

# MENDOCINO CITY COMMUNITY SERVICES DISTRICT

FINANCIAL STATEMENTS

FOR THE YEARS ENDED

JUNE 30, 2020 and 2019



## TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 - 7
FINANCIAL STATEMENTS:	
Government-wide Financial Statements:	
Statements of Net Position	8 - 9
Statements of Activities	10
Statements of Cash Flows	11
Fund Financial Statements:	
Balance Sheets – Governmental Funds	12
Reconciliation of the Governmental Funds Balance Sheets to the Statements of Net Position	13
Statements of Revenues, Expenditures and Changes in Funds Balances – Governmental Funds	14
Reconciliation of the Statements of Revenues, Expenditures and Changes in Fund Balance Of Governmental Funds to the Statements of Activities	15
Statements of Revenues, Expenditures, and Changes in the Fund Balance – Budgets and Actual – General Fund	16 - 17
NOTES TO FINANCIAL STATEMENTS	18 - 29
REQUIRED SUPPLEMENTAL INFORMATION	
Schedule of CalPERS	30
Notes to Required Supplemental Information	31
ROSTER OF BOARD MEMBERS	32

# 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 and each major fund of Mendocino City Community Services District (a special purpose government) as of and for the years ended June 30, 2020 and 2019, 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

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Mendocino City Community Services District, as of June 30, 2020 and 2019, and 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 and budgetary comparison information on pages 3-7 and 16-17 and the schedule of CalPERS on pages 30-31 be presented to supplement the basic financial statements. Such information, although not 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.

*Goranson and Associates, Inc.*

February 22, 2021

Santa Rosa, CA

MENDOCINO CITY COMMUNITY SERVICES DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2020 and 2019

This section of the financial statements for the Mendocino City Community Services District (District) provides a discussion of the District's financial performance for the fiscal years ended June 30, 2020 and 2019 (fiscal years 2020 and 2019). 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 1990, the District assumed responsibility for groundwater management as authorized by AB 786.

**Financial Overview**

- The District's financial performance decreased during fiscal year 2020 and increased during the fiscal year 2019. The decrease for 2020 is related to a new note payable to help fund the construction in process. The increase for 2019 is related to more work done with the construction in process. At June 30, 2020 and 2019, net position is \$4,782,487 and \$4,770,555, respectively. Of this amount, \$236,535 and a deficit of \$(78,850) available for operations in 2020 and 2019, respectively.
- Operating revenues increased during fiscal year 2020 and 2019 by \$64,051 and \$19,266, respectively. General revenues decreased by \$(1,298) during fiscal year 2020 and decreased by \$(100) in 2019.
- Total expenditures increased during fiscal year 2020 by \$62,885 and in 2019 by \$30,060.
- Net capital assets increased by \$1,249,460 and \$448,275 during fiscal year 2020 and 2019, respectively, because of an increase to projects in progress. Investment in capital assets are 96 and 100 percent of total net position for 2020 and 2019.
- Long term liabilities had a net increase by \$2,000,922 and net decrease by \$(22,315) for fiscal years 2020 and 2019, respectively, because of changes to notes payable.
- The District took out a line of credit during the fiscal year ended June 30, 2019 that as not renewed in March 2020 when it matured.

MENDOCINO CITY COMMUNITY SERVICES DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2020 and 2019

**Financial Overview, continued**

**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.

The District's financial statements can be found on pages 8-17. The notes to the financial statements (pages 18-31) should be read in conjunction to the financial statements.

MENDOCINO CITY COMMUNITY SERVICES DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2020 and 2019

**Financial Analysis**

**Statements of Net Position**

The statements of net position present 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**

	2020	2019
Current and other assets	\$ 819,741	\$ 285,486
Capital assets	6,569,118	5,319,658
Deferred inflows	303,641	73,000
Total assets	7,692,500	5,678,144
Long-term liabilities outstanding	2,677,164	676,242
Liabilities due within one year	232,849	231,347
Total liabilities	2,910,013	907,589
Net position:		
Net investment in capital assets	4,290,227	4,580,972
Restricted for debt service	54,932	67,640
Restricted for Groundwater Management	200,793	200,793
Unassigned	236,535	(78,850)
Total net position	\$ 4,782,487	\$ 4,770,555

MENDOCINO CITY COMMUNITY SERVICES DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2020 and 2019

**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**

	2020	2019
Revenues:		
Program revenues:		
Wastewater services	681,628	674,722
Groundwater surcharge and permit fees	146,082	103,547
Hookup fees and other revenues	16,260	1,650
General revenues:		
Property taxes	100,344	97,086
Loan fees	(1,280)	(5,141)
Investment earnings	2,563	5,839
Total revenues	945,597	877,703
Expenses:		
Program expenses	933,665	870,780
Change in net position	11,932	6,923
Net position - beginning of the year	4,770,555	4,763,632
Net position - end of the year	\$ 4,782,487	\$ 4,770,555

MENDOCINO CITY COMMUNITY SERVICES DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2020 and 2019

**Capital Assets**

The District's investment in capital assets, as of June 30, 2020 and 2019 totaled \$6,569,118 and \$5,319,658, respectively. This investment in capital assets consists of structures and equipment. Within total capital assets includes projects in process that totaled \$2,612,485 and \$1,299,113 for the fiscal years ended 2020 and 2019, respectively.

**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, 2020 and 2019. Long term notes payable are \$2,223,959 and \$404,473 for 2020 and 2019, respectively. Compensated absences are \$6,228 and \$2,738 for 2020 and 2019. Net pension liability totals \$446,977 and \$269,031 for 2020 and 2019, respectively.

**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 Superintendent, Mendocino City Community Services District, Post Office Box 1029, Mendocino, California.

MENDOCINO CITY COMMUNITY SERVICES DISTRICT  
 STATEMENTS OF NET POSITION  
 JUNE 30, 2020 and 2019

	2020	2019
<b>ASSETS</b>		
Cash and cash equivalents	\$ 303,879	\$ 141,502
Investments and accrued interest	466,410	114,607
Accounts and taxes receivable	46,901	27,237
Inventory	2,551	2,140
Total current assets	819,741	285,486
Capital assets (net of accumulated depreciation):		
Property, plant and equipment	3,956,633	4,020,545
Projects in process	2,612,485	1,299,113
Total capital assets	6,569,118	5,319,658
Deferred inflows	303,641	73,000
Total assets	\$ 7,692,500	\$ 5,678,144

The accompanying notes are an integral part of these financial statements

MENDOCINO CITY COMMUNITY SERVICES DISTRICT  
STATEMENTS OF NET POSITION  
JUNE 30, 2020 and 2019

	2020	2019
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 177,917	\$ 10,270
Current portion of note payable	54,932	221,077
Total current liabilities	232,849	231,347
Long term liabilities:		
Note payable	2,223,959	404,473
Compensated absences	6,228	2,738
Deferred outflows:		
Net pension liability	446,977	269,031
Total long term liabilities	2,677,164	676,242
Total liabilities	2,910,013	907,589
<b>NET POSITION</b>		
Net investment in capital assets	4,290,227	4,580,972
Restricted for debt service	54,932	67,640
Restricted for Groundwater Management	200,793	200,793
Unassigned	236,535	(78,850)
Total net position	4,782,487	4,770,555
Total liabilities and net position	\$ 7,692,500	\$ 5,678,144

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, 2020 and 2019

	2020	2019
<b>Program Expenses</b>		
Personnel and benefits	\$ 448,458	380,047
Collection	7,894	12,391
Disposal	28,582	25,189
Groundwater management	37,643	33,257
Treatment	127,681	126,199
Sewer	30,060	77,104
General and administrative	115,682	44,896
Interest expense	17,632	16,906
Depreciation	<u>120,033</u>	<u>154,791</u>
Total program expenses	<u>933,665</u>	<u>870,780</u>
<b>Operating revenues</b>		
Wastewater services	681,628	674,722
Groundwater surcharge and permit fees	146,082	103,547
Hookup fees	9,752	-
Other revenues	<u>6,508</u>	<u>1,650</u>
Total program revenues	<u>843,970</u>	<u>779,919</u>
Net program revenues (expenses)	<u>(89,695)</u>	<u>(90,861)</u>
<b>General revenues</b>		
Property taxes	100,344	97,086
Loan fees	(1,280)	(5,141)
Investment earnings	<u>2,563</u>	<u>5,839</u>
Total general revenues	<u>101,627</u>	<u>102,925</u>
Change in net position	11,932	6,923
Net position, beginning of year	<u>4,770,555</u>	<u>4,763,632</u>
Net position, end of year	<u>\$ 4,782,487</u>	<u>\$ 4,770,555</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, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from government, grants, program revenue	\$ 870,675	\$ 852,937
Cash paid to vendors and employees	(642,906)	(717,917)
Investment income received	2,563	5,839
Net cash provided by operations	230,332	140,859
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net purchase in property, plant and equipment	(1,369,493)	(603,066)
Net change in investments	(351,803)	294,219
Net cash used by investing activities	(1,721,296)	(308,847)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings from note payable	1,874,419	200,000
Principal payments on note payable	(221,078)	(20,455)
Net cash used by financing activities	1,653,341	179,545
NET CHANGE IN CASH	162,377	11,557
CASH, beginning of year	141,502	129,945
CASH, end of year	\$ 303,879	\$ 141,502
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Change in net position	\$ 11,932	\$ 6,923
Adjustments to reconcile change in net assets to cash from operations		
Depreciation and amortization	120,033	154,791
(Increase) decrease in:		
Receivables	(19,664)	33,943
Inventory	(411)	(203)
Increase (decrease) in:		
Accounts payable and accrued expenses	171,137	(1,725)
Deferred outflows	(52,695)	(52,870)
Total cash provided (used) by operations	\$ 230,332	\$ 140,859

The accompanying notes are an integral part of these financial statements

MENDOCINO CITY COMMUNITY SERVICES DISTRICT  
BALANCE SHEETS  
GOVERNMENTAL FUNDS  
JUNE 30, 2020 and 2019

	2020	2019
<b>ASSETS</b>		
Cash and cash equivalents	\$ 303,879	\$ 141,502
Investments and accrued interest	466,410	114,607
Accounts receivable	46,901	27,237
Inventory	2,551	2,140
Total assets	\$ 819,741	\$ 285,486
 <b>LIABILITIES and FUND BALANCE</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 177,917	\$ 10,270
 <b>Fund balance</b>		
Unreserved	641,824	275,216
Total fund balance	641,824	275,216
Total liabilities and fund balances	\$ 819,741	\$ 285,486

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, 2020 and 2019

	2020	2019
Fund balances - total government funds	\$ 641,824	\$ 275,216
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.	6,569,118	5,319,658
Noncurrent assets are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Deferred inflows	303,641	73,000
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Compensated absences	(6,228)	(2,738)
Notes and interest payable	(2,278,891)	(625,550)
Deferred outflow	(446,977)	(269,031)
Net position of governmental activities	\$ 4,782,487	\$ 4,770,555

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, 2020 and 2019

	2020	2019
<b>Revenues:</b>		
Property taxes	\$ 100,344	\$ 97,086
Investment earnings	2,563	5,839
Program revenues	837,462	779,919
Miscellaneous	5,227	1,650
Total revenues	945,596	884,494
 <b>Expenditures:</b>		
Current:		
Salaries and employee benefits	501,153	432,887
Services and supplies	347,542	241,933
Debt Service:		
Principal	221,078	20,455
Interest	17,632	16,906
Capital Outlay	1,369,493	493,405
Total expenditures	2,456,898	1,205,586
 Net change in fund balances	(1,511,302)	(321,092)
 Fund balance, beginning of year	275,216	596,308
Other financing uses-CIP	1,877,910	-
Fund balance, beginning of year restated	2,153,126	596,308
 Fund balance, end of year	\$ 641,824	\$ 275,216

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, 2020 and 2019

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

	2020	2019
Net change in fund balance - governmental funds	\$(1,511,302)	\$ (321,092)
<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	(120,033)	(154,791)
Capital asset expenditures	1,369,493	493,405
<p>Governmental funds report debt service payments as expenditures, however, those expenditures are not included in the statement of activities, but rather as a change in the statement of financial position</p>		
	221,078	20,455
<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>		
Interest expense	(17,632)	(16,906)
Loan fees	(1,280)	(5,141)
Net change in deferred inflows/outflows	71,608	(9,007)
Change in net position of governmental activities	\$ 11,932	\$ 6,923

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  
BUDGET TO ACTUAL  
GENERAL FUND  
FOR THE YEARS ENDED JUNE 30, 2020 and 2019

	<b>2020</b>			Variance Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
<b>Revenues</b>				
Property taxes	\$ 93,309	\$ 93,309	\$ 100,344	\$ 7,035
Investment earnings	2,732	2,732	2,563	(169)
Program revenues	<u>835,662</u>	<u>835,662</u>	<u>842,689</u>	<u>7,027</u>
Total revenues	<u>931,703</u>	<u>931,703</u>	<u>945,596</u>	<u>13,893</u>
<b>Expenditures</b>				
Current:				
Salaries and employee benefits	451,758	451,758	501,153	(49,395)
Services and supplies	479,915	479,915	586,252	(106,337)
Capital outlay	<u>115,029</u>	<u>115,029</u>	<u>1,369,493</u>	<u>(1,254,464)</u>
Total expenditures	<u>931,673</u>	<u>931,673</u>	<u>2,456,898</u>	<u>(1,410,196)</u>
Net change in fund balance	30	30	(1,511,302)	(1,396,303)
Fund balance, beginning of year	<u>2,153,126</u>	<u>2,153,126</u>	<u>2,153,126</u>	<u>-</u>
Fund balance, end of year	<u>\$ 2,153,156</u>	<u>\$ 2,153,156</u>	<u>\$ 641,824</u>	<u>\$ (1,396,303)</u>

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  
BUDGET TO ACTUAL  
GENERAL FUND  
FOR THE YEARS ENDED JUNE 30, 2020 and 2019

	<b>2019</b>			Variance Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
<b>Revenues</b>				
Property taxes	\$ 87,672	\$ 87,672	\$ 97,086	\$ 9,414
Investment earnings	2,732	2,732	5,839	3,107
Program revenues	<u>832,102</u>	<u>832,102</u>	<u>781,569</u>	<u>(50,533)</u>
Total revenues	<u>922,506</u>	<u>922,506</u>	<u>884,494</u>	<u>(38,012)</u>
<b>Expenditures</b>				
Current:				
Salaries and employee benefits	435,859	435,859	432,887	2,972
Services and supplies	<u>486,617</u>	<u>486,617</u>	<u>772,699</u>	<u>(286,082)</u>
Total expenditures	<u>922,476</u>	<u>922,476</u>	<u>1,205,586</u>	<u>(283,110)</u>
Net change in fund balance	30	30	(321,092)	(321,122)
Fund balance, beginning of year	<u>596,308</u>	<u>596,308</u>	<u>596,308</u>	<u>-</u>
Fund balance, end of year	<u>\$ 596,338</u>	<u>\$ 596,338</u>	<u>\$ 275,216</u>	<u>\$ (321,122)</u>

The accompanying notes are an integral part of these financial statements

MENDOCINO CITY COMMUNITY SERVICES DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 and 2019

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, 2020 and 2019

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. 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.

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

MENDOCINO CITY COMMUNITY SERVICES DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 and 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Capital assets, continued

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.

Unassigned Net Position - Unassigned 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.

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.

MENDOCINO CITY COMMUNITY SERVICES DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2020 and 2019

NOTE 2 DETAILED NOTES

**Cash and Investments**

The District's cash at June 30 is as follows:

	2020	2019
Cash	\$ 303,379	\$ 141,002
Cash investment	466,410	114,607
Petty Cash	500	500
Total	\$ 770,289	\$ 256,109

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.

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.

MENDOCINO CITY COMMUNITY SERVICES DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 and 2019

NOTE 2 DETAILED NOTES continued

**Accounts Receivable**

Accounts and tax receivable consist of the following at June 30, 2020 and 2019 is \$46,901 and \$27,237.

**Capital Assets**

Capital assets are as follows as June 30:

	<b>2020</b>		
	Beginning Balance	Net additions and deletions	Ending Balance
	<u>          </u>	<u>          </u>	<u>          </u>
Capital assets, not being depreciated:			
Projects in process	\$ 1,299,113	\$ 1,313,372	\$ 2,612,485
Land	1,600,000	-	1,600,000
Total capital assets, not being depreciated	<u>2,899,113</u>	<u>1,313,372</u>	<u>4,212,485</u>
Capital assets, being depreciated:			
Improvements & Infrastructure	\$ 4,659,378	\$ 45,495	\$ 4,704,873
Vehicles	46,800	7,563	54,363
Office equipment and furniture	50,736		50,736
Equipment	650,733	3,063	653,796
Total capital assets, being depreciated	<u>5,407,647</u>	<u>56,121</u>	<u>5,463,768</u>
Less accumulated depreciation for:	<u>(2,987,102)</u>	<u>(120,033)</u>	<u>(3,107,135)</u>
Total capital assets, being depreciated, net	<u>2,420,545</u>	<u>(63,912)</u>	<u>2,356,633</u>
Capital assets, net	<u>\$ 5,319,658</u>	<u>\$ 1,249,460</u>	<u>\$ 6,569,118</u>

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

Governmental activities:	
District programs	<u>\$ 120,033</u>

MENDOCINO CITY COMMUNITY SERVICES DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 and 2019

NOTE 2 DETAILED NOTES continued

**Capital Assets, continued**

	<b>2019</b>		
	Beginning Balance	Net additions and deletions	Ending Balance
Capital assets, not being depreciated:			
Projects in process	\$ 706,296	\$ 592,817	\$ 1,299,113
Land	1,600,000	-	1,600,000
Total capital assets, not being depreciated	2,306,296	592,817	2,899,113
Capital assets, being depreciated:			
Improvements & Infrastructure	\$ 4,649,129	\$ 10,249	\$ 4,659,378
Vehicles	46,800	-	46,800
Office equipment and furniture	50,736	-	50,736
Equipment	650,733	-	650,733
Total capital assets, being depreciated	5,397,398	10,249	5,407,647
Less accumulated depreciation for:	(2,832,311)	(154,791)	(2,987,102)
Total capital assets, being depreciated, net	2,565,087	(144,542)	2,420,545
Capital assets, net	\$ 4,871,383	\$ 448,275	\$ 5,319,658

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

Governmental activities:	
District programs	\$ 154,791

**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 percent.

MENDOCINO CITY COMMUNITY SERVICES DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 and 2019

NOTE 2 DETAILED NOTES continued

**Long Term Liabilities, continued**

The District has a line of credit with a local financial institution. The line of credit is \$750,000, the interest rate is 7.25 percent and the loan matured March 2020. The line of credit was not renewed.

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.

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

	<b>2020</b>				
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Note payable	\$ 405,096	\$1,874,419	\$ (55,556)	\$2,223,959	\$ 54,932
Deferred outflows	269,485	230,187	(52,695)	446,977	46,000
Line of credit	200,000	-	(200,000)	-	-
Compensated absences	2,738	3,490	-	6,228	6,228
Total long-term liabilities	<u>\$ 877,319</u>	<u>\$2,108,096</u>	<u>\$ (308,251)</u>	<u>\$2,677,164</u>	<u>\$ 107,160</u>
	<b>2019</b>				
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Note payable	\$ 425,551	\$ -	\$ (20,455)	\$ 405,096	\$ 21,077
Deferred outflows	270,268	51,603.00	(52,386.00)	269,485	-
Line of credit	-	200,000	-	200,000	200,000
Compensated absences	\$ 2,738	-	-	2,738	-
Total long-term liabilities	<u>\$ 698,557</u>	<u>\$ 251,603</u>	<u>\$ (72,841)</u>	<u>\$ 877,319</u>	<u>\$ 221,077</u>

Future maturity for long term liabilities is as follows at June 30 is as follows:

2021	\$ 91,926
2022	89,385
2023	94,066
2024	97,995
2025	91,709
Thereafter	2,212,083
	<u>\$2,677,164</u>

MENDOCINO CITY COMMUNITY SERVICES DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 and 2019

NOTE 2 DETAILED NOTES continued

**Ground Lease**

The District leases ground space at no cost from the State of California. The lease for District Drought Monitoring Wells is renewed every eight years and the lease for the land where the Plan is located is renewed every forty years.

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.

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 2 have refused to comply with the requirement that they become part of the program. The one property owner litigating against the District in 2019 prevailed in 2019 on an appeal. The District's broad legal authority to manage groundwater was validated on appeal, but the Groundwater Extraction Permit Ordinance 07-1 was ruled invalid by the Court due to a technicality in how it was adopted. As a result, 198 of the District issued Groundwater Extraction Permits were invalidated.

MENDOCINO CITY COMMUNITY SERVICES DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 and 2019

NOTE 4 RISK MANAGEMENT, continued

**Litigation**

The District re-adopted the Groundwater Extraction Permit Ordinance following state water code as Ordinance 2020-1 in May/June of 2020 and re-issued those 198 GWE-Permits. As of this time 145 of those re-issued permits have been signed and returned, but the District still has 53 permits remain unreturned.

The District is working to remind property owners of the need to sign and return these permits or potentially face fines and or liens against their property. The District is also currently appealing the ruling to award \$129,000 in legal fees to the property owner that has been litigating against the District.

During the Spring of 2020, another person filed suit against the District related to her trip and fall in a pothole at the corner of Ukiah and Howard St. The plaintiff claimed the District was responsible for her injuries as the District is responsible for Street lighting, and the light on the corner where she tripped was not functioning. District Insurance Provider (Golden State Risk Management) handled the case, and eventually settled by making payment of \$5,000. The County of Mendocino is responsible for road maintenance in town and had a larger settlement, PG&E who owns and maintains the streetlights in town also paid some settlement. The District is responsible for paying the electric bill and informs PG&E of damaged lights. This was done both before and after the accident, and the light is now functioning again. The case was settled and closed in October 2020.

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**

The District is 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, 2020 and 2019

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, 2019
Measurement Date (MD)	June 30, 2019
Measurement Period (MP)	July 1, 2018 to June 30, 2019

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, 2018 Annual Actuarial Valuation Report. Details of the benefits provided can be obtained in Appendix B of the June 30, 2018 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, 2020 and 2019

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, 2018 (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, 2018 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2018 total pension liability. Both the June 30, 2018 total pension liability and the June 30, 2019 total pension liability were based on the following actuarial methods and assumptions:

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.

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions	
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 Expenses; includes Inflation
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

**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.

MENDOCINO CITY COMMUNITY SERVICES DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 and 2019

NOTE 5 DEFINED BENEFIT PENSION PLAN, continued

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 percent 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 percent, and the required employer contribution rate is 6.25 percent.

**Annual Pension Cost**

For the fiscal year ended June 30, 2019, the District's annual pension cost of \$33,197 for CalPERS was equal to the District's required and actual contributions.

NOTE 6 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:

	2020	2019
Revenue sharing	\$ 160,000	\$ 160,000
Environmental Protection Agency	1,089,200	1,089,200
Farmers Home Administration	284,000	284,000
State Department of Water Resources	200,000	200,000
State Water Resources Control Board	241,755	241,755
Total contributed capital	\$ 1,974,955	\$ 1,974,955

NOTE 7 SUBSEQUENT EVENTS

The District has evaluated subsequent events through February 22, 2021, the date the financial statements were available to be issued. In January 2020, COVID-19 emerged and has subsequently spread worldwide. The World Health Organization has declared COVID-19 a pandemic resulting in federal, state and local governments and private entities mandating various restrictions. This could have a material effect on the District's operations, financial position, and cash flows.

REQUIRED SUPPLEMENTARY INFORMATION

MENDOCINO CITY COMMUNITY SERVICES DISTRICT  
 REQUIRED SUPPLEMENTARY INFORMATION  
 JUNE 30, 2020

**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.

	<u>06/30/2019</u>
Plan's Proportion of the Net Pension Liability/(Asset)	0.01023%
Plan's Proportionate Share of the Net Pension Liability/(Asset)	\$ 1,882,304
Plan's Covered-Employee Payroll	\$ 249,716
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll	753.78%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	0.01023%
Plan's Proportionate Share of Aggregate Employer Contributions	\$ 210,395

**Schedule of Plan Contributions**

	<u>Fiscal Year 2018-2019</u>
Actuarially Determined Contribution	\$ 52,695
Contributions in Relation to the Actuarially Determined Contribution	<u>(52,695)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>
Covered-Employee Payroll	\$ 249,716
Contributions as a Percentage of Covered-Employee Payroll	21.10%

MENDOCINO CITY COMMUNITY SERVICES DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2020

**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  
JUNE 30, 2020

Directors:

Harold Hauck, President

James Sullivan, Vice President

Jean Arnold

Otto Rice

Clerk of the Board:

Ryan Rhodes, Superintendent