Post-Employment Benefits (OPEB)

Plan Description

The District administers its retired employees' healthcare plan, a single employer defined benefit health care plan. The plan provides medical benefits to eligible retired employees and their beneficiaries. District resolutions and agreements assign the authority to establish and amend benefit provisions to the District.

Funding Policy

The plan members' and the District's contribution requirements are established and may be amended by the District. The required contribution is based on projected pay-as-you-go financing requirements, with additional amounts to prefund benefits as determined annually by the Board of Directors.

Membership of the District as of the valuation date consisted of the following:

Active plan members	18
Inactive employees or beneficiaries currently receiving benefit payments	21
Total	39

Contribution

As of June 30, 2017, the District has accumulated \$-0- in an irrevocable trust toward this liability.

Humboldt Community Services District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 3 - OTHER INFORMATION (continued)

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

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 June 30, 2017.

Actuarial Assumptions

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified.

Discount rate	3.13%
Inflation	3.00%
Aggregate salary increases (individual salary increases based on CalPERS)	3.00%
Investment rate of return	3.13%
Mortality rates	Based on Muni 20 Year Rate Index
Healthcare cost trend rate	6.00% in the first 1 year, trending up to 5.0% over later years.

Discount Rate

The cash flows of the OPEB plan were projected to future years, assuming that the District will contribute an amount so that the assets always exceed expected benefits to retirees. Under that projection, the plan assets are projected to be adequate to pay all benefits to retirees in all future years, so the discount rate has been set equal to the long-term expected rate of return on investments, 3.13%.

The long-term expected rate of return on OPEB investments was determined using Muni 20 Year Rate Index expected long-term mean rate of return.

Change in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability/(Asset) (c) = (a) - (b)
Values at June 30, 2017	\$ 11,255,483	\$ -	\$ 11,255,483
Service cost	364,115	-	364,115
Interest	347,573	-	347,573
Benefit payments, including refunds	(304,176)	-	(304,176)
Implicit rate subsidy fulfilled	-	-	-
Net change	<u>407,512</u>	<u>-</u>	<u>407,512</u>
Values at June 30, 2018	<u>\$ 11,662,995</u>	<u>\$ -</u>	<u>\$ 11,662,995</u>

Humboldt Community Services District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

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 net OPEB Liability of the District, as well as what the District's net OPEB Liability would be if it were calculated using a discount rate that is one percentage point lower (2.13%) or one percentage point higher (4.13%) follows:

Plan's Net OPEB Liability/(Asset)		
Discount Rate - 1% (2.13%)	Current Discount Rate (3.13%)	Discount Rate + 1% (4.13%)
\$ 1,795,319	\$ 1,562,576	\$ 1,369,733

The following presents the Net OPEB Liability (NOL) as well as what the NOL would be if it were calculated using healthcare cost trend rates that are 1-percentage-point higher or lower than the current healthcare cost trend rates, as of June 30, 2017.

Plan's Net OPEB Liability/(Asset)		
Healthcare Cost		
1% Decrease 4.0% to 5.0%	Trend Rates 5.0% to 6.0%	1% Increase 6.0% to 7.0%
\$ 1,390,067	\$ 1,562,576	\$ 1,771,080

OPEB Expense and Deferred Inflows of Resources Related to OPEB

For the fiscal year ended June 30, 2018, the District recognized OPEB expense of \$127,424. At June 30, 2017, the District reported deferred inflows of resources from OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	\$ -	\$ -
Differences between actual and expected experience	-	-
Changes in assumptions	-	-
Net differences between projected and actual earnings on OPEB plan investments	-	-
Total	\$ -	\$ -

\$0 reported as deferred outflows of resources related to contributions subsequent to measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019.

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

Humboldt Community Services District
NOTES TO BASIC FINANCIAL STATEMENTS
 For the Year Ended June 30, 2018

NOTE 3 - OTHER INFORMATION (concluded)

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

Fiscal Year Ended

6/30/19	\$	-
6/30/20		-
6/30/21		-
6/30/22		-
Thereafter		-

Additional information relating to the District's Retiree Health Plan and required OPEB disclosures can be obtained from the District's publicly available Comprehensive Annual Financial Report that may be obtained by contacting the Finance Director or General Manager at Humboldt Community Services District, 5055 Walnut Drive, Eureka, California 95503.

NOTE 4 - SUBSEQUENT EVENTS

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through the date the financial statements were issued.

NOTE 5 - PRIOR PERIOD ADJUSTMENT

For the year ended June 30, 2018, the beginning net position has been adjusted by \$9,063,791 to decrease the net position balance as of the beginning of the period. The net OPEB liability was adjusted in accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Humboldt Community Services District
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)
MISCELLANEOUS
 June 30, 2018

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

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

Humboldt Community Services District
SCHEDULE OF CONTRIBUTIONS - MISCELLANEOUS
 June 30, 2018

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

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, 2018

	2018
Total OPEB Liability	
Service cost	\$ 364,115
Interest	347,573
Benefit payments, included refunds of employee contributions	(304,176)
Implicit rate subsidy fulfilled	-
Net change in total OPEB liability	407,512
Total OPEB liability - beginning of year	11,255,483
Total OPEB liability - end of year	\$ 11,662,995
 Plan Fiduciary Net Position	
Net investment income	\$ -
Contributions	
Employer - explicit subsidy	304,176
Employer - implicit subsidy	-
Benefit payments, included refunds of employee contributions	(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	\$ 11,662,995
 Plan fiduciary net position as a percentage of the total OPEB liability	0.00%
 Covered-employee payroll	\$ 1,232,490
 Net OPEB liability as a percentage of covered-employee payroll	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, 2018

<u>ASSETS</u>	<u>Admin & Street Lights</u>	<u>Water System</u>	<u>Sewer System</u>	<u>Totals</u>
Current assets:				
Cash and investments	\$ 327,684	\$ 3,458,270	\$ 15,865	\$ 3,801,819
Restricted cash and investments:				
Debt service	-	-	62,522	62,522
Capital projects	-	326,124	-	326,124
Total cash and investments	<u>327,684</u>	<u>3,784,394</u>	<u>78,387</u>	<u>4,190,465</u>
Accounts receivable	19,417	325,245	264,222	608,884
Assessments receivable	-	487,695	-	487,695
Prepaid items	137,696	2,452	139,455	279,603
Inventory	-	147,558	49,186	196,744
Total current assets	<u>484,797</u>	<u>4,747,344</u>	<u>531,250</u>	<u>5,763,391</u>
Capital assets:				
Non-depreciable assets	-	514,961	294,410	809,371
Depreciable assets (net of depreciation)	-	11,310,849	18,176,907	29,487,756
Total assets	<u>484,797</u>	<u>16,573,154</u>	<u>19,002,567</u>	<u>36,060,518</u>
<u>DEFERRED OUTFLOWS</u>				
Deferred outflows related to pensions	-	526,482	397,170	923,652
<u>LIABILITIES AND NET POSITION</u>				
Current liabilities:				
Accounts payable	17,557	176,251	1,043,438	1,237,246
Compensated absences	184,259	-	-	184,259
Customer deposits	105,088	-	450	105,538
Accrued expenses	29,674	26,223	66,981	122,878
Total current liabilities	<u>336,578</u>	<u>202,474</u>	<u>1,110,869</u>	<u>1,649,921</u>
Long-term liabilities:				
Due within one year	-	314,987	363,073	678,060
Due in more than one year	-	1,183,929	9,778,494	10,962,423
Net OPEB liability	-	6,647,907	5,015,088	11,662,995
Net pension liability due in more than one year	-	1,792,953	1,352,578	3,145,531
Total long-term liabilities	<u>-</u>	<u>9,939,776</u>	<u>16,509,233</u>	<u>26,449,009</u>
Total liabilities	<u>336,578</u>	<u>10,142,250</u>	<u>17,620,102</u>	<u>28,098,930</u>
<u>DEFERRED INFLOWS</u>				
Deferred inflows related to pensions	-	141,412	106,679	248,091
Net position:				
Invested in capital assets, net of related debt	-	10,326,894	8,329,750	18,656,644
Restricted	-	326,124	62,522	388,646
Unrestricted	148,219	(3,837,044)	(6,719,316)	(10,408,141)
Total net position	<u>\$ 148,219</u>	<u>\$ 6,815,974</u>	<u>\$ 1,672,956</u>	<u>\$ 8,637,149</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, 2018

	Water System	Sewer System	Admin & Street Lights	Totals
Operating revenues:				
Water sales	\$ 4,593,715	\$ -	\$ -	\$ 4,593,715
Sewer service fees	-	3,961,429	-	3,961,429
Other operating	-	(8,111)	-	(8,111)
 Total operating revenues	 <u>4,593,715</u>	 <u>3,953,318</u>	 <u>-</u>	 <u>8,547,033</u>
Operating expenses:				
Salaries and benefits	1,861,225	1,396,086	-	3,257,311
General and administration	165,234	165,075	-	330,309
Joint treatment costs	-	1,554,003	-	1,554,003
Purchases power	157,395	51,853	71,353	280,601
Water purchases	1,349,554	-	-	1,349,554
Repairs and maintenance	144,639	51,571	-	196,210
Supplies	225,527	124,597	-	350,124
Other expenses	97,480	53,521	252	151,253
Depreciation	692,351	653,511	-	1,345,862
 Total operating expenses	 <u>4,693,405</u>	 <u>4,050,217</u>	 <u>71,605</u>	 <u>8,815,227</u>
Operating income (loss)	<u>(99,690)</u>	<u>(96,899)</u>	<u>(71,605)</u>	<u>(268,194)</u>
Non-operating revenues (expenses):				
Interest revenue	27,481	21,824	-	49,305
Interest expense	(53,426)	(398,840)	-	(452,266)
Taxes and assessments	19,167	-	361,539	380,706
Other income	(11,417)	-	32,207	20,790
 Total non-operating revenues (expenses)	 <u>(18,195)</u>	 <u>(377,016)</u>	 <u>393,746</u>	 <u>(1,465)</u>
Income (loss) before transfers	<u>(117,885)</u>	<u>(473,915)</u>	<u>322,141</u>	<u>(269,659)</u>
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Income (loss) before capital contributions	(117,885)	(473,915)	322,141	(269,659)
Prior Period Adjustment	(5,166,361)	(3,897,430)	-	(9,063,791)
Capital Contributions and connection fees	35,562	62,045	-	97,607
Changes in net position	<u>\$ (5,248,684)</u>	<u>\$ (4,309,300)</u>	<u>\$ 322,141</u>	<u>\$ (9,235,843)</u>

Humboldt Community Services District
WATER DEPARTMENT
COMBINING SCHEDULE OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
For the Year Ended June 30, 2018

	Original Water System	Humboldt Hill Water System	Mitchell Road Water System	Totals
Operating revenues:				
Water sales	\$ 3,338,518	\$ 892,035	\$ 363,162	\$ 4,593,715
Total operating revenues	<u>3,338,518</u>	<u>892,035</u>	<u>363,162</u>	<u>4,593,715</u>
Operating expenses:				
Salaries and benefits	1,283,339	448,008	129,878	1,861,225
General and administration	118,854	36,875	9,505	165,234
Purchases power	60,529	89,830	7,036	157,395
Water purchases	917,697	337,388	94,469	1,349,554
Repairs and maintenance	98,564	36,081	9,994	144,639
Supplies	146,428	64,477	14,622	225,527
Other expenses	56,681	35,068	5,731	97,480
Depreciation	380,787	180,483	131,081	692,351
Total operating expenses	<u>3,062,879</u>	<u>1,228,210</u>	<u>402,316</u>	<u>4,693,405</u>
Operating income (loss)	<u>275,639</u>	<u>(336,175)</u>	<u>(39,154)</u>	<u>(99,690)</u>
Non-operating revenues (expenses):				
Interest revenue	14,761	5,436	7,284	27,481
Interest expense	(15,597)	(5,428)	(32,401)	(53,426)
Other income (expense)	(7,872)	(2,733)	(812)	(11,417)
Taxes and assessments	-	-	19,167	19,167
Total non-operating revenues (expenses)	<u>(8,708)</u>	<u>(2,725)</u>	<u>(6,762)</u>	<u>(18,195)</u>
Income (loss) before transfers	<u>266,931</u>	<u>(338,900)</u>	<u>(45,916)</u>	<u>(117,885)</u>
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Income (loss) before capital contributions	266,931	(338,900)	(45,916)	(117,885)
Prior period adjustment	(3,444,240)	(1,359,569)	(362,552)	(5,166,361)
Capital contributions and connection fees	31,528	14,240	(10,206)	35,562
Changes in net position	<u>\$ (3,145,781)</u>	<u>\$ (1,684,229)</u>	<u>\$ (418,674)</u>	<u>\$ (5,248,684)</u>

Humboldt Community Services District
SEWER DEPARTMENT
COMBINING SCHEDULE OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
For the Year Ended June 30, 2018

	General Sewer System	Humboldt Hill Sewer System	Totals
Operating revenues:			
Sewer service fees	\$ 3,082,127	879,302	\$ 3,961,429
Other	(6,070)	(2,041)	(8,111)
Total operating revenues	<u>3,076,057</u>	<u>877,261</u>	<u>3,953,318</u>
Operating expenses:			
Salaries and benefits	1,058,227	337,859	1,396,086
General and administration	131,619	33,456	165,075
Joint treatment costs	1,223,224	330,779	1,554,003
Purchases power	38,913	12,940	51,853
Repairs and maintenance	38,192	13,379	51,571
Supplies	80,583	44,014	124,597
Other expenses	36,441	17,080	53,521
Depreciation	543,217	110,294	653,511
Total operating expenses	<u>3,150,416</u>	<u>899,801</u>	<u>4,050,217</u>
Operating income (loss)	<u>(74,359)</u>	<u>(22,540)</u>	<u>(96,899)</u>
Non-operating revenues (expenses):			
Interest revenue	15,723	6,101	21,824
Interest expense	(287,165)	(111,675)	(398,840)
Total non-operating revenues (expenses)	<u>(271,442)</u>	<u>(105,574)</u>	<u>(377,016)</u>
Income (loss) before transfers	<u>(345,801)</u>	<u>(128,114)</u>	<u>(473,915)</u>
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Income (loss) before capital contributions	(345,801)	(128,114)	(473,915)
Prior Period Adjustment	(2,900,413)	(997,017)	(3,897,430)
Capital Contributions and connection fees	45,413	16,632	62,045
Changes in net position	<u>\$ (3,200,801)</u>	<u>\$ (1,108,499)</u>	<u>\$ (4,309,300)</u>

Humboldt Community Services District
SCHEDULE OF ALLOCATED GENERAL AND ADMINISTRATIVE EXPENSES
 For the Year Ended June 30, 2018

Allocated General and Administrative Expenses:	
Insurance	\$ 49,651
Purchases power	53,018
Repairs and maintenance	48,945
Supplies	5,054
Other expenses	<u>173,593</u>
Subtotal for allocated general and administrative expenses	330,261
Allocated to salaries and benefits	<u>1,079,607</u>
Total	<u>\$ 1,409,868</u>

General and Administrative expenses were allocated to the following departments:

General water	\$ 507,512
Humboldt Hill Water	155,632
Freshwater/Mitchell Road	41,893
General sewer	552,665
Humboldt Hill sewer	<u>152,166</u>
Total	<u>\$ 1,409,868</u>

Salaries and benefits breakdown:

Salaries and wages	245,848
Vacation, sick, and holiday pay	64,270
Group insurance	522,015
Other benefits	<u>247,474</u>
Total	<u>\$ 1,079,607</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, 2018, and have issued our report thereon dated May 29, 2019. 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 29, 2019