Rodeo Sanitary District

Annual Financial Statements

For the Year Ended

June 30, 2016

and

Independent Auditor's Report

MANN, URRUTIA, NELSON CPAS
2515 VENTURE OAKS WAY, SUITE 135
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RODEO SANITARY DISTRICT
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

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MANN • URRUTIA • NELSON CPAs & ASSOCIATES, LLP
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Rodeo Sanitary District
Rodeo, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Rodeo Sanitary District, as of and for the year ended June 30, 2016, 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 an opinion 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 opinion.

Opinion

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 Rodeo Sanitary District, as of June 30, 2016, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Rodeo Sanitary District's financial statements as a whole. The combining fund financial statements and budgetary comparison information are presented for purposes of additional analysis and are not a required part of the financial statements. The combining fund financial statements and budgetary comparison information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2016, on our consideration of Rodeo Sanitary District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Mann Urrutia Nelson CPAs

Sacramento, California
November 21, 2016

As management of the Rodeo Sanitary District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2016. The District encourages readers to consider the information presented here in conjunction with the District's financial statements that follow this section.

The District is a governmental enterprise fund that is a business-type activity. Thus, the District charges a fee to customers to help it cover all or most of the cost of the sewer collection and sanitation treatment services the District provides.

Overview of the Financial Statements

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements, and an optional supplementary information section that presents combining schedules for the District's proprietary fund. The basic financial statements present proprietary fund statements that offer short and long-term financial information about the District's activities which operate like a business. The basic financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. In addition, the District has included a section with combining schedules that provide details about the proprietary fund by operating area, which are added together and presented in an individual column in the basic financial statements.

Financial Statement Analysis and Highlights

Statements of Net Position as of June 30, 2016 and 2015

	2016	2015
Current and other assets	$ 1,834,561	$ 450,160
Capital assets, net	11,003,208	9,174,832
Total Assets	12,837,769	9,624,992
Deferred outflow of resources	472,527	212,123
Current liabilities	366,943	405,779
Non-current liabilities	2,666,233	324,308
Total Liabilities	3,033,176	730,087
Deferred inflow of resources	39,750	29,788
Net Position	$ 10,237,370	$ 9,077,240

Net Position increased significantly from 2015 to 2016 by $1,160,130 or 13%. Changes in current assets and liabilities are a result of an increase in residential sewer service fees for the District's Comprehensive Wastewater Master Plan (CWWMP). The increase in current assets of $1,384,401 or 308% is a result of cash flow timing due to ongoing construction projects, both to improve the District's assets and to maintain the level of service. Capital assets increased by $1,828,376 or 20%; capital assets total $20,945,899, netted with total accumulated depreciation of $9,942,691. The increase in non-current liabilities of $2,341,925 or 722% is a result of a new loan agreement with the State Water Resources Control Board.

Statements of Revenues, Expenses, and Changes in Net Position
for the years ended June 30, 2016 and 2015

	2016	2015
Sewer service charges	$ 3,199,004	$ 2,890,736
Operating expenses	2,373,027	2,164,994
Net Operating Income (Loss)	825,977	725,742
Ad valorem taxes	279,036	242,032
Other non-operating revenues	55,117	62,204
Total Capital Contributions and Non-Operating Revenues (Expense)	334,153	304,236
Change in Net Position	$ 1,160,130	$ 1,029,978

Sewer service charges increased $308,268 from 2015 to 2016. Operating expenses increased by $208,033. Of this amount, depreciation expense increased $106,154 or 28.8%, salaries increased $28,346 or 4.3%, permits increased $16,766 or 62.3%.

Capital Assets

The infrastructure of the Rodeo Sanitary District ranges drastically in age. The original treatment plant was constructed in 1957. A large plant expansion was performed in 1973. Since the expansion, there was minimal preventative maintenance performed on plant equipment for various reasons. Since fiscal year 1999-2000, many of the plant's systems have been overhauled or replaced.

The District's collection system age varies from 100 plus years old to newly replaced lines. Prior to the CWWMP, the District's financial position required replacement of collection system components on a reactive basis. Typical non CWWMP capital projects in the collection system have been bypasses to alleviate hydraulic bottlenecks, addition of manholes to ease maintenance of sewer lines, and the replacement of failed backyard sewers.

The District's current maintenance budget covers the maintenance of existing plant equipment and collection system infrastructure to maintain the level of treatment and collection the state requires. As items are replaced or rehabilitated, the expenditures on large scale maintenance activities will be reduced making way for lower cost maintenance.

Fiscal Year 20152016 major capital projects included the following:

District Wide Electrical and Control Rehabilitation. The District continues a District wide project to rehabilitate the electrical and control systems throughout the District's facilities. This project is needed due to the 40+ year old electrical infrastructure. During 20132014 the District began to experience frequent electrical system failures which resulted in numerous outages and emergency repairs. As a result of this, the District completed an overall evaluation of the electrical systems and implemented several major rehabilitations. The project has progressed into a major SCADA Alarming Computer, Main Plant PLC, and Emergency Notification project as described in more detail below.

Miscellaneous Collection System Rehabilitation. The District continues to complete Collection System Rehabilitation Projects on an as discovered basis. The projects are generally initiated as the result of CCTV inspection or local sewer line failure.

Comprehensive Wastewater Master Plan Influent Pump Station Project. The District initiated the Influent Pump Station Project in 2014. The District is currently in the design phase of the project which is expected to be constructed in Spring/Summer 2017. Expenditures to date are $221,588. The District's budget is approximately $1,794,000. The Project will be funded through the State Water Resources Control Board State Revolving Fund Loan Program.

Comprehensive Wastewater Master Plan Influent Pump Station Project. The District initiated the Influent Pump Station Project in 2014. The District is currently in the design phase of the project which is expected to be constructed in summer 2016. Expenditures to date are $28,922. The District's budget is approximately $1,000,000. The Project will be funded through the State Water Resources Control Board State Revolving Fund Loan Program.

Comprehensive Wastewater Master Plan Sewer Year 1 Project. The District initiated the Sewer Year 1 Project in 2014. The project was completed during the summer of 2015. Approximately 6,400 feet length (1.2 miles) of sewer were replaced or installed. This project was completed during the summer of 2015 and created an immediate impact by reducing peak wet weather flows in the sewers and at the pump stations. The project came in under budget at a cost of $1,939,922. This Project was funded through the State Water Resources Control Board State Revolving Fund Loan Program.

Comprehensive Wastewater Master Plan Sewer Year 2 Project. Construction on the second sewer replacement project, Sewer Year 2A, began in Spring 2016 and is scheduled for completion in fall 2016. This project includes replacement of about 6,100 feet length (1.1 miles), including some areas that required frequent maintenance. Expenditure's to date are $1,997,930. Sewer Year 2B construction start date is tentatively scheduled to start in October 2016. Board decision to award the contract is scheduled for July 12, 2016. The Sewer Year 2B project will include about 4,800 feet length (0.9 miles) of sewer replacements. The District's budget for the combined Sewer Year 2 Project is approximately $5,179,000. The Project will be funded through the State Water Resources Control Board State Revolving Fund Loan Program.

Comprehensive Wastewater Master Plan Sewer Year 3 Project. The Sewer Year 3A project is currently scheduled for completion of plans, specifications and cost estimate in mid-October, 2016 and start of construction in mid-January 2017. The Sewer Year 3A project will include 4,600 feet length (0.9 miles) of sewer replacements and repairs. This project will follow the substantial completion of the Sewer Year 2B project in December 2016. Additional elements of the Sewer Year 3 Project include the Sewer Year 3B and Sewer Year 3C projects both slated for 2017. The overall budget for the Sewer Year 3 project is $5,740,000.

Comprehensive Wastewater Master Plan Wastewater Treatment Plant Project. The design of the Wastewater Treatment Plant Project (WWTP) is complete and the District received bids for both the WWTP and SCADA Projects. Based on approval form the Board, the SCADA Monitoring and Alarm Replacement portion of the project was bid separately from the mechanical WWTP projects. The District received bids on June 21, 2016 for both WWTP Projects packages. Board decision to award the contracts is scheduled for July 12, 2016. Construction for both projects is anticipated to begin in November 2016 and be completed in Spring 2017.

Debt Activities

The District secured a $535,000 loan through Municipal Finance Corporation during the 2005-2006 fiscal year. The District raised the annual sewer service fee by $60 to become effective in the 2006-2007 fiscal year to pay for the debt service of this loan. The District makes two bi-annual payments of $33,750. The term of the loan is ten years and is scheduled to be fully repaid by September 2016.

Budget and Rates

The Board of Directors reviews and approves the budget annually based on their analysis of current operating expenses. Rates for sewer service fees are a reflection of the current operating budget. Rate increases will be determined on an as needed basis for the continuing operations of the District.

The Board of Directors approved a phased rate increase from the 20132014 fiscal year to the 20152016 fiscal year. The rate increases will be used to fund the debt service for the approximate $16 million the District will be borrowing from the State Water Resources Control Board State Revolving Fund Loan Program. The District has executed the funding agreements for the three remaining CWWMP projects; Sewer Year 3 Project, WWTP Improvements Project and the IPS Improvements Project.

Economic Factors and Future Outlook

The Rodeo Sanitary District derives the income for the operating fund from sewer service charges for residential and commercial customers. The residential customers and most of the commercial customers are levied through the Contra Costa County Tax Roll. The District does not anticipate any issue with the ability of the District to cover operating expenses for FY 2016-2017. The District has built in a reserve and has consistently been able to operate under the received revenue to continue to strengthen its reserve.

The District is governed by the 1923 California Sanitary District Act, as well as the regulations of the State Water Resources Control Board (SWRCB) that require ratebased revenues that must cover the costs of operation, maintenance and recurring capital replacement (OM&R). The District's Ad Valorem tax component of revenue is subject to general economic conditions that result in increases or decreases in property tax values. Accordingly, the District sets its rates to its users to cover the costs of OM&R and debt financed capital improvements. Operating costs continue to be kept at or below inflationary levels for the past several years.

Contacting the District's Financial Management

This financial report is designed to provide a general overview for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Administrative Assistant, Rodeo Sanitary District, 800 San Pablo Avenue, Rodeo, CA 94572.

RODEO SANITARY DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2016

ASSETS	
Current Assets	
Cash and investments (Note 2)	$ 1,586,060
Accounts receivable, net of allowance for uncollectible accounts	138,608
Franchise fee receivable	18,463
Prepaid assets	79,295
Other assets	12,135
Total Current Assets	1,834,561
Non-Current Assets	
Capital assets (Note 3)	20,945,899
Less: accumulated depreciation	(9,942,691)
Total Capital assets, net	11,003,208
Total Assets	12,837,769
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources - pension (Note 5)	472,527
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 13,310,296
LIABILITIES	
Current Liabilities	
Accounts payable	$ 192,675
Accrued payroll	22,512
Compensated absences (Note 4)	28,181
Other liabilities	1,858
Long term liabilities, current portion (Note 4)	121,717
Total Current Liabilities	366,943
Non-Current Liabilities	
Net pension liability (Note 5)	393,628
Long term liabilities, net of current portion (Note 4)	2,272,605
Total Non-Current Liabilities	2,666,233
Total Liabilities	3,033,176
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources - pension (Note 5)	39,750
NET POSITION	
Invested in capital assets, net of related debt	8,608,886
Restricted for capital projects	(2,657,344)
Unrestricted	4,285,828
Total Net Position	10,237,370
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	$ 13,310,296

See accompanying notes to the financial statements.

RODEO SANITARY DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016

OPERATING REVENUE	
Sewer service charges	$ 3,199,004
Total Operating Revenue	3,199,004
OPERATING EXPENSES	
Operating expenses	2,373,027
Net Operating Income	825,977
NON-OPERATING REVENUES (EXPENSES)	
Ad valorem taxes	279,036
Franchise fees	70,046
Miscellaneous income	12,430
Interest expense	(27,359)
Net Non-Operating Revenues	334,153
Change in Net Position	1,160,130
Net Position - July 1, 2015	9,077,240
Net Position - June 30, 2016	$ 10,237,370

See accompanying notes to the financial statements.

RODEO SANITARY DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from customers	$ 3,138,635
Cash paid to suppliers for goods and services	(1,014,187)
Cash paid to employees	(1,029,609)
Net Cash Provided by Operating Activities	1,094,839
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of equipment and capital improvements	(2,311,755)
Proceeds on new debt	2,216,478
Principal paid on capital debt	(63,735)
Interest paid on capital debt	(27,359)
Net Cash Used for Capital and Related Financing Activities	(186,371)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Ad valorem taxes	279,036
Fees and services	12,430
Franchise fees	67,942
Net Cash Provided by Non-Capital Financing Activities	359,408
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from capital purchase rebates	8,182
Net Cash Provided by Investing Activities	8,182
Net Increase in Cash and Cash Equivalents	1,276,058
Cash and Cash Equivalents - July 1, 2015	310,002
Cash and Cash Equivalents - June 30, 2016	$ 1,586,060
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating income	$ 825,977
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	475,197
Pension Expense	(3,278)
Change in assets and liabilities:	
(Increase) decrease in accounts receivable, net	(60,369)
(Increase) decrease in prepaid assets	(38,318)
(Increase) decrease in other assets	(7,872)
Increase (decrease) in accounts payable	(102,354)
Increase (decrease) in accrued payroll & benefits	4,658
Increase (decrease) in accrued liabilities	(4,521)
Increase (decrease) in compensated absences	5,719
Net Cash Provided by Operating Activities	$ 1,094,839

See accompanying notes to the financial statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Rodeo Sanitary District was formed on December 18, 1939, under the State of California Sanitary District Act of 1923. The District provides wastewater services to the City of Rodeo and the Village of Tormey, including 2,540 residential units and businesses in Western Contra Costa County.

B. Basis of Presentation

Rodeo Sanitary District's basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America.

<u>Government-wide Financial Statements:</u>

The Statement of Net Position displays information about the reporting special district as a whole. It include the activities of the overall District. Eliminations have been made to minimize the double counting of internal activities. The District's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The District first utilizes restricted resources to finance qualifying activities. Business-type activities are generally financed in whole or in part by fees charged to external parties for goods or services.

The District consists of one proprietary fund. The fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, net assets, revenues and expenses.

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenses are recognized in the accounts and reported in the financial statements regardless of the measurement focus applied.

<u>Measurement Focus</u>

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position, are presented using the economic resources measurement focus as defined below.

All proprietary funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and all liabilities (whether current or noncurrent) associated with the operation of these funds are reported. Proprietary fund equity is classified as net position.

<u>Basis of Accounting</u>

In the Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position, business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or the economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Those revenues susceptible to accrual include taxes, intergovernmental revenues, interest and charges for services.

Grant revenues are recognized in the fiscal year in which all eligibility requirements are met. Under the terms of grant agreements, the District may fund certain programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net position are available to finance program expenses. The District's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal operations. The principal operating revenue of the District's funds is charges to customers for sewer charges. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Cash and Investments

For the purposes of the statement of cash flows, the District's cash and cash equivalents include restricted and unrestricted cash on hand or on deposit, and demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Investments for the District are reported at fair value.

E. Receivables and Payables

Receivables consist of all revenues earned at year-end and not yet received. Receivables are recorded in the financial statements net of any allowance for doubtful accounts if applicable, and estimated refunds due. The District reports sewer charges and franchise fees as their major receivables.

The District utilizes the allowance method with respect to its accounts receivable. Delinquent sewer charges are submitted to the County Tax Assessor annually to be encumbered on the secured property tax bills. As of June 30, 2016, the allowance for uncollectible accounts totaled $2,236.

F. Ad Valorem Taxes

Ad valorem tax revenue is recognized in the fiscal year for which the tax and assessment is levied. The County of Contra Costa levies, bills and collects taxes and special assessments for the District. Under the County's "Teeter Plan", the County remits the entire amount levied and handles all delinquencies, retaining interest and penalties. The County's assessor's office prepares the property assessment rolls with property tax liens as of March 1 of every year. The collection dates for ad valorem tax receipts are November 1 for the first installment (50%) and February 1 for the second installment (50%). The County credits each applicable fund with its total secure taxes upon completion of the secured tax roll, approximately October 1st of each year.

G. Inventories and Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

H. Restricted Assets

Certain resources set aside for repayments of debt and capital projects are classified as restricted assets on the Statement of Net Position as their use is limited by applicable covenants and specific requirements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Capital Assets

Capital assets, which include property, plant equipment, and infrastructure assets, are reported on the Statement of Net Position. Capital assets are currently defined by the District as assets with an initial individual cost of more than $5,000 and an estimated useful life in excess of one year. Capital assets are valued at historical cost. Contributed assets are valued at their estimated fair market value on the date contributed.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Depreciation is provided over the useful lives of assets using the straight-line method. Estimated useful lives of all depreciable assets are as follows:

Plant (prior to 1974)	40 years
Plant and related equipment	5 - 30 years
Pump station, collection system, and sewer lines	5 - 60 years
Office and laboratory equipment	5 - 10 years
Vehicles	5 - 10 years

J. Compensated Absences

Full-time employees of the District can accumulate sick leave on the basis of one full day per full month of service. Part-time employees will accrue sick leave on a pro rata basis according to their percentage of full time work; sick leave may be accumulated without limit for employees hired before January 1, 2012, except as covered in the union memorandum of understanding. Employees hired or given benefits on or after January 1, 2012 will accrue sick leave to a cap of thirty days, except as covered in the union memorandum of understanding. Employees do not accrue sick leave when they are on short-term or long term disability. Employees will not be compensated for unused sick leave under any conditions.

Vacation, which is based upon the employee’s length of service, may be accumulated each month based on the following:

Up to 4 years	0.9166 days per month
4 - 10 years	1.33 days per month
10 - 20 years	1.75 days per month
Over 20 years	2.166 days per month

K. Connection Fees

Connection fees are reported as revenue only to the extent that the amount equals the cost of the physical connection to the systems, and deposited to the Capital Outlay Investment fund.

L. Net Position

The net position amount is the difference between assets and liabilities. Net position invested in capital assets, net of related debt are capital assets, less accumulated depreciation and any outstanding debt related to the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are legal limitations imposed on their use by the District or external restrictions by other governments, creditors or grantors.

M. Budgets

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual budgets are adopted by the Board of Directors for the general budget, which includes operations, maintenance and administration, and construction.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the reporting date and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Implementation of Government Accounting Standards Board Statements

Government Accounting Standards Board Statement No. 72

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. This statement provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

Government Accounting Standards Board Statement No. 76

In June 2015, GASB issued Statement No. 76, *the Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

Government Accounting Standards Board Statement No. 82

In March 2016, GASB issued Statement No. 82, Pension Issues - an Amendment of GASB Statements No. 67, No. 68, and No. 73. The primary objective of this statement is to address issues regarding the (1) presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this statement are effective for reporting periods beginning after June 15, 2016; however the District has elected to implement the statement in the current year. See Note 5.

Future Government Accounting Standards Board Statements

These statements are not effective until July 1, 2016 or later and may be applicable to the District. However, the District has not determined the effects, if any, on the financial statements.

Government Accounting Standards Board Statement No. 75

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB, and replaces Statements No. 45 and 57. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to OPEB. The District has not determined what impact, if any, this pronouncement will have on the financial statements. Application of this statement is effective for the District's fiscal year ending June 30, 2018.

O. Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

NOTE 2: CASH AND INVESTMENTS

Cash and investments were comprised of the following at June 30, 2016:

County Investment Pool	$ 1,586,060

Investments Authorized by the California Government Code and the District's Investment Policy

The California Government Code Section 53601 authorizes the District to invest in their own bonds, certain time deposits, obligations of the U.S. Treasury, agencies, and instrumentalities; commercial paper, bankers' acceptances with maturities not to exceed 270 days, and medium-term notes issued by corporations operating within the U.S., rated A or higher by Moody's or Standard & Poor's rating services, repurchase agreements of obligations of the U.S. Government or its agencies for a term of one year or less, and the Local Agency Investment Fund.

Disclosures Related to Interest Rate Risk

Interest rate risk is the risk that market rate changes could adversely affect the fair values of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

As of June 30, 2016, the District had no investments other than the investment in the County Investment Pool. The fair value of the District's investments in these pool is classified as a cash equivalent.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of an investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investments in the County Pool is not rated.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. As of June 30, 2016, there were no investments in any one issuer that represented 5% or more of the total District investments.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depositary financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counter-party (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investments or collateral securities that are in the possession of another party. The California Government Code and the District’s investments policy do not contain legal or policy requirements that would limit the exposure of custodial risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state and local governmental units by pledging securities in an undivided collateral pool held by a depositary regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must be equal to least 100% of the total amount deposited by public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2016, the deposits with financial institutions, in excess of the federal depositary insurance limits, were collateralized as required by law. As of June 30, 2016, the carrying amount of the District’s bank deposits totaled $1,586,060 and the bank balances totaled $1,596,658. The differences between the carrying amounts and the bank totals are due to the normal deposits in transit and outstanding checks.

NOTE 2: CASH AND INVESTMENTS (continued)

Investment in County and State Investment Pool:

The District is a voluntary participant in the Contra Costa Investment Pool that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investments in these pool is classified as a cash equivalent in the accompanying financial statements. Interest income from pooled investments is allocated to those funds which are required by law or administrative action to receive interest.

NOTE 3: CAPITAL ASSETS

The following is a summary of capital assets and related depreciation as of June 30, 2016:

	Balance July 1, 2015	Additions	Deletions	Transfers	Balance June 30, 2016
Non-Depreciable Assets:					
Land	$ 40,000	$ -	$ -	$ -	$ 40,000
Construction in progress	444,868	2,311,755	(8,182)	(2,271,673)	476,768
Total Non-Depreciable Assets	484,868	2,311,755	(8,182)	(2,271,673)	516,768
Depreciable Assets:					
Plant (prior to 1974)	3,703,053	-	-	-	3,703,053
Plant	4,015,273	-	-	6,560	4,021,833
Plant maintenance	451,412	-	-	90,758	542,170
Pump station	1,829,233	-	-	-	1,829,233
Collection system	2,189,671	-	-	65,840	2,255,511
Laboratories	28,800	-	-	-	28,800
Administration	45,640	-	-	1,078	46,718
Underground sewer lines	4,466,079	-	-	2,107,437	6,573,516
Pre-1970 District system	1,428,297	-	-	-	1,428,297
Total Depreciable Assets	18,157,458	-	-	2,271,673	20,429,131
Accumulated Depreciation:					
Plant (prior to 1974)	(3,703,053)	-	-	-	(3,703,053)
Plant	(2,448,955)	(142,486)	-	-	(2,591,441)
Plant maintenance	(301,635)	(38,585)	-	-	(340,220)
Pump station	(463,751)	(56,999)	-	-	(520,750)
Collection system	(736,827)	(68,831)	-	-	(805,658)
Laboratories	(28,478)	(320)	-	-	(28,798)
Administration	(24,082)	(3,638)	-	-	(27,720)
Underground sewer lines	(332,416)	(164,338)	-	-	(496,754)
Pre-1970 District system	(1,428,297)	-	-	-	(1,428,297)
Total Accumulated Depreciation	(9,467,494)	(475,197)	-	-	(9,942,691)
Total Capital Assets, net	$ 9,174,832	$ 1,836,558	$ (8,182)	$ -	$ 11,003,208

Depreciation expense for the year ended June 30, 2016 totaled $475,197.

NOTE 4: LONG-TERM LIABILITIES

The following is a summary of long-term liability activity for the year ended June 30, 2016:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016	Current Portion
Long-term liabilities:					
SRF Loan (Year 1)	$ 144,861	$ 1,778,160	$ -	$ 1,923,021	$ 88,734
SRF Loan (Year 2A)	-	438,318	-	438,318	-
Lease purchase	96,718	-	(63,735)	32,983	32,983
Total long-term liabilities	$ 241,579	$ 2,216,478	$ (63,735)	$ 2,394,322	$ 121,717
Other liabilities:					
Compensated absences	$ 22,462	$ 35,151	$ (29,432)	$ 28,181	$ 28,181

The following is a description of the District's long-term liabilities:

A. Lease Purchase Agreement

In May 2006, the District entered into a lease purchase agreement with Municipal Finance Corporation in the amount of $534,937. The note is payable in equal bi-annual installments of $33,750, including interest at 4.65% through June 2017. The note is secured by the pledge and line of the net revenues of the system. Future debt service payments as of June 30 are as follows:

Year Ending June 30	Principal	Interest	Total
2017	$ 32,983	$ 767	$ 33,750
Total	$ 32,983	$ 767	$ 33,750

B. State Revolving Fund Year 1 Loan

In March 2015, the District entered into a loan agreement with the State Water Resources Control Board. The loan provided proceeds of $1,923,022 which were used for capital expenditures relating to the SRF Year 1 project. The note is payable in annual installments of $111,669, including interest at 1.5% through July 2035. Future debt service payments as of June 30 are as follows:

Year Ending June 30	Principal	Interest	Total
2017	$ 88,734	$ 22,935	$ 111,669
2018	84,154	27,515	111,669
2019	85,417	26,252	111,669
2020	86,698	24,971	111,669
2021	87,998	23,671	111,669
2022-2026	460,192	98,151	558,343
2027-2031	495,757	62,586	558,343
2032-2036	534,071	24,272	558,343
Total	$ 1,923,021	$ 310,353	$ 2,233,374

NOTE 4: LONG-TERM LIABILITIES (continued)

C. State Revolving Fund Year 2A Loan

On September 23, 2015, the District entered into a loan agreement with the State Water Resources Control Board. The loan provided up to $5,149,700 to be used for capital expenditures relating to the SRF Year 2A project. As of June 30, 2016, only $438,318 had been borrowed. The current balance of the note is payable beginning in December 2017 with a payment of $17,289, followed by annual installments of $26,042, including interest at 1.6% through December 2036. Any future borrowing will increase these figures. Future debt service payments based on the balance as of June 30 are as follows:

Year Ending June 30	Principal	Interest	Total
2018	$ 13,799	$ 3,490	$ 17,289
2019	20,003	6,039	26,042
2020	19,570	6,472	26,042
2021	19,883	6,159	26,042
2022-2026	104,292	25,918	130,210
2027-2031	112,906	17,304	130,210
2032-2036	122,233	7,977	130,210
2037-2041	25,632	410	26,042
Total	$ 438,318	$ 73,769	$ 512,087

D. Total Long Term Debt

Total future debt service payments as of June 30 are as follows:

Years Ended June 30,	**Principal**	**Interest**	**Total**
2017	$ 121,717	$ 23,702	$ 145,419
2018	97,953	31,005	128,958
2019	105,420	32,291	137,711
2020	106,268	23,702	129,970
2021	107,881	29,830	137,711
2022 - 2026	564,484	124,069	688,553
2027 - 2031	608,663	79,890	688,553
2032 - 2036	656,304	32,249	688,553
2037 - 2041	25,632	410	26,042
Totals	$ 2,394,322	$ 377,148	$ 2,771,470

E. Compensated Absences

Compensated absences comprise unused vacation, which are accrued as earned.

NOTE 5: RETIREMENT PLAN

A. General Information about the Pension Plan

Plan Description – The District participates in the Contra Costa County Employees' Retirement Association, a cost-sharing multiple employers defined benefit pension plan. Contra Costa County adopted this plan under the County Employees' Retirement Law of 1937. The plan provides for retirement, disability, death and survivor benefits. Annual cost-of-living adjustments to retirement benefits can be granted by the Retirement Board as provided by state statues. The plan issues stand-alone financial statements as of December 31, which can be directly obtained from its offices at 1355 Willow Way, Suite 221, Concord, CA 94520.

Benefits Provided – CCCERA provides service retirement, disability, death and survivor benefits to eligible employees. All regular full-time employees of the County of Contra Costa or participating agencies become members of CCCERA effective on the first day of the first full pay period after employment. Part-time employees in permanent positions must work at least 20 hours a week in order to be a member of CCCERA.

The Plan's provisions and benefits in effect at June 30, 2015, are summarized as follows:

	Legacy	PEPRA
Benefit formula	1.67% @ 55	1.0% @ 52
Benefit vesting schedule	Minimum of Five Years	Minimum of Five Years
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	52
Monthly benefits, as a % of eligible compensation	1.67% to 2.60%	1.0% to 2.50%
Required employee contribution rates	11.58%-14.91%	11.26%
Required employer contribution rates	35.60% - 37.14%	25.00%

Contributions – The County of Contra Costa and participating agencies contribute to the retirement plan based upon actuarially determined contribution rates adopted by the Board of Retirement. Employer contribution rates are adopted annually based upon recommendations received from CCCERA's actuary after the completion of the annual actuarial valuation. The District's employer contribution rate for the fiscal year beginning July 1, 2015 (based on the December 31, 2013 valuation) was 24.19% of compensation.

For the year ended June 30, 2016, the contributions recognized as part of pension expense for the Plan were as follows:

	Miscellaneous
Contributions- employer	178,020
Contributions- employee	48,882

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

As of June 30, 2016, the District reported net pension liability of $393,628 for its proportionate shares of the net pension liability of the Plan.

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 December 31, 2015, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. 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 plan 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, 2015 and 2016 was as follows:

NOTE 5: RETIREMENT PLAN (continued)

	Miscellaneous
Proportion - June 30, 2015	.015%
Proportion- June 30, 2016	.026%
Change - Increase (Decrease)	.011%

For the year ended June 30, 2016, the District recognized pension expense of $174,742. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Pension contributions subsequent to measurement date	$ 90,164	$ -
Differences between actual and expected experience	87,117	-
Changes in assumptions	14,682	-
Change in employer's proportion and differences between the employer's contributions and employer's proportionate share of contributions.	280,564	-
Net differences between projected and actual earnings on plan investments	-	(39,750)
Total	$ 472,527	$ (39,750)

During the fiscal year, $90,164 was reported as deferred outflows of resources related to contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30		
2017	$	99,850
2018	$	99,850
2019	$	91,185
2020	$	51,728

NOTE 5: RETIREMENT PLAN (continued)

C. **Actuarial Assumptions** – The total pension liabilities in the December 31, 2015 actuarial valuations were determined using the following actuarial assumptions:

	Legacy	PEPRA
Valuation Date	December 31, 2014	December 31, 2014
Measurement Date	December 31, 2015	December 31, 2015
Actuarial Cost Method	Entry-Age	Entry-Age
Actuarial Assumptions:		
Discount Rate	7.00%	7.00%
Inflation	2.75	2.75
Payroll Growth	2.75%	2.75%
Projected Salary Increase	4.00% to 13.25%	4.00% to 13.25%
Investment Rate of Return	7.00%	7.00%
Mortality	RP-2000 Combined Healthy Mortality Table	RP-2000 Combined Healthy Mortality Table

D. Discount Rate – The discount rate used to measure the total pension liability and net pension liability was 7.00% as of December 31, 2015. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employee and employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the Pension Plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on pension plan investments of 7.00% was applied to all periods of projected benefit payments to determine the Total Pension Liability as of December 31, 2015.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.00 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be .47% of the projected beginning plan fiduciary net position amount. An investment return excluding administrative expenses would have been 7.47 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CCCERA checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

The long-term expected rate of return on pension plan investments was determined in 2015 using a building-block method in which expected expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

NOTE 5: RETIREMENT PLAN (continued)

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap U.S. Equity	6%	5.75%
Developed International Equity	10%	6.99%
Emerging Markets Equity	14%	8.95%
Short-Term Govt/Credit	24%	0.20%
U.S. Treasury	2%	0.30%
Real Estate	7%	4.45%
Cash & Equivalents	1%	-0.46%
Risk Diversifying Strategies	2%	4.30%
Private Credit	17%	6.30%
Private Equity	17%	8.10%
Total	100%	

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	6.00%
Net Pension Liability	$1,027,695
Current Discount Rate	7.00%
Net Pension Liability	$393,628
1% Increase	8.25%
Net Pension Liability	($263,348)

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

NOTE 6: INSURANCE

The District is insured for the cost of claims filed against it for general liability subject to a deductible of $5,000. The District is a member of California Sanitation Risk Management Authority (CSRMA) and is in a primary insurance program that supplies coverage up to $5,000,000 per occurrence, with total coverage up to $6,000,000 in the aggregate. CSRMA was formed to provide common risk management and loss prevention programs related to public liability, auto liability, public official's errors and omissions, property loss, and workers' compensation risk for member governmental agencies. CSRMA is not a component unit of the District for financial reporting purposes, but the District does retain an on-going financial responsibility in CSRMA. During the year ended June 30, 2016, the District made $71,740 in insurance premium payments to CSRMA.

Condensed audited financial statements for CSRMA was as follows for the year ended June 30, 2015 (the most recent available):

Total Assets	$	27,418,098
Total Liabilities	$	16,714,638
Total Net Position	$	10,703,460
Total Revenues	$	10,895,632
Total Expenses	$	11,157,866
Change in Net Position	$	(262,234)

Complete financial statements for CSRMA can be obtained from CSRMA, care of Alliant Insurance Services, Inc. 100 Pine Street, 11th floor, San Francisco, CA 94111.

NOTE 7: SUBSEQUENT EVENT

A. Comprehensive Capital Improvement Program

On June 11, 2013, the District developed a comprehensive 20-year Capital Improvement Program (CIP) that addresses the District's current and future needs. Five projects were identified for completion within the first three years of the CIP to address the highest priority rehabilitation and replacement projects. Projects 1 to 3 are categorized as Sewer Improvements Years 1, 2, and 3 and are expected to be completed by Summer 2018. Project 4 is part of the Pump Station Improvements and is expected to be completed in the Summer of 2017. Project 5 is part of the Wastewater Treatment Plant Improvements and is expected to be completed in the Spring of 2017.

SUPPLEMENTARY INFORMATION

RODEO SANITARY DISTRICT
COMBINING SCHEDULE OF NET POSITION
JUNE 30, 2016

	Operating Fund	Capital Fund	Total
ASSETS			
Current Assets			
Cash and investments	$ 1,573,296	$ 12,764	$ 1,586,060
Accounts receivable, net of allowance for uncollectible accounts	138,608	-	138,608
Franchise fee receivable	18,463	-	18,463
Prepaid assets	79,295	-	79,295
Interfund receivable (payable)	2,670,108	-	2,670,108
Other assets	12,135	-	12,135
Total Current Assets	4,491,905	12,764	4,504,669
Non-Current Assets			
Capital assets	20,945,899	-	20,945,899
Less: accumulated depreciation	(9,942,691)	-	(9,942,691)
Total Capital assets, net	11,003,208	-	11,003,208
Total Assets	15,495,113	12,764	15,507,877
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources	472,527	-	472,527
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	15,967,640	12,764	15,980,404
LIABILITIES			
Current Liabilities			
Accounts payable	192,675	-	192,675
Accrued payroll	22,512	-	22,512
Compensated absences	28,181	-	28,181
Interfund payable	-	2,670,108	2,670,108
Other liabilities	1,858	-	1,858
Long term liabilities, current portion	121,717	-	121,717
Total Current Liabilities	366,943	2,670,108	3,037,051
Non-Current Liabilities			
Net pension liability	393,628	-	393,628
Long term liabilities, net of current portion	2,272,605	-	2,272,605
Total Non-Current Liabilities	2,666,233	-	2,666,233
Total Liabilities	3,033,176	2,670,108	5,703,284
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources	39,750	-	39,750
NET POSITION			
Invested in capital assets, net of related debt	8,608,886	-	8,608,886
Restricted for capital projects	-	(2,657,344)	(2,657,344)
Unrestricted	4,285,828	-	4,285,828
Total Net Position	12,894,714	(2,657,344)	10,237,370
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	$ 15,967,640	$ 12,764	$ 15,980,404

RODEO SANITARY DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016

	Operating Fund	Capital Fund	Total
OPERATING REVENUE			
Sewer service charges	$ 2,327,004	$ 872,000	$ 3,199,004
OPERATING EXPENSES			
Operating expenses	2,373,027	-	2,373,027
Net Operating Income	(46,023)	872,000	825,977
NON-OPERATING REVENUES (EXPENSES)			
Ad valorem taxes	279,036	-	279,036
Franchise fees	70,046	-	70,046
Miscellaneous income	12,430	-	12,430
Interest expense	(27,359)	-	(27,359)
Net Non-Operating Revenues	334,153	-	334,153
Income before transfers	288,130	872,000	1,160,130
TRANSFERS			
Interfund transfers	2,003,288	(2,003,288)	-
Change in Net Position	2,291,418	(1,131,288)	1,160,130
Net Position - July 1, 2015	10,603,296	(1,526,056)	9,077,240
Net Position - June 30, 2016	$ 12,894,714	$ (2,657,344)	$ 10,237,370

RODEO SANITARY DISTRICT
SCHEDULE OF OPERATING EXPENSES
BUDGET TO ACTUAL
FOR THE YEAR ENDED JUNE 30, 2016

	Budget	Actual	Favorable (Unfavorable) Variance
Salaries	$ 699,687	$ 691,210	$ 8,477
Payroll taxes	58,903	50,806	8,097
Employee benefits - retirement	225,000	174,742	50,258
Employee benefits - insurance	104,256	119,950	(15,694)
Worker's compensation insurance	45,683	58,051	(12,368)
Director fees and costs	18,750	14,672	4,078
Solid disposal	15,000	24,282	(9,282)
Utilities and telephone	163,119	154,824	8,295
Chemicals	75,322	68,293	7,029
Maintenance supplies	187,500	161,137	26,363
Laboratory supplies and services	117,912	81,518	36,394
Equipment lease/rental	2,000	2,223	(223)
Vehicle operations and maintenance	10,000	17,388	(7,388)
Small tools	2,000	4,625	(2,625)
Permits, licenses, and fees	49,886	56,801	(6,915)
Legal counsel	55,000	26,886	28,114
Professional services	122,500	46,505	75,995
Training and education	19,500	17,053	2,447
Janitorial supplies and services	11,650	11,342	308
Office supplies and expenses	17,550	19,544	(1,994)
Plant insurance	72,825	72,149	676
Safety items	7,000	5,964	1,036
Regulatory payments	3,000	-	3,000
Pollution prevention	10,000	5,825	4,175
Grant program	15,000	13,500	1,500
Bad debt expense (recovery)	-	(1,738)	1,738
Miscellaneous expense	500	278	222
	2,109,543	1,897,830	211,713
Depreciation	-	475,197	(475,197)
	$ 2,109,543	$ 2,373,027	$ (263,484)

REQUIRED SUPPLEMENTARY INFORMATION

RODEO SANITARY DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
AS OF JUNE 30, 2016
LAST 10 YEARS*

	2016	2015
Proportion of the net pension liability	0.02600 %	0.01530 %
Proportionate share of the net pension liability	$ 393,628	$ 182,951
Covered - employee payroll	$ 568,265	$ 589,379
Proportionate share of the net pension liability as a percentage of covered - employee payroll	69.27 %	31.04 %
Plan's fiduciary net position	1,813,911	1,057,063
Plan fiduciary net position as a percentage of the total pension liability	91.43 %	95.83 %

Notes to Schedule:

Changes in assumptions- Inflation changed from 3.25% to 2.75%. In addition, estimated salary increase changed from 4.75% to 13.55% in the 2014 valuation report to 4.00% to 13.25% in the 2015 valuation report. Finally, the projected investment rate of return changed from 7.25% to 7.00%.

Salary Increases-
* Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

RODEO SANITARY DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CONTRIBUTIONS TO THE COST SHARING DEFINED BENEFIT PENSION PLAN
AS OF JUNE 30, 2016
LAST 10 YEARS*

	2016	2015
Contractually required contribution (actuarially determined)	$ 178,020	$ 200,506
Contributions in relation to the actuarially determined contributions	(178,020)	(200,506)
Contribution deficiency (excess)	$ -	$ -
Covered - employee payroll	568,265	589,379
Contributions as a percentage of covered - employee payroll	31.33 %	34.02 %

Notes to Schedule:

Valuation Date: December 31, 2015

Methods and assumptions used to determine contribution rates:

Single and agent's employers example	Entry age
Amortization method	Level percent of payroll
Remaining amortization period	Varies by type
Asset valuation method	Market value of assets less unrecognized returns
Inflation	2.75%
Salary increases	Varies by entry age and service
Investment rate of return	7.00%, net of pension plan investment and administrative expenses, includes inflation
Retirement age	59 and 54
Mortality	RP-2000 Combined Healthy Mortality Table

* Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

OTHER REPORTS

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Rodeo Sanitary District
Rodeo, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Rodeo Sanitary District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Rodeo Sanitary District's basic financial statements and have issued our report thereon dated November 21, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Rodeo Sanitary District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Rodeo Sanitary District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Rodeo Sanitary District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal controls was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations during our audit, we did not identify deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rodeo Sanitary District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mann Urrutia Nelson CPAs

Sacramento, California
November 21, 2016