

MENDOCINO CITY COMMUNITY SERVICES DISTRICT

FINANCIAL STATEMENTS

FOR THE YEARS ENDED

JUNE 30, 2016 and 2015

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Mendocino City Community Services District
Mendocino California

We have audited the accompanying financial statements of the governmental activities of the Mendocino City Community Services District (District), as of and for the years ended June 30, 2016 and 2015 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



Goranson and Associates, Inc.

717 College Avenue, First Floor, Santa Rosa, CA 95404 Phone: 707/542-1256 Fax 707/978-3090

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Mendocino City Community Services District, as of June 30, 2016, and 2015, the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-7 and 15-16 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.

Prior Period Financial Statements

The financial statements of Mendocino City Community Services District as of June 30, 2015 were audited by other auditors whose report dated May 5, 2016 expressed an unqualified opinion on those statements.

Goranson and Associates, Inc.

January 30, 2017

Santa Rosa, California

MENDOCINO CITY COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016 and 2015

This section of the financial statements for the Mendocino City Community Services District provides a discussion of the District's financial performance for the fiscal year ended June 30, 2016 and 2015 (fiscal year 2016 and 2015). These comments should be read in conjunction with and are a supplement to the financial statements identified in the accompanying table of contents.

The District's Operations

The District was formed in 1971 under Government Code Sections 61000 et.seq. to collect and treat waste water 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 1991 the District assumed responsibility for groundwater management as authorized by AB 786.

Financial Overview

- The District's financial performance increased during fiscal year 2016 and decreased during fiscal year 2015. The increase for 2016 was due to prior understated fixed assets as well as net income. The decrease for 2015 was due to the recording of the net pension liability as required by GASB 68. At June 30, 2016 and 2015, net position is \$(367,617) and \$673,162. Of that amount there is a deficit of \$(367,617) of unassigned net position for 2016 and for 2015 \$673,162 is available as unrestricted net position.
- Operating revenues increased during fiscal year 2016 by \$16,975 because of an increase in customers. General revenues increased by \$40,185 during fiscal year 2016 because of an increase in property taxes and loan fee income. Operating revenues increased during the fiscal year 2015 by \$65,259 because of an increase in waste water service, ground water surcharge and permit fees.
- Operating expenditures increased during fiscal year 2016 by \$89,093 because of correct reporting of depreciation expense and increase of personnel expenses. Operating expenditures increased during fiscal year 2015 by \$117,317 because of correct reporting of depreciation expense and increase of personnel expenses.

MENDOCINO CITY COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016 and 2015

Financial Overview, continued

- Net capital assets increased by \$3,228,231 during fiscal year 2016 because of understated prior year fixed assets and overstated accumulated depreciation. Investment in capital assets are 91 percent of total net position. Net capital assets decreased by \$14,676 during fiscal year 2015 because of depreciation.
- Long term liabilities decreased by \$73,719 for fiscal year 2016 because of deferred inflows and principal payments to debt.
- A prior period restatement for 2015 was due to GASB 68 and requirement to disclose net pension liability. A prior period adjustment for 2016 is due to incorrectly stated fixed assets for the prior years.

Basic Financial Statements

In accordance with the Government Accounting Standards Board (GASB) Statement No. 34, the District's basic financial statements include a statement of net position, statement of revenues, expenses and changes in net position, and a statement of cash flows.

The statement of net position includes the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). The difference between the assets and liabilities is shown as net position. This statement also provides the basis of evaluating the capital structure of the District and assessing its liquidity and financial flexibility.

The statement of revenues, expenses and changes in net position accounts for the current year's revenues and expenses. This statement measures the success of the District's operations over the past year and determines whether the District has recovered its costs through user fees and other charges.

The final required statement is the statement of cash flows. This statement reports cash receipts, cash disbursements, and net changes in cash resulting from operations and investments during the reporting period.

The notes to the basic financial statements provide a description of the accounting policies used to prepare the financial statements and present disclosures required by generally accepted accounting principles that are not otherwise present in the financial statements.

MENDOCINO CITY COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016 and 2015

Financial Overview, continued

The District's financial statements can be found on pages 8-16. The notes to the financial statements (pages 17-30) should be read in conjunction to the financial statements.

Financial Analysis

Statement of Net Position

The statement of net position presents information on the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between them reported as net position. The increases or decreases in net position, over time, may indicate whether the District's financial position is improving or deteriorating. The following table summarized the District's activities:

NET POSITION

	2016	2015
Current and other assets	\$ 719,625	\$ 1,043,751
Capital assets	4,768,545	1,540,314
Deferred inflows	55,307	73,406
Total assets	5,543,477	2,657,471
Long-term liabilities outstanding	783,271	841,365
Liabilities due within one year	67,930	46,211
Total liabilities	851,201	887,576
Net position:		
Net investment in capital assets	4,283,430	1,029,093
Restricted for debt service	67,640	8,603
Restricted for Groundwater Management	708,823	59,037
Unassigned	(367,617)	673,162
Total net position	\$ 4,692,276	\$ 1,769,895

MENDOCINO CITY COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016 and 2015

Changes in Net Position

This statement primarily reflects the District's revenues and expenses, with the difference between the two reported as change in net position. The order of presentation reflects the District's primary operations, with operating revenues and operating expenses presented first, nonoperating revenues follow. The change in net position shows the residual revenue (on an accrual basis) that the District has to contribute toward current and future capital (both investment and debt service) and reserve funding, and is an indication of the adequacy of its rates. The following table summarizes the changes in net position for each year:

CHANGES IN NET POSITION

	2016	2015
Revenues:		
Program revenues:		
Wastewater services	680,191	588,706
Groundwater surcharge and permit fees	69,458	137,097
Hookup fees and other revenues	25,316	32,187
General revenues:		
Property taxes	88,957	85,475
Debt service taxes	4,225	1,837
Loan fees	18,186	(1,569)
Investment earnings	2,502	1,998
Total revenues	888,835	845,731
Expenses:		
Program expenses	845,145	756,052
Change in net position	43,690	89,679
Net position - beginning of the year	1,769,895	1,938,423
Prior period adjustment	2,878,691	(258,207)
Net position, beginning of year restated	4,648,586	1,680,216
Net position - end of the year	\$ 4,692,276	\$ 1,769,895

MENDOCINO CITY COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016 and 2015

Capital Assets

The District's investment in capital assets, as of June 30, 2016 and 2015 totaled \$4,768,545 and \$1,540,314 respectively. This investment in capital assets consists of structures and equipment. The amount of total capital assets includes projects in process that totaled \$398,505 and \$45,693 for the fiscal years ended 2016 and 2015.

Long term liabilities

The District's long term liabilities consisted of compensated absences, notes payable and net pension liability for the years ended June 30, 2016 and 2015. Long term notes payable are \$431,538 and \$486,115 for 2016 and 2015. Compensated absences are \$2,738 and \$3,781 for 2016 and 2015. Net pension liability totals \$333,370 and \$351,469 for 2016 and 2015.

Future Projections

The District Board of Directors and management are taking a proactive approach to the future improvements as needed to maintain the systems.

Contacting the District

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 any questions about this report or need additional information, contact the General Manager, Mendocino City Community Services District, Post Office Box 1029, Mendocino, California.

MENDOCINO CITY COMMUNITY SERVICES DISTRICT
STATEMENTS OF NET POSITION
JUNE 30, 2016 AND 2015

	2016	2015
ASSETS		
Cash and cash equivalents	\$ 177,262	\$ 847,438
Investments and accrued interest	431,993	90,584
Debt service savings	4,806	8,603
Accounts and taxes receivable	102,794	94,998
Inventory	2,770	2,128
Total current assets	719,625	1,043,751
Capital assets (net of accumulated depreciation):		
Property, plant and equipment	4,370,040	1,494,621
Projects in process	398,505	45,693
Total capital assets	4,768,545	1,540,314
Deferred inflows	55,307	73,406
Total assets	\$ 5,543,477	\$ 2,657,471
LIABILITIES		
Current liabilities		
Accounts payable and accrued expenses	\$ 29,978	\$ 27,520
Current portion of note payable	37,952	18,691
Total current liabilities	67,930	46,211
Long term liabilities:		
Note payable	447,163	486,115
Compensated absences	2,738	3,781
Deferred outflows:		
Net pension liability	333,370	351,469
Total long term liabilities	783,271	841,365
Total liabilities	851,201	887,576
NET POSITION		
Net investment in capital assets	4,283,430	1,029,093
Restricted for debt service	67,640	8,603
Restricted for Groundwater Management	708,823	59,037
Unassigned	(367,617)	673,162
Total net position	4,692,276	1,769,895
Total liabilities and net position	\$ 5,543,477	\$ 2,657,471

The accompanying notes are an integral part of these financial statements

MENDOCINO CITY COMMUNITY SERVICES DISTRICT
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
Program Expenses		
Personnel and benefits	\$ 408,779	365,687
Collection	4,527	2,899
Disposal	20,255	18,307
Groundwater management	60,850	56,733
Treatment	122,073	151,553
General and administrative	79,471	46,922
Interest expense	15,504	15,504
Depreciation	<u>133,686</u>	<u>98,447</u>
Total program expenses	<u>845,145</u>	<u>756,052</u>
Operating revenues		
Wastewater services	680,191	588,706
Groundwater surcharge and permit fees	69,458	137,097
Hookup fees and other revenues	<u>25,316</u>	<u>32,187</u>
Total program revenues	<u>774,965</u>	<u>757,990</u>
Net program revenues (expenses)	<u>(70,180)</u>	<u>1,938</u>
General revenues		
Property taxes	88,957	85,475
Debt service taxes	4,225	1,837
Loan fees	18,186	(1,569)
Investment earnings	<u>2,502</u>	<u>1,998</u>
Total general revenues	<u>113,870</u>	<u>89,310</u>
Change in net position	43,690	89,679
Net position, beginning of year	1,769,895	1,938,423
Prior period adjustment	<u>2,878,691</u>	<u>(258,207)</u>
Net position, beginning of year restated	<u>4,648,586</u>	<u>1,680,216</u>
Net position, end of year	<u>\$ 4,692,276</u>	<u>\$ 1,769,895</u>

The accompanying notes are an integral part of these financial statements

MENDOCINO CITY COMMUNITY SERVICES DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from government, grants, program revenue	\$ 3,757,228	\$ 780,348
Cash paid to vendors and employees	(710,686)	(660,033)
Investment income received	2,502	2,423
Net cash provided by operations	<u>3,049,044</u>	<u>122,738</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net change in property, plant and equipment	(3,361,917)	(63,915)
Net change in investments	(346,215)	-
Net cash used by investing activities	<u>(3,708,132)</u>	<u>(63,915)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Redemptions and transfers	-	60,000
Net proceeds (principal payments) on note payable	(19,691)	(18,138)
Net cash (used) provided by financing activities	<u>(19,691)</u>	<u>41,862</u>
NET CHANGE IN CASH	(678,779)	100,685
CASH, beginning of year	<u>856,041</u>	<u>755,356</u>
CASH, end of year	<u>\$ 177,262</u>	<u>\$ 856,041</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Change in net position	\$ 2,922,381	\$ 90,032
Adjustments to reconcile change in net assets to cash from operations		
Depreciation and amortization	133,686	98,447
(Increase) decrease in:		
Receivables	(7,796)	(65,113)
Inventory	(642)	2,469
Increase (decrease) in:		
Accounts payable and accrued expenses	<u>1,415</u>	<u>(3,097)</u>
Total cash provided (used) by operations	<u>\$ 3,049,044</u>	<u>\$ 122,738</u>

The accompanying notes are an integral part of these financial statements

MENDOCINO CITY COMMUNITY SERVICES DISTRICT
BALANCE SHEETS
GOVERNMENTAL FUNDS
JUNE 30, 2016 AND 2015

	2016	2015
ASSETS		
Cash and cash equivalents	\$ 177,262	\$ 847,438
Investments and accrued interest	431,993	90,584
Debt service savings	4,806	8,603
Accounts receivable	102,794	94,998
Taxes receivable	-	-
Inventory	2,770	2,128
Total assets	\$ 719,625	\$ 1,043,751
 LIABILITIES and FUND BALANCE		
Liabilities		
Accounts payable and accrued expenses	\$ 23,563	\$ 27,520
 Fund balance		
Unreserved	696,062	1,016,231
Total fund balance	696,062	1,016,231
Total liabilities and fund balances	\$ 719,625	\$ 1,043,751

The accompanying notes are an integral part of these financial statements

MENDOCINO CITY COMMUNITY SERVICES DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEETS
TO THE STATEMENTS OF NET POSITION
JUNE 30, 2016 AND 2015

	2016	2015
Fund balances - total government funds	\$ 696,062	\$ 1,016,231
Amount reported for governmental activities in the statement of net assets is different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	4,768,545	1,540,314
Noncurrent assets are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Deferred inflows	55,307	73,406
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Compensated absences	(2,738)	(3,781)
Notes and interest payable	(491,530)	(504,806)
Deferred outflow	(333,370)	(351,469)
Net position of governmental activities	\$ 4,692,276	\$ 1,769,895

The accompanying notes are an integral part of these financial statements

MENDOCINO CITY COMMUNITY SERVICES DISTRICT
STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
Revenues:		
Property taxes	\$ 93,182	\$ 87,312
Investment earnings	2,502	1,998
Program revenues	<u>774,965</u>	<u>757,990</u>
Total revenues	<u>870,649</u>	<u>847,300</u>
 Expenditures:		
Current:		
Salaries and employee benefits	416,153	365,687
Services and supplies	<u>287,172</u>	<u>274,845</u>
Total expenditures	<u>703,325</u>	<u>640,532</u>
Net change in fund balances	167,324	206,768
Fund balance, beginning of year	1,016,231	826,536
Prior period adjustment	<u>(487,493)</u>	<u>(17,073)</u>
Fund balance, beginning of year restated	528,738	809,463
Fund balance, end of year	<u>\$ 696,062</u>	<u>\$ 1,016,231</u>

The accompanying notes are an integral part of these financial statements

MENDOCINO CITY COMMUNITY SERVICES DISTRICT
RECONCILIATION OF STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

**Amount reported for governmental activities in the statement of activities
is different because:**

	2016	2015
Net change in fund balance - governmental funds	\$ 167,324	\$ 206,768
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Current year depreciation	(133,686)	(98,447)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds</p>		
Change in compensated balances	1,043	-
Interest expense	(15,504)	(15,504)
Loan fees	18,186	(3,138)
Change in deferred outflows	6,327	-
Change in net position of governmental activities	\$ 43,690	\$ 89,679

The accompanying notes are an integral part of these financial statements

MENDOCINO CITY COMMUNITY SERVICES DISTRICT
STATEMENTS OF REVENUE, EXPENDITURE AND CHANGES IN FUND BALANCE
BUDGET TO ACTUAL
GENERAL FUND
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016			Variance Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
Revenues				
Property taxes	\$ 87,672	\$ 87,672	\$ 93,182	\$ 5,510
Investment earnings	2,505	2,505	2,502	(3)
Program revenues	<u>620,702</u>	<u>620,702</u>	<u>774,965</u>	<u>154,263</u>
Total revenues	<u>710,879</u>	<u>710,879</u>	<u>870,649</u>	<u>159,770</u>
Expenditures				
Current:				
Salaries and employee benefits	349,667	349,667	416,153	(66,486)
Services and supplies	<u>495,279</u>	<u>495,279</u>	<u>287,172</u>	<u>208,107</u>
Total expenditures	<u>844,946</u>	<u>844,946</u>	<u>703,325</u>	<u>141,621</u>
Net change in fund balance	(134,067)	(134,067)	185,510	301,391
Fund balance, beginning of year	<u>1,241,185</u>	<u>1,241,185</u>	<u>528,738</u>	<u>(712,447)</u>
Fund balance, end of year	<u>\$ 1,107,118</u>	<u>\$ 1,107,118</u>	<u>\$ 714,248</u>	<u>\$ (411,056)</u>

The accompanying notes are an integral part of these financial statements

MENDOCINO CITY COMMUNITY SERVICES DISTRICT
STATEMENTS OF REVENUE, EXPENDITURE AND CHANGES IN FUND BALANCE
BUDGET TO ACTUAL
GENERAL FUND
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2015			Variance Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
Revenues				
Property taxes	\$ 85,159	\$ 85,159	\$ 87,312	\$ 2,153
Investment earnings	2,505	2,505	1,998	(507)
Program revenues	<u>668,253</u>	<u>668,253</u>	<u>757,990</u>	<u>89,737</u>
Total revenues	<u>755,917</u>	<u>755,917</u>	<u>847,300</u>	<u>91,383</u>
Expenditures				
Current:				
Salaries and employee benefits	356,044	356,044	365,687	(9,643)
Services and supplies	<u>386,695</u>	<u>386,695</u>	<u>274,845</u>	<u>111,850</u>
Total expenditures	<u>742,739</u>	<u>742,739</u>	<u>640,532</u>	<u>102,207</u>
Net change in fund balance	13,178	13,178	224,954	193,590
Fund balance, beginning of year	<u>826,536</u>	<u>1,016,231</u>	<u>1,016,231</u>	<u>-</u>
Fund balance, end of year	<u>\$ 839,714</u>	<u>\$ 1,029,409</u>	<u>\$ 1,241,185</u>	<u>\$ 193,590</u>

The accompanying notes are an integral part of these financial statements

MENDOCINO CITY COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 and 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Criteria used in determining the scope of the reporting entity includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters. The reporting entity consists of the District as the primary, and sole, reporting entity.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements of the District are prepared in conformity with accounting principles generally accepted in the United States of America, as defined by the Government Accounting Standards Board (GASB), the independent and ultimate authoritative accounting and financial reporting standard-setting body for state and local governments. The District's reporting entity applies all relevant GASB pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

The District is accounted for as an enterprise fund (proprietary fund type). A fund is an accounting entity with a self-balancing set of accounts established to record the financial position and results of operations of a specific governmental activity. Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The activities of enterprise funds closely resemble those of ongoing businesses in which the purpose is to conserve and add to basic resources while meeting operating expenses from current revenues. Enterprise funds account for operations that provide services on a continuous basis and are substantially financed by revenues derived from user charges.

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues include revenues derived from wastewater services and related activities. Operating expenses include all expenses applicable to the furnishing of these activities. Non-operating revenues and expenses include revenues and expenses not associated with the District's normal business of wastewater services.

MENDOCINO CITY COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 and 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Cash and cash equivalents

Cash and cash equivalents include amounts in demand deposits as well as short-term highly liquid investments with maturities of three months or less. State statutes authorize the District to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, and repurchase agreements. Debt service savings represents amounts collected by the County and remitted to the District that were used for paying the District's general obligation bond.

Investments consist of amounts not considered necessary for current cash flow that have been transferred to interest bearing certificates of deposit. It is anticipated that these invested amounts will be used for capital equipment purchases or improvements and are being maintained for that purpose, however their use is not restricted.

Receivables and payables

Accounts receivable represent amounts due for wastewater services. Included in accounts receivable are penalty charges to two customers totaling \$69,200 for failure to obtain a Groundwater Extraction Permit. These two customers represent approximately 78% of the accounts receivable balances. Management considers all amounts fully collectible because liens have been filed against real property where appropriate. No allowance for doubtful accounts has been recorded. If accounts receivable does result in losses, they are recognized when the amounts become determinable.

Revenue

Tax revenue received by the District consists of general property taxes. General property taxes represent the portion of ad valorem taxes received as determined by their tax allocation factor. This tax revenue is available for general district use. Tax allocation factors represent each agency's pro rata share of the total ad valorem taxes collected countywide. This allocation is calculated by the county, subject to review by the State of California, in accordance with the alternative method of property tax allocation (Teeter Plan). County taxes are recorded as a non-operating source of revenue.

Expenses

On the statement of revenues, expenses and changes in fund net position, expenses are recognized in the accounting period in which the related liability is incurred.

MENDOCINO CITY COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Inventory

Inventory consists of materials and supplies held for consumption. The value of materials and supplies on hand at the end of the fiscal year is determined using a current cost method which approximates market value.

Capital assets

Capital assets are recorded at cost. Major improvements and additions are charged to the related capital asset accounts. Improvements and additions which do not significantly improve or extend the life of the asset are charged against earnings in the period incurred. Donated capital assets are recorded at their estimated fair market value on the date received.

Depreciation is charged to expense for all capital assets; except land, right of ways, and any projects in progress. Projects in progress are considered depreciable upon completion of the related project.

Depreciation is calculated using the straight-line method over the estimate useful lives of the related assets. The estimated useful lives are as follows:

Improvements and Infrastructure	15-40 years
Equipment and Vehicles	5-15 years
Office Equipment and Furniture	5-10 years

Net position

Net position represents the difference between assets and liabilities. The District's net position is classified as follows:

Net Investment in Capital Assets- This represents the District's total investment in capital assets, net of outstanding debt obligations related to those capital assets.

Restricted Net Position - Restricted net position represents resources which are legally or contractually obligated to be spent in accordance with restrictions imposed by external third parties.

Unrestricted Net Position Unrestricted net position represents resources available for transactions relating to the general operations of the District, and may be used at the discretion of the governing board to meet current expenses for any purpose.

MENDOCINO CITY COMMUNITY SERVICES DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2016 AND 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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.

Reclassifications

Certain reclassifications have been made to the June 30, 2015 financial statement presentation to correspond to the current year's format. Net positions and changes in net assets are unchanged (with the exception of the prior period adjustment and restatement) due to these reclassifications.

NOTE 2 DETAILED NOTES

Cash and Investments

The District's cash at June 30, 2016 and 2015 is as follows:

	2016	2015
Cash	\$ 176,762	\$ 276,439
Cash investment	431,993	570,499
Petty Cash	500	500
Total	\$ 609,255	\$ 847,438
Debt service savings	\$ 4,806	\$ 8,603

District deposits are fully insured or collateralized with securities held by the District or its agent in the District's name. The California Government Code requires California banks and savings and loan associations to secure local agency deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of a local agency's deposits.

MENDOCINO CITY COMMUNITY SERVICES DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2016 AND 2015

NOTE 2 DETAILED NOTES continued

Investment Policy: The board has adapted an investment policy as of August 2013. The policy is as follows:

1. Investments and depositaries shall be limited to checking accounts, savings accounts, money market accounts, treasury bills, and Certificate of Deposits with Federally Insured Banks or Savings and Loans. The District may also invest funds in the Local Agency Investment Fund (LAIF) operated by the California State Treasurer in accordance with Government Code Section 16429.1 et.seq.
2. As a general rule, not more than \$250,000 shall be invested or deposited in any one investment institution.
3. All investments shall be approved by the Board of Directors.
4. All investments should be available for recall within 60 days.
5. Investments that have a time limit on them should be held to maturity, provided that the Board of Directors may authorize earlier redemption of funds when in the determination of the Board such redemption is necessary for the interests of the District.

Credit Risk: Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Accounts Receivable

Accounts and tax receivable consist of the following at June 30:

	2016	2015
Accounts and tax receivable	\$ 102,794	\$ 94,998

MENDOCINO CITY COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 2 DETAILED NOTES continued

Capital Assets

Capital assets are as follows as JUNE 30, 2016 and 2015:

	2016		
	Beginning Balance	Net additions and deletions	Ending Balance
Capital assets, not being depreciated:			
Projects in process	\$ 45,693	\$ 352,812	\$ 398,505
Land	-	1,600,000	1,600,000
Total capital assets, not being depreciated	45,693	1,952,812	1,998,505
Capital assets, being depreciated:			
Improvements & Infrastructure	\$ 4,450,878	\$ 92,614	\$ 4,543,492
Vehicles	39,434	16,378	55,812
Office equipment and furniture	47,640	3,096	50,736
Equipment	117,823	530,186	648,009
Total capital assets, being depreciated	4,655,775	642,274	5,298,049
Less accumulated depreciation for:	(3,161,154)	633,145	(2,528,009)
Total capital assets, being depreciated, net	1,494,621	1,275,419	2,770,040
Capital assets, net	\$ 1,540,314	\$ 3,228,231	\$ 4,768,545

Depreciation expense is charged to functions/programs of the Mendocino City Community Services District government as follows:

Governmental activities:

District programs	\$ 133,686
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MENDOCINO CITY COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 2 DETAILED NOTES continued

	2015		
	Beginning Balance	Net additions and deletions	Ending Balance
Capital assets, not being depreciated:			
Projects in process	\$ 5,250	\$ 40,443	\$ 45,693
Total capital assets, not being depreciated	5,250	40,443	45,693
Capital assets, being depreciated:			
Improvements & Infrastructure	\$ 4,427,406	\$ 23,472	\$ 4,450,878
Vehicles	39,434	-	39,434
Office equipment and furniture	47,640	-	47,640
Equipment	117,823	-	117,823
Total capital assets, being depreciated	4,632,303	23,472	4,655,775
Less accumulated depreciation for:	(3,082,563)	(78,591)	(3,161,154)
Total capital assets, being depreciated, net	1,549,740	(55,119)	1,494,621
Capital assets, net	\$ 1,554,990	\$ (14,676)	\$ 1,540,314

Depreciation expense is charged to functions/programs of the Mendocino City Community Services District government as follows:

Governmental activities:

District programs	\$ 98,447
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MENDOCINO CITY COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 2 DETAILED NOTES continued

Long Term Liabilities

The District has a note payable with California Infrastructure and Economic Development for a bio-solids 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%.

Other long term liabilities consist of compensated absences and retirement pension liability. The detail of long term liabilities at June 30 is as follows:

	2016				
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Note payable	\$ 504,806	\$ -	\$ (18,691)	\$ 486,115	\$ 37,952
Deferred outflows	351,469		(18,099)	333,370	-
Compensated absences	3,781	-	(1,043)	2,738	-
Total long-term liabilities	<u>\$ 860,056</u>	<u>\$ -</u>	<u>\$ (37,833)</u>	<u>\$ 822,223</u>	<u>\$ 37,952</u>
	2015				
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Note payable	\$ 540,122	\$ -	\$ (35,316)	\$ 504,806	\$ 35,316
Deferred outflows		351,469		351,469	-
Compensated absences	\$ 3,781	-	-	3,781	-
Total long-term liabilities	<u>\$ 543,903</u>	<u>\$ 351,469</u>	<u>\$ (35,316)</u>	<u>\$ 860,056</u>	<u>\$ 35,316</u>

MENDOCINO CITY COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 2 DETAILED NOTES continued

Future Maturity for notes payables at June 30 is as follows:

2017	\$ 19,261
2018	19,849
2019	20,454
2020	21,078
2021	21,721
Thereafter	402,443

NOTE 3 OTHER INFORMATION

Insurance

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 Authority, 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.

Prior Period Restatement and Adjustment

The District has a prior period restatement for the implementation of GASB 68 recording the net pension liability via deferred inflows and outflows. The change was made beginning fiscal year ending June 30, 2015.

During the year ended June 30, 2016, there is a prior period correction to record fixed assets appropriately. The fixed assets have been understated in the prior audited financial statements.

MENDOCINO CITY COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 4 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 maintains commercial insurance covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the District. Settlement claims have not exceeded this commercial coverage in any of the past three fiscal years.

Litigation

The District is presently in litigation filed by a property owner who is opposed to participation in the District Groundwater Management Program. The property owner claims the District did not properly adopt the ordinances and water shortage contingency plan which form the basis for the District's Groundwater Management Program. Out of 404 property owners, only 3 have refused to comply with the requirement that they become part of the program.

Liens have been recorded against the other 2 property owners for penalty billings as referred to above under Accounts Receivable. There is some possibility that the liens may be negotiated or compromised depending upon the outcome of the litigation. This may affect the collectability of the accounts receivable balances.

The District believes that the litigation petition and complaint have no merit, and no loss contingency has been recorded in the financial statements.

NOTE 5 DEFINED BENEFIT PENSION PLAN

Employee Retirement Plan

During fiscal year 2005/2006 the District enrolled in the California Public Employees Retirement System (PERS) cost-sharing multiple-employer Defined Benefit Pension Plan. In cost-sharing multiple-employer plans the benefit obligations are pooled. A single actuarial valuation is performed covering all participants, all employers contribute at the same rate, and all plan assets are available to pay plan benefits pertaining to the employee and retirees of any employer.

MENDOCINO CITY COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 5 DEFINED BENEFIT PENSION PLAN continued

Summary of Significant Accounting Policies

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by the CalPERS Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. CalPERS audited financial statements are publicly available reports that can be obtained at CalPERS' website under Forms and Publications.

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

Valuation Date (VD)	June 30, 2013
Measurement Date (MD)	June 30, 2015
Measurement Period (MP)	July 1, 2013 to June 30, 2015

Plan Description, Benefits Provided and Employees Covered

The Plan is a cost-sharing multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). A full description of the pension plan benefit provisions, assumptions for funding purposes but not accounting purposes, and membership information is listed in the June 30, 2013 Annual Actuarial Valuation Report. Details of the benefits provided can be obtained in Appendix B of the June 30, 2013 actuarial valuation report. This report is a publicly available valuation report that can be obtained at CalPERS' website under Forms and Publications.

Contribution Description

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 the CalPERS' annual actuarial valuation process. For public agency cost-sharing plans covered by either the Miscellaneous or Safety risk pools, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability.

MENDOCINO CITY COMMUNITY SERVICES DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2016 AND 2015

NOTE 5 DEFINED BENEFIT PENSION PLAN continued

The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2015 (the measurement date), the active employee contribution rate is 6.891 percent of annual pay, and the average employer's contribution rate is 11.623 percent of annual payroll. Employer contributions rates may change if plan contracts are amended. It is the responsibility of the employer to make necessary accounting adjustments to reflect the impact due to any Employer Paid Member Contributions or situations where members are paying a portion of the employer contribution.

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

For the measurement period ending June 30, 2015 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2014 total pension liability. Both the June 30, 2014 total pension liability and the June 30, 2015 total pension liability were based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
<u>Actuarial Assumptions</u>	
Discount Rate	7.50%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.50% Net of Pension Plan Investment and Administrative
Mortality Rate Table	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefits Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

Pension Plan Fiduciary Net Position

The plan fiduciary net position disclosed in your GASB 68 accounting valuation report may differ from the plan assets reported in your funding actuarial valuation report due to several reasons. First, for the accounting valuations, CalPERS must keep items such as deficiency reserves, fiduciary self- insurance and OPEB expense included in fiduciary net position. These amounts are excluded for rate setting purposes in your funding actuarial valuation. In addition, differences may result from early CAFR closing and final reconciled reserves.

MENDOCINO CITY COMMUNITY SERVICES DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2016 AND 2015

NOTE 6 DEFINED BENEFIT PENSION PLAN Continued

California Public Employees' Pension Reform Act

In September 2012, Governor Jerry Brown signed the California Public Employees' Pension Reform Act of 2013 (PEPRA). PEPRA resulted in the creation of a new benefit formula coverage for members entering the District on or after January 1, 2013. The District members subject to the provisions of PEPRA are considered Tier 2 members. Tier 2 members effective date was July 1, 2013. The District members not subject to the provisions of PEPRA are considered Tier 1 members.

A contribution rate of 6.25% of annual covered salary is required by each active plan member under Tier 2. Employees in Tier 2 are required to contribute the full employee share of 6.25%, and the required employer contribution rate is 6.25%.

Annual Pension Cost

For the fiscal year ended June 30, 2015, the District's annual pension cost of \$52,568 for CalPERS was equal to the District's required and actual contributions.

NOTE 7 CONTRIBUTED CAPITAL

Grant and similar proceeds that were restricted in use to the purchase or construction of capital assets were recorded directly to contributed capital and were not included in the determination of net income. The restricted capital contributions in existence at June 30, 2016 and 2015:

Revenue sharing	\$	160,000
Environmental Protection Agency		1,089,200
Farmers Home Administration		284,000
State Department of Water Resources		200,000
State Water Resources Control Board		<u>241,755</u>
Total contributed capital	\$	<u><u>1,974,955</u></u>

MENDOCINO CITY COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 8 SUBSEQUENT EVENTS

The District has evaluated subsequent events through January 30, 2017, the date the financial statements were available to be issued, and determined that there were no events occurring subsequent to June 30, 2016 and 2015 that would have a material impact on the District's results of operations or financial position.

REQUIRED SUPPLEMENTARY INFORMATION

MENDOCINO CITY COMMUNITY SERVICES DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 JUNE 30, 2016

Schedule of the Plan's Proportionate Share of the Net Pension Liability and Related Ratios as of the Measurement Date in Relation to PERF C

Net pension liability and fiduciary net position are allocated to the pension are allocated to the plan based on its propositions as a percentage of the total plan (PERF C, excluding the 1959 Survivors Risk Pool), which includes both the Miscellaneous or Safety within PERF C. Therefore, to assist employers in meeting the requirements of GASB 68, proportions shown in the table below represent the plan's proportion of PERF C, excluding the 1959 Survivors Risk Pool, and not its proportions of the Miscellaneous Risk Pool.

	06/30/2015
Plan's Proportion of the Net Pension Liability/(Asset)	0.01079%
Plan's Proportionate Share of the Net Pension Liability/(Asset)	\$ 333,370
Plan's Covered-Employee Payroll	\$ 228,758
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll	145.73%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	0.00244%
Plan's Proportionate Share of Aggregate Employer Contributions	\$ 38,271

Schedule of Plan Contributions

	Fiscal Year 2014-2015
Actuarially Determined Contribution	\$ 38,271
Contributions in Relation to the Actuarially Determined Contribution	(38,271)
Contribution Deficiency (Excess)	\$ -
Covered-Employee Payroll	\$ 228,758
Contributions as a Percentage of Covered-Employee Payroll	16.73%

MENDOCINO CITY COMMUNITY SERVICES DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2016

NOTES TO SCHEDULE

Change in Benefit Terms: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2014 as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a Golden Handshakes). Employers that have done so may need to report this information as a separate liability in their financial statement as CalPERS considers such amounts to be separately financed employer-specific liabilities. These employers should consult with their auditors.

Change in Assumptions: None

MENDOCINO CITY COMMUNITY SERVICES DISTRICT
ROSTER OF BOARD MEMBERS

Directors:

Roger Schwartz, President

Sam Kraynek, Vice President

Harold Hauck

Jeffry Stubbs

Robert Kerstein

Jodi Mitchell, Secretary

Clerk of the Board:

Michael Kelley, Superintendent