

**MENDOCINO CITY COMMUNITY  
SERVICES DISTRICT**

**MENDOCINO, CALIFORNIA**

**ANNUAL FINANCIAL REPORT**

**JUNE 30, 2025**



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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Mendocino City Community Services District  
Mendocino, California

### Opinions

We have audited the accompanying financial statements of the business-type activities of Mendocino City Community Services District, as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise Mendocino City Community Services District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Mendocino City Community Services District, as of June 30, 2025, and the respective changes in financial position and cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America and the State Controller's Minimum Audit Requirements for California Special Districts.

### Basis for Opinions

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

### Responsibilities of Management for the Financial Statements

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

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

### Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Mendocino City Community Services District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Mendocino City Community Services District's ability to continue as a going concern for a reasonable period of time.

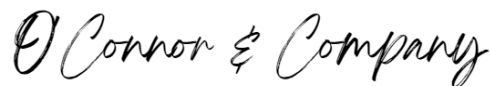
We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matters

*Required Supplementary Information*

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion is not modified with respect to this matter.

Accounting principles generally accepted in the United States of America require that the pension schedules on pages 19-20, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



O'Connor & Company

Novato, California  
November 21, 2025

Mendocino City Community Services District  
STATEMENT OF NET POSITION  
Proprietary Fund  
June 30, 2025

ASSETS

Current assets:

Cash and investments	\$ 1,055,738
Accounts receivable	131,551
Inventory	2,626
Prepaid items	<u>57,165</u>
Total current assets	<u>1,247,080</u>

Capital assets (Note 3):

Non-depreciable assets	1,600,000
Depreciable assets (net of depreciation)	<u>5,532,284</u>
Total assets	<u>8,379,364</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources - Pension (Note 4)	<u>175,012</u>
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LIABILITIES AND NET POSITION

Current liabilities:

Accounts payable	10,802
Accrued expenses	12,964
Compensated absences	<u>12,160</u>
Total current liabilities	<u>35,926</u>

Long-term liabilities:

Compensated absences	7,429
Due within one year (Note 5)	59,742
Due in more than one year (Note 5)	2,167,795
Net pension liability (Note 4)	<u>552,361</u>
Total long-term liabilities	<u>2,787,327</u>
Total liabilities	<u>2,823,253</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources - Pension (Note 4)	<u>23,826</u>
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Net position:

Net investment in capital assets	4,904,747
Unrestricted	<u>802,550</u>
Total net position	<u>\$ 5,707,297</u>

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

Mendocino City Community Services District  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION  
Proprietary Fund  
For the Year Ended June 30, 2025

Operating revenues:	
Ground water and waste water fees	\$ 1,450,684
Total operating revenues	<u>1,450,684</u>
Operating expenses:	
Salaries and benefits	557,790
Waste water	311,639
Ground water management	130,187
Treatment	24,117
General and administrative	143,232
Depreciation	<u>280,724</u>
Total operating expenses	<u>1,447,689</u>
Operating income (loss)	<u>2,995</u>
Non-operating revenues (expenses):	
Intergovernmental revenue	47,593
Property taxes	135,155
Interest income	15,444
Interest expense	<u>(32,227)</u>
Total non-operating revenues (expenses)	<u>165,965</u>
Changes in net position	168,960
Net position, beginning of period	<u>5,538,337</u>
Net position, end of period	<u>\$ 5,707,297</u>

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

Mendocino City Community Services District  
STATEMENT OF CASH FLOWS  
Proprietary Fund  
For the Year Ended June 30, 2025

Cash flows from operating activities:	
Receipts from customers	\$ 1,447,647
Payments to employees	(509,234)
Payments to suppliers	<u>(671,885)</u>
Net cash provided (used) by operating activities	<u>266,528</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	-
Intergovernmental revenue	47,593
Payments on long-term debt	(57,995)
Interest paid on long-term debt	<u>(32,227)</u>
Net cash provided (used) by capital and related financing activities	<u>(42,629)</u>
Cash flows from non-capital financing activities:	
Property Taxes	<u>135,155</u>
Net cash provided (used) by non-capital financing activities	<u>135,155</u>
Cash flows from investing activities:	
Interest earned	<u>15,444</u>
Net cash provided by investing activities	<u>15,444</u>
Net increase (decrease) in cash and cash equivalents	374,498
Cash and cash equivalents - beginning of period	<u>681,240</u>
Cash and cash equivalents - end of period	<u>\$ 1,055,738</u>
Reconciliation of operating income (loss) to net cash provided (used in) operating activities:	
Operating income (loss)	\$ 2,995
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	280,724
Changes in certain assets and liabilities:	
Accounts receivable	(3,037)
Inventory	-
Prepaid items	(3,992)
Deferred outflow of resources - pension plan	61,756
Accounts payable	(58,718)
Compensated absences	5,587
Deferred inflow of resources - pension plan	(14,682)
Net pension liability	<u>(4,105)</u>
Total adjustments	<u>263,533</u>
Net cash provided (used) by operating activities	<u>\$ 266,528</u>

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

Mendocino City Community Services District  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2025

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Description of District

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

B. The Reporting Entity

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

C. Basis of Accounting

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

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

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

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

Mendocino City Community Services District  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2025

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

D. Net Position

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

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

Net Position Flow Assumption

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

E. Estimated Budgets

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

F. Accounts Receivable

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

G. Inventories and Prepaid Items

All inventories are valued at cost based upon physical determinations made at the end of each year. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

H. Capital Assets

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

Mendocino City Community Services District  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2025

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

H. Capital Assets (concluded)

Depreciation of capital assets is charged as an expense against operations each year and the total amount of depreciation taken over the years, accumulated depreciation, is reported on the Statement of Net Position – Business-type Activities Enterprise Fund as a reduction in the book value of capital assets. Depreciation is charged as an operating expense on the Statement of Revenues, Expenses and Changes in Net Position – Proprietary Fund. Depreciation expense was \$280,724 for the fiscal year ended June 30, 2025.

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

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

I. Cash and Cash Equivalents

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

J. Compensated Absences

The District adopted GASB Statement No. 101, *Compensated Absences*, for the year ended June 30, 2025. The implementation of this accounting standard did not have a material impact on the District's financial statements but did have an impact on the presentation of the financial statements and related disclosures in the notes to the financial statements.

District employees accumulate earned but unused vacation and sick leave benefits in accordance with applicable and District policies. In accordance with GASB Statement No.101, *Compensated Absences*, leave is recognized when it is attributable to services already rendered, the leave accumulates and is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Vacation leave is recorded when earned by employees and may not accumulate more than 144 hours after 11 years of service. Sick leave for these employees is accrued when earned. Management evaluates sick leave for other District employees to determine the amount that is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. This analysis includes assessing relevant factors such as historical information about the use, payment or forfeiture of compensated absences, and the District's policies related to compensated absences. The measurement of compensated absences includes salary-related payments such as the employer portion of social security and Medicare taxes.

The total amount of compensated absences payable at June 30, 2025 was \$19,589.

K. Deferred Revenue

Deferred revenue is recorded to the extent that funds are received ahead of time where it qualifies for income recognition. Deferred revenue consists primarily of intergovernmental grants received during the current year for projects to be conducted subsequent to June 30, 2025.

Mendocino City Community Services District  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2025

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

L. Risk Management

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

M. Estimates

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

N. Pensions

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

O. Reclassifications

Certain balances at, and for the year ended June 30, 2024, were reclassified to conform with June 30, 2025, balances.

P. Contingencies and Subsequent Events

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

Litigation

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

Q. Deferred Outflows and Inflows of Resources

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

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

Mendocino City Community Services District  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2025

NOTE 2 - CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

These funds have been segregated into accounts and at June 30, 2025, the balances were as follows:

	<u>2025</u>
Cash and investments:	
Demand accounts	\$ 328,816
LAIF	<u>727,552</u>
Total	<u>\$ 1,055,738</u>

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

LAIF is part of the Pooled Money Investment Account managed by the California State Treasurer and funds are invested in accordance with Government Code Sections 16430 and 16480. Participants in LAIF have the right to withdraw their funds with one day's notice. At June 30, 2025, the fair value of LAIF's assets was approximately equal to the District's share as reported above. Restriction of cash is required by Board resolution or District ordinance to equal required reserves.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for deposits and investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

California Government Code requires California banks and savings and loan associations to secure an entity's deposits by pledging government securities with a value of 110% of an entity's deposits. California law also allows financial institutions to secure entity deposits by pledging first trust deed mortgage notes having a value of 150% of an entity's total deposits. The entity's Treasurer may waive the collateral requirement for deposits which are fully insured up to \$250,000 by the FDIC. The collateral for deposits in federal and state-chartered banks is held in safekeeping by an authorized agent of depository recognized by the State of California Department of Banking. The collateral for deposits with savings and loan associations is generally held in safekeeping by the Federal Home Loan Bank in San Francisco, California as an agent of depository. These securities are physically held in an undivided pool for all California public agency depositors.

Fair Value Hierarchy

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

Mendocino City Community Services District  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2025

NOTE 3 - CAPITAL ASSETS

Capital assets consisted of the following at June 30, 2025 and 2024.

<u>Business-type Activities</u>	<u>Balance 6/30/24</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance 6/30/25</u>
Capital assets, not being depreciated:				
Land	\$ 1,600,000	\$ -	\$ -	\$ 1,600,000
Total capital assets, not being depr.	<u>1,600,000</u>	<u>-</u>	<u>-</u>	<u>1,600,000</u>
Capital assets, being depreciated:				
Sewer & water facilities and improvements	8,975,491	-	-	8,975,491
Equipment and furniture	833,025	-	-	833,025
Vehicles	105,157	-	-	105,157
Total capital assets, being depreciated	<u>9,913,673</u>	<u>-</u>	<u>-</u>	<u>9,913,673</u>
Less accumulated depreciation:				
Sewer & water facilities and improvements	3,639,568	257,033	-	3,896,601
Equipment and furniture	391,496	18,612	-	410,108
Vehicles	69,601	5,079	-	74,680
Total accumulated depreciation	<u>4,100,665</u>	<u>280,724</u>	<u>-</u>	<u>4,381,389</u>
Total capital assets being depreciated – net	<u>5,813,008</u>	<u>(280,724)</u>	<u>-</u>	<u>5,532,284</u>
Capital assets – net	<u>\$ 7,413,008</u>	<u>\$ (280,724)</u>	<u>\$ -</u>	<u>\$ 7,132,284</u>

NOTE 4 - PENSION PLAN

A. General Information About The Pension Plans

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

*Benefits Provided* - CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost-of-living adjustments for the plan are applied as specified by the Public Employees' Retirement Law.

Mendocino City Community Services District  
NOTES TO BASIC FINANCIAL STATEMENTS  
 For the Year Ended June 30, 2025

NOTE 4 - PENSION PLAN (continued)

A. General Information About The Pension Plans (concluded)

The Plan's provisions and benefits in effect at June 30, 2025, are summarized as follows:

	Miscellaneous	
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	2% @ 60	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	60	62
Monthly benefits, as a % of eligible compensations	2.0%	2.0%
Required employee contribution rates	6.93%	7.75%
Required employer contribution rates	10.10%	7.68%

*Contributions* - Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Employer contribution rates may change if plan contracts are amended. Payments made by the District to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements are classified as plan member contributions.

For the year ended June 30, 2025, the contributions recognized as part of pension expense for each Plan were as follows:

	Miscellaneous
Contributions - employer	\$68,137

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

As of June 30, 2025, the District reported net pension liabilities for its proportionate shares of the net pension liability of the Miscellaneous Plans as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	\$ 552,361

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2024, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2023, rolled forward to June 30, 2024, using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

The District's proportionate share of the net pension liability for the Plan as of June 30, 2024, was as follows:

Mendocino City Community Services District  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2025

NOTE 4 - PENSION PLAN (continued)

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

	Miscellaneous
Proportion - June 30, 2023	0.01113%
Proportion - June 30, 2024	<u>0.01142%</u>
Change – Increase (Decrease)	(0.00029%)

For the year ended June 30, 2025, the District recognized pension expense/(credit) of \$111,106.

On June 30, 2025, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 68,137	\$ -
Differences between actual and expected experience	47,757	1,863
Changes in assumptions	14,197	-
Change in employer's proportion	13,123	-
Differences between actual contributions vs. proportionate share of contributions	-	21,963
Net differences between projected and actual earnings on plan investments	31,799	-
Total	\$ 175,013	\$ 23,826

\$68,137 reported as deferred outflows of resources related to contributions after the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized as pension expense as follows:

<u>Year Ended June 30</u>		
2026		\$ 29,966
2027		65,366
2028		(1,385)
2029		(10,897)

*Actuarial Assumptions* - The June 30, 2023, valuation was rolled forward to determine the June 30, 2024, total pension liability, based on the following actuarial methods and assumptions:

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

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

Mendocino City Community Services District  
NOTES TO BASIC FINANCIAL STATEMENTS  
 For the Year Ended June 30, 2025

NOTE 4 - PENSION PLAN (continued)

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

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

*Long-term Expected Rate of Return* - The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach.

Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

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

<u>Asset Class (a)</u>	<u>Allocation</u>	<u>Real Return (a&amp;b)</u>
Global equity – cap weighted	30%	4.54%
Global equity – non-cap weighted	12%	3.84%
Private equity	13%	7.28%
Treasury	5%	0.27%
Mortgage-backed securities	5%	0.50%
Investment grade corporates	10%	1.56%
High yield	5%	2.27%
Emerging market debt	5%	2.48%
Private debt	5%	3.57%
Real assets	15%	3.21%
Leverage	(5%)	(0.59%)
Total	<u>100%</u>	

(a) An expected inflation of 2.30% used for this period.

(b) Figures are based on the 2021-22 Asset Liability Management study.

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

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

Mendocino City Community Services District  
NOTES TO BASIC FINANCIAL STATEMENTS  
 For the Year Ended June 30, 2025

NOTE 4 - PENSION PLAN (concluded)

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

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

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

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

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

The EARSL for PERF C for the measurement period ending June 30, 2023, is 3.8 years, which was obtained by dividing the total service years of 630,177 (the sum of remaining service lifetimes of the active employees) by 166,163 (the total number of participants: active, inactive, and retired) in PERF C. Inactive employees and retirees have remaining service lifetimes equal to 0. Total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

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

	Miscellaneous
1% Decrease	5.90%
Net Pension Liability	\$866,547
Current Discount Rate	6.90%
Net Pension Liability	\$552,361
1% Increase	7.90%
Net Pension Liability	\$293,740

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

*Payable to the Pension Plan* - At June 30, 2025, the District reported no amounts payable for the outstanding amount of contributions to the pension plan required for the year then ended.

Mendocino City Community Services District  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2025

NOTE 5 - LONG-TERM DEBT

The following is a summary of changes in long-term debt as of June 30, 2025:

<u>Direct Borrowings:</u>	<u>June 30,</u> <u>2024</u>	<u>Additions</u>	<u>Adjustments</u> <u>&amp;</u> <u>Retirements</u>	<u>June 30,</u> <u>2025</u>	<u>Current</u>
2020 – USDA Certificates of Participation	\$1,971,000	\$ -	\$ 33,500	\$1,937,500	\$ 34,500
2005 – California Infrastructure and Economic Development	314,532	-	24,495	290,037	25,242
Compensated absences*	<u>14,002</u>	<u>5,587</u>	<u>-</u>	<u>19,589</u>	<u>12,160</u>
Total	<u>\$2,299,534</u>	<u>\$ 5,587</u>	<u>\$ 57,995</u>	<u>\$2,247,126</u>	<u>\$ 71,902</u>

\*Compensated absences activity shown in the table above is presented on a net increase (decrease) basis as permitted by GASB Statement 101.

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

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

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	\$ 25,242	\$ 8,846	\$ 34,088
2027	26,012	8,076	34,088
2028	26,805	7,282	34,087
2029	27,623	6,466	34,089
2030	28,465	5,622	34,087
2031	29,333	4,754	34,087
2032	30,228	3,860	34,088
2033	31,150	2,938	34,088
2034	32,100	1,988	34,088
2035	<u>33,079</u>	<u>1,008</u>	<u>34,087</u>
Total	<u>\$ 290,037</u>	<u>\$ 50,840</u>	<u>\$ 340,877</u>

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

Mendocino City Community Services District  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2025

NOTE 5 - LONG-TERM DEBT (concluded)

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

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	\$ 34,500	\$ 46,016	\$ 80,516
2027	35,500	45,196	80,696
2028	36,000	44,353	80,353
2029	37,000	43,498	80,498
2030	38,000	42,619	80,619
2031	39,000	41,717	80,717
2032	40,000	40,791	80,791
2033	41,500	39,841	81,341
2034	42,500	38,855	81,355
2035	43,500	37,846	81,346
2036	44,500	36,813	81,313
2037	46,000	35,756	81,756
2038	47,000	34,663	81,663
2039	48,000	33,547	81,547
2040	49,500	32,407	81,907
2041	51,000	31,231	82,231
2042	52,000	30,020	82,020
2043	53,500	28,785	82,285
2044	55,000	27,514	82,514
2045	56,500	26,208	82,708
2046	58,000	24,866	82,866
2047	59,500	23,489	82,989
2048	61,000	22,076	83,076
2049	62,500	20,627	83,127
2050	64,000	19,143	83,143
2051	66,000	17,623	83,623
2052	67,500	16,055	83,555
2053	69,500	14,452	83,952
2054	71,000	12,801	83,801
2055	73,000	11,115	84,115
2056	75,000	9,381	84,381
2057	77,000	7,600	84,600
2058	79,000	5,771	84,771
2059	81,000	3,895	84,895
2060	83,000	1,971	84,971
Total	<u>\$ 1,937,500</u>	<u>\$ 948,541</u>	<u>\$ 2,886,041</u>

NOTE 6 - PROPERTY TAXES

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

Mendocino City Community Services District  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2025

NOTE 6 - PROPERTY TAXES (concluded)

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

Mendocino City Community Services District  
As of June 30, 2025  
Last 10 Years

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

<u>Measurement Date</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Schedule of the Proportionate Share of the Net Pension Liability										
Proportion of the net pension liability	0.0046%	0.0045%	0.0045%	0.3610%	0.4160%	0.4130%	0.4180%	0.4310%	0.4360%	0.4490%
Proportionate share of the net pension liability	\$552,361	\$556,466	\$514,529	\$195,002	\$441,801	\$423,029	\$402,821	\$427,392	\$377,028	\$307,913
Covered - employee payroll	\$263,932	\$235,175	\$232,103	\$183,292	\$249,716	\$249,716	\$263,205	\$254,260	\$249,597	\$228,758
Proportionate share of the net pension liability as a percentage of covered-employee payroll	209.28%	236.62%	221.68%	106.39%	176.92%	169.40%	153.04%	168.09%	151.05%	134.60%
Plan fiduciary net position as a percentage of the total pension liability	76.28%	75.21%	76.25%	90.66%	77.17%	73.73%	77.09%	75.18%	74.15%	79.24%

NOTES TO SCHEDULE:

Changes in Benefit Terms - None

Changes in Assumptions - None

Mendocino City Community Services District  
As of June 30, 2025  
Last 10 Years  
SCHEDULE OF PENSION CONTRIBUTIONS

<u>Fiscal Year End</u>	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
<u>SCHEDULE OF CONTRIBUTIONS</u>										
Contractually required contribution (actuarially determined)	\$ 68,137	\$ 56,774	\$ 54,941	\$ 50,629	\$ 41,573	\$ 67,209	\$ 59,509	\$ 52,151	\$ 47,346	\$ 44,174
Contributions in relation to the actuarially determined contributions	<u>(68,137)</u>	<u>(56,774)</u>	<u>(54,941)</u>	<u>(50,629)</u>	<u>(41,573)</u>	<u>(67,209)</u>	<u>(59,509)</u>	<u>(52,151)</u>	<u>(47,346)</u>	<u>(44,174)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 Covered-employee payroll during the fiscal year	 \$ 281,777	 \$ 263,932	 \$ 235,175	 \$ 232,103	 \$ 183,292	 \$ 43,154	 \$ 249,716	 \$ 263,205	 \$ 229,344	 \$ 239,166
Contributions as a percentage of covered-employee payroll	24.18%	21.51%	23.36%	21.81%	22.68%	155.74%	23.83%	19.81%	20.64%	18.47%