

**MENDOCINO CITY COMMUNITY
SERVICES DISTRICT**

MENDOCINO, CALIFORNIA

ANNUAL FINANCIAL REPORT

JUNE 30, 2023



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INDEPENDENT AUDITORS' REPORT

Board of Directors
Mendocino City Community Services District
Mendocino, California

Opinions

We have audited the accompanying financial statements of the business-type activities and the major fund of Mendocino City Community Services District, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise Mendocino City Community Services District's basic financial statements as listed in the table of contents.

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 Mendocino City Community Services District, as of June 30, 2023, and the respective changes in financial position and cash flows thereof, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Mendocino City Community Services District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Mendocino City Community Services District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

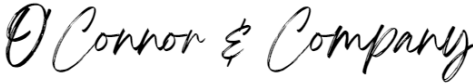
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Mendocino City Community Services District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Mendocino City Community Services District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing 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. Our opinion is not modified with respect to this matter.


O'Connor & Company

Novato, California
December 8, 2023

Mendocino City Community Services District
STATEMENT OF NET POSITION
Proprietary Fund
June 30, 2023

ASSETS

Current assets:

Cash and investments	\$ 485,695
Accounts receivable	62,456
Inventory	2,626
Prepaid items	3,064
Total current assets	553,841

Capital assets (Note 3):

Non-depreciable assets	1,600,000
Depreciable assets (net of depreciation)	5,968,450
Total assets	8,122,291

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources - Pension (Note 4)	250,607
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LIABILITIES AND NET POSITION

Current liabilities:

Accounts payable	66,243
Accrued expenses	15,535
Compensated absences	6,228
Deferred revenue	-
Total current liabilities	88,006

Long-term liabilities:

Due within one year (Note 5)	56,270
Due in more than one year (Note 5)	2,285,532
Net pension liability (Note 4)	514,529
Total long-term liabilities	2,856,331
Total liabilities	2,944,337

DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources - Pension (Note 4)	49,640
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Net position:

Net investment in capital assets	5,226,648
Unrestricted	152,273
Total net position	\$ 5,378,921

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

Mendocino City Community Services District
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
Proprietary Fund
For the Year Ended June 30, 2023

Operating revenues:	
Ground water and waste water fees	\$ 977,459
Property taxes	108,753
Intergovernmental revenue	<u>22,000</u>
Total operating revenues	<u>1,108,212</u>
Operating expenses:	
Salaries and benefits	411,619
Waste water	245,792
Ground water management	197,292
Treatment	23,423
General and administrative	153,240
Depreciation	<u>297,128</u>
Total operating expenses	<u>1,328,494</u>
Operating income (loss)	<u>(220,282)</u>
Non-operating revenues (expenses):	
Interest income	3,426
Interest expense	<u>(63,604)</u>
Total non-operating revenues (expenses)	<u>(60,178)</u>
Changes in net position	(280,460)
Net position, beginning of period	<u>5,659,381</u>
Net position, end of period	<u>\$ 5,378,921</u>

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

Mendocino City Community Services District
STATEMENT OF CASH FLOWS
Proprietary Fund
For the Year Ended June 30, 2023

Cash flows from operating activities:	
Receipts from customers	\$ 1,074,024
Payments to employees	(414,109)
Payments to suppliers	<u>(566,121)</u>
Net cash provided (used) by operating activities	<u>93,794</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	-
Payments on long-term debt	(55,064)
Capital grants	(112,000)
Interest paid on long-term debt	<u>(63,596)</u>
Net cash provided (used) by capital and related financing activities	<u>(230,660)</u>
Cash flows from non-capital and related financing activities:	
Litigation settlement	<u>-</u>
Net cash provided (used) by capital and related financing activities	<u>-</u>
Cash flows from investing activities:	
Interest earned	<u>3,426</u>
Net cash provided by investing activities	<u>3,426</u>
Net increase (decrease) in cash and cash equivalents	(133,440)
Cash and cash equivalents - beginning of period	<u>619,135</u>
Cash and cash equivalents - end of period	<u><u>\$ 485,695</u></u>
Reconciliation of operating income (loss) to net cash provided (used in) operating activities:	
Operating income (loss)	\$ (220,282)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	297,128
Changes in certain assets and liabilities:	
Accounts receivable	(34,187)
Inventory	-
Prepaid items	(3,064)
Deferred outflow of resources - pension plan	(177,531)
Accounts payable	56,690
Compensated absences	4,662
Deferred inflow of resources - pension plan	(149,148)
Net pension liability	<u>319,527</u>
Total adjustments	<u>314,076</u>
Net cash provided (used) by operating activities	<u><u>\$ 93,794</u></u>

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

Mendocino City Community Services District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2023

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Description of District

Mendocino City Community Services District (the District) was formed in 1971 under Government Code Sections 61000 et.seq. to collect and treat wastewater and maintain street lighting for the unincorporated town of Mendocino. Pursuant to a ballot measure passed in 1985 and the California Public Contract Code, the District was mandated to seek a permanent solution to the inadequate sources of water. These solutions include working toward a system of conservation in conjunction with recycling for irrigation and recharge. In 1990, the District assumed responsibility for groundwater management as authorized by AB 786. Major sources of revenue for the District include water and waste water service charges and property taxes.

B. The Reporting Entity

The financial statements consist of the District's proprietary enterprise fund, which consists of the maintenance, operation and expansion of the water and sewer public utility system. These services are proprietary in nature and are maintained as an enterprise fund. Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

C. Basis of Accounting

The proprietary enterprise fund financial statements required by GASB No. 34 are reported using the "*flow of economic resources*" measurement focus and the accrual basis of accounting. Accordingly, all of the District's assets and liabilities, including capital assets and long-term liabilities, are included in the accompanying Statements of Financial Position. The Statement of Revenues, Expenses, and Net Position presents changes in fund equity. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned, while expenses are recognized in the period in which the liability is incurred.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing goods and services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise and internal service funds are charges to customers for sales and services, including water and wastewater charges.

Operating expenses for enterprise funds include salaries and employee benefits, maintenance and operation of systems and facilities, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The District's water and waste water enterprise funds recognize as capital contributions the entire portion of tap fees, as they intend to recover the costs of the capital investment in the water and waste water distribution system.

Bond Premiums *and* Discounts/Issuance Costs for governmental-wide financial statements and proprietary funds financial statements - issuance costs are recognized during the current period. Any bond premiums and discounts are capitalized and amortized over the life of the bonds. Bond proceeds, premiums and discounts are reported as other financing sources in the governmental fund financial statements.

Mendocino City Community Services District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2023

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Net Position

The proprietary enterprise fund financial statements utilize a net position presentation. Net position categories are as follows:

- Net Investment in Capital Assets - This component of net position consists of capital assets, net of accumulated depreciation and reduced by any debt outstanding against the acquisition, construction or improvement of those assets.
- Restricted Net Position - This component of net position consists of amounts with constraints placed on net position use by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position - This component of net position consists of net position that does not meet the definition of restricted or net investment in capital assets. This may include amounts board-designated to be reported as being held for a particular purpose.

The District may fund operations with a combination of cost-reimbursement grants and capital grants. Thus, both restricted and unrestricted net positions may be available to finance expenditure. The District's policy is to first apply restricted resources, followed by unrestricted resources if necessary.

E. Estimated Budgets

The District adopts a preliminary budget for the following fiscal year, and a final budget for the year. Budgetary revenue estimates represent original estimates modified for any authorized adjustments, contingent upon new or additional revenue sources. Budgetary expenditure amounts represent original appropriations adjusted by budget transfers and authorized appropriation adjustments made during the year. All budgets are adopted on a non-GAAP basis.

F. Accounts Receivable

The District bills the local residents to cover costs related to groundwater management on a quarterly basis and commercial customers on a monthly basis. The District is not able to discontinue water service, as water comes from privately owned wells. If a customer does not have a valid extraction permit on file, the District may impose a penalty of \$100.00 per day. Management believes all amounts are collectible and, accordingly, there is no provision for uncollectible accounts reflected herein.

G. 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.

H. Capital Assets

Capital assets more than \$5,000 are stated at cost of acquisition. Significant improvements or betterments to existing assets are capitalized; maintenance and repairs that do not extend the useful lives of the assets are charged to operations. Costs incurred during the construction phase of a project, including interest paid, are included in the construction in progress account and upon completion of the project are transferred to capital assets.

Mendocino City Community Services District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2023

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Capital Assets (concluded)

Depreciation of capital assets is charged as an expense against operations each year and the total amount of depreciation taken over the years, accumulated depreciation, is reported on the Statement of Net Position – Business-type Activities Enterprise Fund as a reduction in the book value of capital assets. Depreciation is charged as an operating expense on the Statement of Revenues, Expenses and Net Position - Business-type Activities Enterprise Fund. Depreciation expense was \$297,128 for the fiscal year ended June 30, 2023.

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>
Sewer and Water treatment plant	10-75
Sewer and Water collection system	15-75
Buildings and improvements	10-40
Vehicles, trucks and equipment	5-10

I. Cash and Cash Equivalents

Cash is defined as cash in demand deposit accounts as well as cash on hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and investments so near their maturity that the risk of changes in value due to changes in interest rates is negligible. These are generally investments with maturity dates within three months of the acquisition date.

J. Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused vacation benefits. The liability for unpaid vacation is recorded in the financial statements when the liability is incurred and vacation is reported as the current portion of such compensated absences. The total amount of compensated absences payable at June 30, 2023 was \$6,228.

Employees accrue vacation benefits up to an accrual maximum of 144 hours after 11 years of service. Upon termination, retirement, or death of an employee, the District pays any accrued and unused vacation in a lump-sum payment to the employee or beneficiary in accordance to applicable law.

K. Deferred Revenue

Deferred revenue is recorded to the extent that funds are received ahead of time where it qualifies for income recognition. Deferred revenue consists primarily of intergovernmental grants received during the current year for projects to be conducted subsequent to June 30, 2023.

L.. Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District, as a member of the Golden State Risk Management Authority (GSRMA), has purchased various insurance policies to manage the potential liabilities that may occur from the previously named sources. GSRMA's purpose is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage.

Mendocino City Community Services District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2023

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

M. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

N. 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 Mendocino City Community Services District's California Public Employees' Retirement System (CalPERS) plan (Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

O. Reclassifications

Certain balances at, and for the year ended June 30, 2022, were reclassified to conform with June 30, 2023, balances.

P. Contingencies and Subsequent Events

Subsequent events have been evaluated through the date the financial statements were available to be issued.

Litigation

The District is involved in litigation incurred in the normal course of conducting District business. District management believes, based upon consultation with its counsel, that these cases, in the aggregate, are not expected to result in a material adverse financial impact on the District.

Q. 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. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District reports deferred outflows of resources for its pension plan.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District reports deferred inflows of resources for its pension plan.

Mendocino City Community Services District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2023

NOTE 2 - CASH, CASH EQUIVALENTS, AND INVESTMENTS

The District maintains a deposit account with Savings Bank of Mendocino County and an account with the Local Agency Investment Fund.

These funds have been segregated into accounts and at June 30, 2023, the balances were as follows:

	<u>2023</u>
Cash and investments:	
Demand accounts	\$ 383,971
LAIF	<u>101,724</u>
Total	<u>\$ 485,695</u>

The District's investment policy has been to invest idle cash in demand deposits, time deposits and the Local Agency Investment Fund (LAIF). Investments are reported at fair value.

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. 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.

LAIF is part of the Pooled Money Investment Account managed by the California State Treasurer and funds are invested in accordance with Government Code Sections 16430 and 16480. Participants in LAIF have the right to withdraw their funds with one day's notice. At June 30, 2023, the fair value of LAIF's assets was approximately equal to the District's share as reported above. Restriction of cash is required by Board resolution or District ordinance to equal required reserves.

Fair Value Hierarchy

GASB Statement No. 72, *Fair Value Measurements and Application*, establishes a fair value hierarchy consisting of three broad levels: Level 1 inputs consist of quoted prices (unadjusted) for identical assets and liabilities in active markets that a government can access at the measurement date, Level 2 inputs consist of inputs other than quoted prices that are observable for an asset or liability, either directly or indirectly, that can include quoted prices for similar assets or liabilities in active or inactive markets, or market-corroborated inputs, and Level 3 inputs have the lowest priority and consist of unobservable inputs for an asset or liability. The District's holdings in the Local Agency Investment Pool and cash in banks were not subject to the fair value hierarchy.

Mendocino City Community Services District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2023

NOTE 3 - CAPITAL ASSETS

Capital assets consisted of the following at June 30, 2023 and 2022.

<u>Business-type Activities</u>	<u>Balance 6/30/22</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance 6/30/23</u>
Capital assets, not being depreciated:				
Land	\$ 1,600,000	\$ -	\$ -	\$ 1,600,000
Construction in progress	<u>4,226,294</u>	<u>-</u>	<u>4,226,294</u>	<u>-</u>
Total capital assets, not being depr.	<u>5,826,294</u>	<u>-</u>	<u>4,226,294</u>	<u>1,600,000</u>
Capital assets, being depreciated:				
Sewer & water facilities and improvements	4,710,265	4,226,294	-	8,936,559
Equipment and furniture	731,009	-	-	731,009
Vehicles	<u>105,157</u>	<u>-</u>	<u>-</u>	<u>105,157</u>
Total capital assets, being depreciated	<u>5,546,431</u>	<u>4,226,294</u>	<u>-</u>	<u>9,772,725</u>
Capital assets, being depreciated:				
Sewer & water facilities and improvements	3,095,130	271,741	-	3,366,871
Equipment and furniture	352,575	20,308	-	372,883
Vehicles	<u>59,442</u>	<u>5,079</u>	<u>-</u>	<u>64,521</u>
Total capital assets, being depreciated	<u>3,507,147</u>	<u>297,128</u>	<u>-</u>	<u>3,804,275</u>
Total capital assets being depreciated – net	<u>2,039,284</u>	<u>3,929,166</u>	<u>-</u>	<u>5,968,450</u>
Capital assets – net	<u>\$ 7,865,578</u>	<u>\$3,929,166</u>	<u>\$ 4,226,294</u>	<u>\$ 7,568,450</u>

NOTE 4 - PENSION PLAN

A. General Information About The Pension Plans

Plan Descriptions - All qualified permanent and probationary employees are eligible to participate in the District's Miscellaneous Employee Pension Plan, cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and Local Government resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on 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. 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 the plan are applied as specified by the Public Employees' Retirement Law.

Mendocino City Community Services District
NOTES TO BASIC FINANCIAL STATEMENTS
 For the Year Ended June 30, 2023

NOTE 4 - PENSION PLAN (continued)

A. General Information About The Pension Plans (concluded)

The Plan's provisions and benefits in effect at June 30, 2023, are summarized as follows:

	Miscellaneous	
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	2% @ 60	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	60	62
Monthly benefits, as a % of eligible compensations	2.0%	2.0%
Required employee contribution rates	7.0%	6.75%
Required employer contribution rates	8.65%	7.47%

Contributions - Section 20814(c) of the California Public Employees' Retirement Law (PERL) 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. The total plan contributions are determined through CalPERS' annual actuarial process. 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. Employer contribution rates may change if plan contracts are amended. Payments made by the District to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements are classified as plan member contributions.

For the year ended June 30, 2023, the contributions recognized as part of pension expense for each Plan were as follows:

	Miscellaneous
Contributions - employer	\$54,941

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pension

As of June 30, 2023, 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	\$ 514,529

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2022, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2021, rolled forward to June 30, 2022, 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 the Plan as of June 30, 2022, was as follows:

Mendocino City Community Services District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2023

NOTE 4 - PENSION PLAN (continued)

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pension (continued)

	Miscellaneous
Proportion - June 30, 2021	0.01027%
Proportion - June 30, 2022	<u>0.01100%</u>
Change – Increase (Decrease)	(0.00073%)

For the year ended June 30, 2023, the District recognized pension expense/(credit) of \$47,788. On June 30, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 54,941	\$ -
Differences between actual and expected experience	10,333	6,920
Changes in assumptions	52,724	-
Change in employer’s proportion	38,263	2,024
Differences between actual contributions vs. proportionate share of contributions	98	40,696
Net differences between projected and actual earnings on plan investments	<u>94,248</u>	<u>-</u>
Total	<u>\$ 250,607</u>	<u>\$ 49,640</u>

\$54,941 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, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized as pension expense as follows:

<u>Year Ended June 30</u>		
2024		\$ 33,649
2025		32,293
2026		22,439
2027		57,645

Actuarial Assumptions - The June 30, 2021, valuation was rolled forward to determine the June 30, 2022, total pension liability, based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry-Age Normal in accordance with requirements of GASB 68
Actuarial Assumptions:	
Discount Rate	6.90%
Inflation	2.30%
Salary increases	Varies by Entry Age and Service
Mortality rate table	Derived using CalPERS Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.5% until Purchasing Power Protection Allowance Floor on Purchasing Power Applies.

The mortality table used was developed based on CalPERS’ specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of scale MP2016. For more details on this table, please refer to the December 2017 experience study report.

Mendocino City Community Services District
NOTES TO BASIC FINANCIAL STATEMENTS
 For the Year Ended June 30, 2023

NOTE 4 - PENSION PLAN (continued)

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pension (continued)

Discount Rate - The discount rate used to measure the total pension liability for PERF C was 6.90%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Long-term Expected Rate of Return - 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 (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach.

Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded 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 equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The expected real rates of return by asset class are as follows:

<u>Asset Class (a)</u>	<u>Allocation</u>	<u>Real Return Years 1-10 (b)</u>	<u>Real Return Years 11+ (c)</u>
Global equity	50%	4.80%	5.98%
Fixed income	28%	1.00%	2.62%
Inflation assets	-	0.77%	1.81%
Private equity	8%	6.30%	7.23%
Real assets	13%	3.75%	4.93%
Liquidity	1%	-	-0.92%
Total	<u>100%</u>		

(a) In the System's ACFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.

(b) An expected inflation of 2.00% used for this period.

(c) An expected inflation of 2.92% used for this period.

Subsequent Events - There were no subsequent events that would materially affect the results presented in this disclosure.

Amortization of Deferred Outflows and Deferred Inflows of Resources - Under GASB 68, gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

Mendocino City Community Services District
NOTES TO BASIC FINANCIAL STATEMENTS
 For the Year Ended June 30, 2023

NOTE 4 - PENSION PLAN (concluded)

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pension (concluded)

The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expenses. The amortization period differs depending on the source of the gain or loss:

Net Difference Between Projected and Actual Earnings on Pension Plan Investments - 5-year straight-line amortization.

All other amounts - Straight-line amortization over the expected average remaining service lifetime (EARSL) of all members that are provided with benefits (active, inactive, and retired) as of beginning of the measurement period.

Expected Average Remaining Service Lives (EARSL) - The expected average remaining service lifetime (EARSL) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired) in the Public Agency Cost-Sharing Multiple-Employer Plan (PERF C).

The EARSL for PERF C for the measurement period ending June 30, 2021, is 3.7 years, which was obtained by dividing the total service years of 561,622 (the sum of remaining service lifetimes of the active employees) by 150,648 (the total number of participants: active, inactive, and retired) in PERF C. Inactive employees and retirees have remaining service lifetimes equal to 0. Total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

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 the Plan, calculated using the discount rate for the 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:

	Miscellaneous
1% Decrease	5.90%
Net Pension Liability	\$809,853
Current Discount Rate	6.90%
Net Pension Liability	\$514,529
1% Increase	7.90%
Net Pension Liability	\$271,550

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

Payable to the Pension Plan - At June 30, 2023, the District reported no amounts payable for the outstanding amount of contributions to the pension plan required for the year then ended.

Mendocino City Community Services District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2023

NOTE 5 - LONG-TERM DEBT

The following is a summary of changes in long-term debt as of June 30, 2023:

<u>Direct Borrowings:</u>	<u>June 30,</u> <u>2022</u>	<u>Additions</u>	<u>Adjustments</u> <u>&</u> <u>Retirements</u>	<u>June 30,</u> <u>2023</u>	<u>Current</u>
2020 – USDA Certificates of Participation	\$2,035,500	\$ -	\$ 32,000	\$2,003,500	\$ 32,500
2005 – California Infrastructure and Economic Development	<u>361,366</u>	<u>-</u>	<u>23,064</u>	<u>338,302</u>	<u>23,770</u>
Total	<u>\$2,396,866</u>	<u>\$ -</u>	<u>\$ 55,064</u>	<u>\$2,341,802</u>	<u>\$ 56,270</u>

The District has a note payable with California Infrastructure and Economic Development for a biosolids drying unit and housing for the unit for \$650,000 that is originally dated April 2005. The note matures August 2034 and has an interest rate of 3.05 percent. Interest payments are made on August and February 1st each year. Principal payments are made on August 1st each year.

Principal interest payments on the debt for the succeeding years and thereafter are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 23,770	\$ 10,318	\$ 34,088
2025	24,495	9,594	34,089
2026	25,242	8,846	34,088
2027	26,012	8,076	34,088
2028	26,805	7,282	34,087
2029	27,623	6,466	34,089
2030	28,465	5,622	34,087
2031	29,333	4,754	34,087
2032	30,228	3,860	34,088
2033	31,150	2,938	34,088
2034	32,100	1,988	34,088
2035	<u>33,079</u>	<u>1,008</u>	<u>34,087</u>
Total	<u>\$ 338,302</u>	<u>\$ 70,752</u>	<u>\$ 409,054</u>

The District has a note payable with United States Department of Agriculture that originated November 2019 and matures November 2059. Interest is 2.38 percent. Principal and interest payments are made annually on November 1st each year.

Mendocino City Community Services District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2023

NOTE 5 - LONG-TERM DEBT (concluded)

Principal and interest payments on the bonds for the succeeding years and thereafter are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 32,500	\$ 47,583	\$ 80,083
2025	33,500	46,811	80,311
2026	34,500	46,016	80,516
2027	35,500	45,196	80,696
2028	36,000	44,353	80,353
2029	37,000	43,498	80,498
2030	38,000	42,619	80,619
2031	39,000	41,717	80,717
2032	40,000	40,791	80,791
2033	41,500	39,841	81,341
2034	42,500	38,855	81,355
2035	43,500	37,846	81,346
2036	44,500	36,813	81,313
2037	46,000	35,756	81,756
2038	47,000	34,663	81,663
2039	48,000	33,547	81,547
2040	49,500	32,407	81,907
2041	51,000	31,231	82,231
2042	52,000	30,020	82,020
2043	53,500	28,785	82,285
2044	55,000	27,514	82,514
2045	56,500	26,208	82,708
2046	58,000	24,866	82,866
2047	59,500	23,489	82,989
2048	61,000	22,076	83,076
2049	62,500	20,627	83,127
2050	64,000	19,143	83,143
2051	66,000	17,623	83,623
2052	67,500	16,055	83,555
2053	69,500	14,452	83,952
2054	71,000	12,801	83,801
2055	73,000	11,115	84,115
2056	75,000	9,381	84,381
2057	77,000	7,600	84,600
2058	79,000	5,771	84,771
2059	81,000	3,895	84,895
2060	83,000	1,971	84,971
Total	<u>\$ 2,003,500</u>	<u>\$ 1,042,934</u>	<u>\$ 3,046,434</u>

NOTE 6 - PROPERTY TAXES

Property taxes are assessed, collected and distributed by the County of Mendocino in accordance with legislation. Secured property taxes are attached as an enforceable lien on real property located in the County of Marin as of March 1. Secured property taxes are levied each November 1 on the assessed value of the real property as of prior March 1. Taxes are due in two equal installments on December 10 and April 10 following the levy date. Under California law, secured property taxes are assessed and collected by the counties at up to 1% of assessed value, plus other increases approved by the voters. The property taxes are pooled and then allocated to the District based upon complex formulas.

Mendocino City Community Services District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2023

NOTE 6 - PROPERTY TAXES (concluded)

Unsecured property taxes are levied throughout the year beginning March 1 on the assessed value of personal property as of March 1. For unsecured property tax bills issued between March 1 and June 30, the amount is payable by August 31. For unsecured property tax bills issued after June 30, the amount of the tax is due 30 days after the bill is issued, but no later than February 28/29.

Mendocino City Community Services District
As of June 30, 2023
Last 9 Years

Schedule 1

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

<u>Measurement Date</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Schedule of the Proportionate Share of the Net Pension Liability									
Proportion of the net pension liability	0.0045%	0.3610%	0.4160%	0.4130%	0.4180%	0.4310%	0.4360%	0.4490%	0.5650%
Proportionate share of the net pension liability	\$ 514,529	\$ 195,002	\$ 441,801	\$ 423,029	\$ 402,821	\$ 427,392	\$ 377,028	\$ 307,913	\$ 351,469
Covered - employee payroll	\$ 232,103	\$ 183,292	\$ 249,716	\$ 249,716	\$ 263,205	\$ 254,260	\$ 249,597	\$ 228,758	\$ 186,141
Proportionate share of the net pension liability as a percentage of covered-employee payroll	221.68%	106.39%	176.92%	169.40%	153.04%	168.09%	151.05%	134.60%	188.82%
Plan fiduciary net position as a percentage of the total pension liability	76.25%	90.66%	77.17%	73.73%	77.09%	75.18%	74.15%	79.24%	75.83%

NOTES TO SCHEDULE:

Changes in Benefit Terms - None

Changes in Assumptions-None

*Schedule is intended to show information for 10 years. Fiscal year 2014 was the 1st year of implementation. Additional years will be displayed as they become available.

Mendocino City Community Services District
As of June 30, 2023
Last 10 Years
SCHEDULE OF PENSION CONTRIBUTIONS

Schedule 2

<u>Fiscal Year End</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<u>SCHEDULE OF CONTRIBUTIONS</u>										
Contractually required contribution (actuarially determined)	\$ 54,941	\$ 50,629	\$ 41,573	\$ 67,209	\$ 59,509	\$ 52,151	\$ 47,346	\$ 44,174	\$ 38,271	\$ 32,494
Contributions in relation to the actuarially determined contributions	<u>(54,941)</u>	<u>(50,629)</u>	<u>(41,573)</u>	<u>(67,209)</u>	<u>(59,509)</u>	<u>(52,151)</u>	<u>(47,346)</u>	<u>(44,174)</u>	<u>(38,271)</u>	<u>(32,494)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll during the fiscal year	\$ 238,030	\$ 232,103	\$ 183,292	\$ 249,716	\$ 249,716	\$ 263,205	\$ 254,260	\$ 249,597	\$ 228,758	\$ 186,141
Contributions as a percentage of covered-employee payroll	23.08%	21.81%	22.68%	26.91%	23.83%	19.81%	18.62%	17.70%	16.73%	17.46%

NOTES TO SCHEDULE:

Valuation date

6/30/2020

Methods and assumptions used to determine contribution rates:

Single and Agent Employers Example

Entry Age

Amortization method

Level percentage of payroll, closed

Remaining amortization period

5 years

Asset valuation method

5-year straight-line

Inflation

2.50%

Salary increases

Varies by entry age and service

Investment rate of return

7.15%, net of pension plan investment expense, including inflation

Retirement age

50-63

Mortality

Derived from CalPERS' Membership Data

*Schedule is intended to show information for 10 years. Fiscal year 2014 was the 1st year of implementation. Additional years will be displayed as they become available.