Rodeo Sanitary District

Annual Financial Statements

For the Year Ended

June 30, 2017

and

Independent Auditor's Report

MANN, URRUTIA, NELSON CPAS & ASSOCIATES, LLP
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RODEO SANITARY DISTRICT
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

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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, 2017, 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, 2017, 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 January 15, 2018, 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* in considering the District's internal control over financial reporting and compliance.

Sacramento, California
January 15, 2018

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, 2017. 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

District Highlights for the year ended June 30, 2017:
The District successfully negotiated and renewed the National Pollution Discharge Elimination System (NPDES) Discharge Permit for the wastewater treatment plant.

The District successfully implemented an internship program with the Careers Academy Council at and the Contra Costa County Office of Education. The Council assists in the placement of JSUSD high school students into internships with businesses within the community. The Rodeo Sanitary District is a well-known and highly regarded location for training and internships.

District Collections Crew Leader Dennis Lambert was selected as California Water Environmental Association’s 2016 recipient of the Collection Systems: Ambassadors, Golden Manhole Award.

Statements of Net Position as of June 30, 2017 and 2016

	2017	2016
Current and other assets	$ 6,979,235	$ 1,834,561
Capital assets, net	17,080,283	11,003,208
Total Assets	24,059,518	12,837,769
Deferred outflow of resources	322,671	472,527
Current liabilities	2,157,697	366,943
Non-current liabilities	11,038,056	2,666,233
Total Liabilities	13,195,753	3,033,176
Deferred inflow of resources	36,169	39,750
Net Position	$ 11,150,267	$ 10,237,370

Net Position increased significantly from 2016 to 2017 by $912,897 or 9%. Changes in current assets and liabilities are a result of implementation of the District-wide rehabilitation projects for the Districts Comprehensive Wastewater Master Plan (CWWMP). The increase in current assets of $5,144,674 or 280% is a result of ongoing construction projects, both to improve the District's assets and to maintain the level of service. Capital assets increased by $6,077,075 or 55%; capital assets totaled $27,670,463, netted with total accumulated depreciation of $10,590,180. The increase in non-current liabilities of $8,371,823 or 314% 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, 2017 and 2016

	2017	2016
Sewer service charges	$ 3,189,798	$ 3,199,004
Operating expenses	2,636,408	2,373,027
Net Operating Income (Loss)	553,390	825,977
Ad valorem taxes	289,233	279,036
Other non-operating revenues	70,274	55,117
Total Capital Contributions and Non-Operating Revenues (Expense)	359,507	334,153
Change in Net Position	$ 912,897	$ 1,160,130

Sewer service charges decreased $(9,206) from 2016 to 2017. Operating expenses increased by $263,381. Of this amount, depreciation expense increased $172,292 or 36.2%, salaries increased $59,708 or 8.6%, and maintenance supplies increased $73,932 or 45.9%, while pension expense decreased $40,325 or 120%, and insurance expense decreased $24,521 or 13.8%.

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 bypassed 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 2016-2017 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 awarded the Construction Project in November 2016. Major construction elements did not start until late spring 2017. Major construction will continue unto 2017-2018 with a completion date of March 31, 2018. Expenditures to date are $344,076. 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 Sewer Year 2 Project. This Project was funded through the State Water Resources Control Board State Revolving Fund Loan Program. Some of the sewer segments scheduled for replacement in the Sewer Year 2 project were included in two separate, smaller projects called Sewer Year 2A and Sewer Year 2B. Construction on the Sewer Year 2A began in March 2016 and was substantially complete in August 2016. This project included replacement of about 6,100 feet length (1.1 miles), including some areas that required frequent maintenance. Final completion and retention release occurred in Spring 2017. The total expenditures of $2,618,870 for this project included most of the design costs for Sewer Year 2B.

The Sewer Year 2B project construction started in November 2016 and was substantially complete in May 2017. The Sewer Year 2B project included about 4,800 feet length (0.9 miles) of sewer replacements. Final completion and retention release occurred in Fall 2017, with total expenditures of $2,002,735.

The District's costs for the Sewer Year 2 projects was $4,621,605 through September 30, 2017. The loan agreement for the combined Sewer Year 2 Project was approximately $4,983,016.

Comprehensive Wastewater Master Plan Sewer Year 3 Project. This Project was funded through the State Water Resources Control Board State Revolving Fund Loan Program. This project included some of the sewer segments scheduled for replacement in the Sewer Year 2 and the Sewer Year 3 project. These projects were included in three separate, smaller projects called Sewer Year 3A, Sewer Year 3B and Sewer Year 3C.

The Sewer Year 3A project construction began in January 2017 and was substantially complete in May 2017. This project was constructed concurrently with the Sewer Year 2B project The Sewer Year 3A project included 4,600 feet length (0.9 miles) of sewer replacements and repairs. Final completion and retention release is expected to occur in early 2018. Total expenditures of $1,791,045 were made through September 30, 2017. The overall cost is estimated to be $2 million.

Construction on the Sewer Year 3B project began in June 2017 and was substantially complete in September 2017. This project was constructed following the Sewer Year 3A project The Sewer Year 3B project included 3,400 feet length (0.6 miles) of sewer replacements and repairs. Final completion and retention release is expected to occur in early 2018. Total expenditures of $1,599,129 were made through September 30, 2017. The overall cost is estimated to be $2 million.

The Sewer Year 3C project is currently scheduled for completion of plans, specifications and cost estimate in early January 2018 and start of construction as early as April 2018. Construction is expected to be completed by Fall 2018. The Sewer Year 3C project will include 3,250 feet length (0.6 miles) of sewer replacements and repairs. This project has an estimated total cost of $1.9 million.

The loan agreement for the Sewer Year 3 project is $5,740,000 based on the initial agreement with the Waterboard. The agreement is expected to be increased to meet the anticipated total cost of $5.9 million for the three projects when the Final Budget Approval (FBA) documents are completed in 2018.

Comprehensive Wastewater Master Plan Wastewater Treatment Plant Project. The District awarded the construction contracts for both the WWTP and SCADA projects in July 2016. Construction for both projects began in November 2016 and were substantially completed by summer 2017. Final completion is expected to be in December 2017. Expenditure’s to date are $1,582,356.

Chemical Feed System Upgrade. The District implemented a project to swap out the existing Diaphragm Chemical Metering Pumps with Peristaltic Chemical Metering Pumps in spring 2017. The older chemical feed pumps were maintenance intensive, causing frequent operational problems and overtime callouts. The new chemical feed pumps are very simple in operation and with a vastly improved reliability. The project total through the 2016-2017 fiscal year was about $40,938.

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 term of the loan was ten years and was fully repaid by September 2016.

The District began construction of the Comprehensive Wastewater Master Plan Sewer Year 1 Project in January 2015 with final completion in July 2015. The District entered into a funding agreement with the California State Water Resources Control Board under their Clean Water State Revolving Fund Program. The District borrowed $1,923,022 for construction of the Sewer Year 1 Project. Repayment of the loan is paid in twenty annual installments of $111,669 that commenced July 2016. As of June 30, 2017, the outstanding balance of the loan is $1,834,287. The loan is amortized at an effective interest rate of 1.5%.

Additional information on the District's Debt can be found in Note 4 to the Financial Statements included in this report.

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 2013-2014 fiscal year to the 2015-2016 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 2017-2018. 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, California 94572.

RODEO SANITARY DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2017

ASSETS	
Current Assets	
Cash and investments (Note 2)	$ 659,256
Accounts receivable, net of allowance for uncollectible accounts	6,217,380
Franchise fee receivable	17,954
Prepaid assets	79,309
Other assets	5,336
Total Current Assets	6,979,235
Non-Current Assets	
Capital assets (Note 3)	27,670,463
Less: accumulated depreciation	(10,590,180)
Total Capital assets, net	17,080,283
Total Assets	24,059,518
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources - pension (Note 6)	322,671
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 24,382,189
LIABILITIES	
Current Liabilities	
Accounts payable	$ 2,005,367
Accrued payroll	26,532
Compensated absences (Note 4)	31,598
Other liabilities	10,046
Long term liabilities, current portion (Note 4)	84,154
Total Current Liabilities	2,157,697
Non-Current Liabilities	
Net pension liability (Note 6)	203,750
Long term liabilities, net of current portion (Note 4)	10,834,306
Total Non-Current Liabilities	11,038,056
Total Liabilities	13,195,753
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources - pension (Note 6)	36,169
NET POSITION	
Net investment in capital assets	6,161,823
Restricted for capital projects	12,764
Unrestricted	4,975,680
Total Net Position	11,150,267
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	$ 24,382,189

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, 2017

OPERATING REVENUE	
Sewer service charges	$ 3,189,798
Total Operating Revenue	3,189,798
OPERATING EXPENSES	
Operating expenses	2,636,408
Net Operating Income	553,390
NON-OPERATING REVENUES (EXPENSES)	
Ad valorem taxes	289,233
Franchise fees	71,321
Miscellaneous income	25,902
Interest expense	(26,949)
Net Non-Operating Revenues	359,507
Change in Net Position	912,897
Net Position - July 1, 2016	10,237,370
Net Position - June 30, 2017	$ 11,150,267

See accompanying notes to the financial statements.

RODEO SANITARY DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from customers	$ 3,196,251
Cash paid to suppliers for goods and services	(1,010,758)
Cash paid to employees	(1,064,795)
Net Cash Provided by Operating Activities	1,120,698
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of equipment and capital improvements	(4,846,431)
Proceeds on new debt	2,560,630
Principal paid on capital debt	(121,717)
Interest paid on capital debt	(26,949)
Net Cash Used for Capital and Related Financing Activities	(2,434,467)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Ad valorem taxes	289,233
Fees and services	25,902
Franchise fees	71,830
Net Cash Provided by Non-Capital Financing Activities	386,965
Net Decrease in Cash and Cash Equivalents	(926,804)
Cash and Cash Equivalents - July 1, 2016	1,586,060
Cash and Cash Equivalents - June 30, 2017	$ 659,256
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating income	$ 553,390
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	647,489
Pension Expense	(189,878)
Change in assets and liabilities:	
(Increase) decrease in accounts receivable, net	(23,547)
(Increase) decrease in net deferred items	146,275
(Increase) decrease in prepaid assets	(14)
(Increase) decrease in other assets	6,799
Increase (decrease) in accounts payable	(65,441)
Increase (decrease) in accrued payroll & benefits	4,020
Increase (decrease) in accrued liabilities	38,188
Increase (decrease) in compensated absences	3,417
Net Cash Provided by Operating Activities	$ 1,120,698

See accompanying notes to the financial statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Rodeo Sanitary District (the "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 2,501 residential units and businesses in Western Contra Costa County.

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. Sewer Year 1 and Sewer Year 2 projects have been completed. Sewer Year 3 Project is expected to be completed in the Summer of 2018. Project 4 is part of the Pump Station Improvements and is also expected to be completed in the Spring of 2018. Project 5 is part of the Wastewater Treatment Plant Improvements and is expected to be completed in the Winter of 2018.

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.

Government-wide Financial Statements:

The Statement of Net Position displays information about the reporting special district as a whole. It includes the activities of the overall District. Eliminations have been made to minimize the double counting of internal activities. The District's net position is reported in three parts - net investment in capital assets; restricted net position; and unrestricted net position. 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, deferred outflows of resources, liabilities, deferred inflows of resources, net position, 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.

Measurement Focus

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, deferred outflows of resources, liabilities, and deferred inflows of resources (whether current or noncurrent) associated with the operation of these funds are reported. Proprietary fund equity is classified as net position.

Basis of Accounting

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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, 2017, the allowance for uncollectible accounts totaled $1,937.

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 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 deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets, 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. Deferred Inflows/Outflows of Resources

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

N. 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.

O. 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

Effective July 1, 2016, the District implemented the following accounting and financial reporting standards:

Government Accounting Standards Board Statement No. 77

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. This Statement requires disclosure of tax abatement Information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The District did not have any such agreements in place as of June 30, 2017.

Government Accounting Standards Board Statement No. 80

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - an Amendment of GASB Statement No. 14.* The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. The District does not have any component units affected by ths Statement.

Future Government Accounting Standards Board Statements

These statements are not effective until July 1, 2017 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government Accounting Standards Board Statement No. 83

In December 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement seeks to provide financial statement users with information concerning asset retirement obligations (AROs) that were not addressed in GASB standards by establishing uniform accounting and financial reporting requirements for these obligations. This Statement establishes criteria for determining the timing and the pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. 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, 2019.

Government Accounting Standards Board Statement No. 85

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. This Statement seeks to improve consistency in accounting and financial reporting by addressing practice issues that have been identified during implementation and application of certain GASB Statements, including issues related to blending component units, goodwill, fair value measurement and application, and post-employment benefits (i.e., pensions and other post-employment benefits (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.

Government Accounting Standards Board Statement No. 86

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. This Statement establishes standards of accounting and financial reporting for in-substance defeasance transactions in which cash and other monetary assets acquired with only existing resources (i.e., resources other than the proceeds of refunding debt) are placed in an irrevocable trust for the purpose of extinguishing debt. Additionally, this Statement amends accounting and financial reporting requirements for prepaid insurance associated with debt that is extinguished, whether through a legal extinguishment or through an in-substance defeasance, regardless of how the cash and other monetary assets were acquired. Finally, this Statement establishes an additional disclosure requirement related to debt that is defeased in substance, regardless of how the cash and other monetary assets were acquired. 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.

Government Accounting Standards Board Statement No. 87

In June 2017, GASB issued Statement No. 87, *Leases*. This Statement (1) increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract; and (2) establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Additionally, under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. 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, 2021.

P. 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, 2017:

County Investment Pool	$	659,256

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, 2017, the District had no investments other than the investment in the County Investment Pool. The fair value of the District's investments in this 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, 2017, 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, 2017, the deposits with financial institutions, in excess of the federal depositary insurance limits, were collateralized as required by law. As of June 30, 2017, the carrying amount of the District's bank deposits totaled $659,256 and the bank balances totaled $781,530. 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, 2017:

	Balance July 1, 2016	Additions	Deletions	Transfers	Balance June 30, 2017
Non-Depreciable Assets:					
Land	$ 40,000	$ -	$ -	$ -	$ 40,000
Construction in progress	476,768	6,728,362	(3,798)	(7,191,544)	9,788
Total Non-Depreciable Assets	516,768	6,728,362	(3,798)	(7,191,544)	49,788
Depreciable Assets:					
Plant (prior to 1974)	3,703,053	-	-	-	3,703,053
Plant	4,021,833	-	-	1,597,548	5,619,381
Plant maintenance	542,170	-	-	42,883	585,053
Pump station	1,829,233	-	-	363,924	2,193,157
Collection system	2,255,511	-	-	27,378	2,282,889
Laboratories	28,800	-	-	-	28,800
Administration	46,718	-	-	-	46,718
Underground sewer lines	6,573,516	-	-	5,159,811	11,733,327
Pre-1970 District system	1,428,297	-	-	-	1,428,297
Total Depreciable Assets	20,429,131	-	-	7,191,544	27,620,675
Accumulated Depreciation:					
Plant (prior to 1974)	(3,703,053)	-	-	-	(3,703,053)
Plant	(2,591,441)	(178,720)	-	-	(2,770,161)
Plant maintenance	(340,220)	(35,345)	-	-	(375,565)
Pump station	(520,750)	(67,585)	-	-	(588,335)
Collection system	(805,658)	(68,787)	-	-	(874,445)
Laboratories	(28,798)	-	-	-	(28,798)
Administration	(27,720)	(3,719)	-	-	(31,439)
Underground sewer lines	(496,754)	(293,333)	-	-	(790,087)
Pre-1970 District system	(1,428,297)	-	-	-	(1,428,297)
Total Accumulated Depreciation	(9,942,691)	(647,489)	-	-	(10,590,180)
Total Capital Assets, net	$ 11,003,208	$ 6,080,873	$ (3,798)	$ -	$ 17,080,283

Depreciation expense for the year ended June 30, 2017 totaled $647,489.

NOTE 4: LONG-TERM LIABILITIES

The following is a summary of long-term liability activity for the year ended June 30, 2017:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017	Current Portion
Long-term liabilities:					
SRF Loan (Year 1)	$ 1,923,021	$ -	$ (88,734)	$ 1,834,287	$ 84,154
SRF Loan (Year 2A)	438,318	4,146,545	-	4,584,863	-
SRF Loan (Year 3)	-	2,572,877	-	2,572,877	-
SRF Loan - IPS	-	344,077	-	344,077	-
SRF Loan - WWTP	-	1,582,356	-	1,582,356	-
Total long-term liabilities	$ 2,361,339	$ 8,645,855	$ (88,734)	$ 10,918,460	$ 84,154
Other liabilities:					
Compensated absences	$ 28,181	$ 3,417	$ -	$ 31,598	$ 31,598

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

A. 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
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	89,318	22,350	111,668
2023-2027	467,094	91,248	558,342
2028-2032	503,194	55,149	558,343
2033-2036	430,414	16,260	446,674
Total	$ 1,834,287	$ 287,416	$ 2,121,703

NOTE 4: LONG-TERM LIABILITIES (continued)

B. 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, 2017, only $4,584,863 had been borrowed. Loan payments are not required to begin until one year after the project is deemed completed. Once the project is completed, the outstanding loan balance will accrue interest at 1.6% through 2037.

C. State Revolving Fund Year 3 Loan

In August 2016, the District entered into a loan agreement with the State Water Resources Control Board. The loan provides up to $5,740,000 to be used for capital expenditures relating to the SRF Year 3 project. As of June 30, 2017, only $2.572,877 had been borrowed. Loan payments are not required to begin until one year after the project is deemed completed. Once the project is completed, the outstanding loan balance will accrue interest at 1.7% through 2038.

D. State Revolving Fund IPS Loan

In September 2016, the District entered into a loan agreement with the State Water Resources Control Board. The loan provides up to $1,945,600 to be used for capital expenditures related to the Influent Pump Station project. As of June 30, 2017, only $344,077 had been borrowed. Loan payments are not required to begin until one year after the project is deemed completed. Once the project is completed, the outstanding loan balance will accrue interest at 1.6% through 2038.

E. State Revolving Fund Wastewater Treatment Plan Loan

In September 2016, the District entered into a loan agreement with the State Water Resources Control Board. The loan provides up to $1,956,000 to be used for capital expenditures relating to the Wastewater Treatment Plan project. As of June 30, 2017, only $1,582,356 had been borrowed. Loan payments are not required to begin until one year after the project is deemed completed. Once the project is completed, the outstanding loan balance will accrue interest at 1.6% through 2038.

F. Compensated Absences

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

NOTE 5: INTERFUND TRANSACTIONS

Due to/from Other Funds

Receivable Fund	Payable Fund	Description	Amount
Operating Fund	Capital Fund	Capital Improvements	$ 8,222,189
		Total Due to/From	$ 8,222,189

The Operating Fund has loaned the Capital Fund $8,222,189 as part of the Capital Improvement Program. The Capital Fund will reimburse the Operating Fund as proceeds are received from the State Revolving Fund. No payments were made to the Operating Fund during the year ended June 30, 2017.

Interfund Transfers to/from Other Funds

Transfers between funds during the fiscal year ended June 30, 2017 were as follows:

Transfer from	Transfer To	Description of Transfers	Amount
Operating Fund	Capital Fund	Capital Improvements	$ 6,424,081

NOTE 6: RETIREMENT PLAN

A. General Information about the Pension Plan

Plan Description – The District participates in the Contra Costa County Employees' Retirement Association (CCCERA), 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, California 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, 2017, 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	9.60%-14.73%	12.76%
Required employer contribution rates	26.74%	22.79%

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

NOTE 6: RETIREMENT PLAN (continued)

annual actuarial valuation. The District's employer contribution rate for the fiscal year beginning July 1, 2016 (based on the December 31, 2015 valuation) was 26.74% of compensation.

For the year ended June 30, 2017, the contributions recognized as part of pension expense for the Plan were as follows:

Contributions- employer	$	171,951
Contributions- employee		59,039

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

As of June 30, 2017, the District reported a net pension liability of $203,750 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, 2016, 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, 2016. 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, 2016 and 2017 was as follows:

Proportion - June 30, 2016	.026%
Proportion- June 30, 2017	.011%
Change - Increase (Decrease)	(.015%)

For the year ended June 30, 2017, the District recognized pension expense of $174,742. At June 30, 2017, 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	$ 88,335	$ -
Differences between actual and expected experience	35,968	-
Changes in assumptions	5,896	-
Change in employer's proportion and differences between the employer's contributions and employer's proportionate share of contributions.	192,472	-
Net differences between projected and actual earnings on plan investments	-	(36,169)
Total	$ 322,671	$ (36,169)

NOTE 6: RETIREMENT PLAN (continued)

During the fiscal year, $88,335 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, 2018. 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		
2018	$	88,404
2019	$	77,907
2020	$	35,520
2021	$	(3,664)

C. **Actuarial Assumptions** – The total pension liabilities in the December 31, 2016 actuarial valuations were determined using the following actuarial assumptions:

	Legacy	PEPRA
Valuation Date	December 31, 2016	December 31, 2016
Measurement Date	June 30, 2017	June 30, 2017
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	0.50%	0.50%
Investment Rate of Return	7.00%	7.00%
Mortality	RP-2014 Healthy Annuitant Mortality Table	RP-2014 Healthy Annuitant 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, 2016. 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, 2016.

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% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 1.12% of the projected beginning plan fiduciary net position amount. An investment return excluding administrative expenses would have been 8.12%. 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 6: 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:

1% Decrease	6.00%
Net Pension Liability	$849,751
Current Discount Rate	7.00%
Net Pension Liability	$203,750
1% Increase	8.00%
Net Pension Liability	($322,553)

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 7: 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, 2017, the District made $70,978 in insurance premium payments to CSRMA.

Condensed audited financial statements for CSRMA was as follows for the year ended June 30, 2016 (the most recent available):

Total Assets	$ 28,336,567
Total Liabilities	$ 16,735,609
Total Net Position	$ 11,600,958
Total Revenues	$ 11,843,583
Total Expenses	$ 10,946,085
Change in Net Position	$ 897,498

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

SUPPLEMENTARY INFORMATION

RODEO SANITARY DISTRICT
COMBINING SCHEDULE OF NET POSITION
JUNE 30, 2017

	Operating Fund	Capital Fund	Total
ASSETS			
Current Assets			
Cash and investments	$ 646,492	$ 12,764	$ 659,256
Accounts receivable, net of allowance for uncollectible accounts	6,217,380	-	6,217,380
Franchise fee receivable	17,954	-	17,954
Prepaid assets	79,309	-	79,309
Interfund receivable (payable)	8,222,189	-	8,222,189
Other assets	5,336	-	5,336
Total Current Assets	15,188,660	12,764	15,201,424
Non-Current Assets			
Capital assets	27,670,463	-	27,670,463
Less: accumulated depreciation	(10,590,180)	-	(10,590,180)
Total Capital assets, net	17,080,283	-	17,080,283
Total Assets	32,268,943	12,764	32,281,707
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources	322,671	-	322,671
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	32,591,614	12,764	32,604,378
LIABILITIES			
Current Liabilities			
Accounts payable	2,005,367	-	2,005,367
Accrued payroll	26,532	-	26,532
Compensated absences	31,598	-	31,598
Interfund payable	-	8,222,189	8,222,189
Other liabilities	10,046	-	10,046
Long term liabilities, current portion	84,154	-	84,154
Total Current Liabilities	2,157,697	8,222,189	10,379,886
Non-Current Liabilities			
Net pension liability	203,750	-	203,750
Long term liabilities, net of current portion	10,834,306	-	10,834,306
Total Non-Current Liabilities	11,038,056	-	11,038,056
Total Liabilities	13,195,753	8,222,189	21,417,942
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources	36,169	-	36,169
NET POSITION			
Invested in capital assets, net of related debt	6,161,823	-	6,161,823
Restricted for capital projects	8,222,189	(8,209,425)	12,764
Unrestricted	4,975,680	-	4,975,680
Total Net Position	19,359,692	(8,209,425)	11,150,267
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	$ 32,591,614	$ 12,764	$ 32,604,378

RODEO SANITARY DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017

	Operating Fund	Capital Fund	Total
OPERATING REVENUE			
Sewer service charges	$ 2,317,798	$ 872,000	$ 3,189,798
OPERATING EXPENSES			
Operating expenses	2,636,408	-	2,636,408
Net Operating Income (Loss)	(318,610)	872,000	553,390
NON-OPERATING REVENUES (EXPENSES)			
Ad valorem taxes	289,233	-	289,233
Franchise fees	71,321	-	71,321
Miscellaneous income	25,902	-	25,902
Interest expense	(26,949)	-	(26,949)
Net Non-Operating Revenues	359,507	-	359,507
Income before transfers	40,897	872,000	912,897
TRANSFERS			
Interfund transfers	6,424,081	(6,424,081)	-
Change in Net Position	6,464,978	(5,552,081)	912,897
Net Position - July 1, 2016	12,894,714	(2,657,344)	10,237,370
Net Position - June 30, 2017	$ 19,359,692	$ (8,209,425)	$ 11,150,267

RODEO SANITARY DISTRICT
SCHEDULE OF OPERATING EXPENSES
BUDGET TO ACTUAL
FOR THE YEAR ENDED JUNE 30, 2017

	Budget	Actual	Favorable (Unfavorable) Variance
Salaries	$ 719,435	$ 750,918	$ (31,483)
Payroll taxes	59,932	56,630	3,302
Employee benefits - retirement	180,000	128,348	51,652
Employee benefits - insurance	107,253	92,733	14,520
Worker's compensation insurance	52,000	60,747	(8,747)
Director fees and costs	18,750	13,954	4,796
Solid disposal	18,480	24,558	(6,078)
Utilities and telephone	153,734	175,641	(21,907)
Chemicals	70,272	66,770	3,502
Maintenance supplies	237,500	235,069	2,431
Laboratory supplies and services	117,412	84,517	32,895
Equipment lease/rental	2,000	2,891	(891)
Vehicle operations and maintenance	15,000	9,708	5,292
Small tools	2,000	1,607	393
Permits, licenses, and fees	52,680	45,247	7,433
Legal counsel	35,000	29,896	5,104
Professional services	125,000	65,817	59,183
Training and education	19,500	15,836	3,664
Janitorial supplies and services	5,850	8,870	(3,020)
Office supplies and expenses	19,800	22,596	(2,796)
Plant insurance	73,399	71,387	2,012
Safety items	7,000	6,145	855
Pollution prevention	10,000	7,831	2,169
Grant program	21,000	10,500	10,500
Bad debt expense (recovery)	-	(299)	299
Miscellaneous expense	-	1,002	(1,002)
	2,122,997	1,988,919	134,078
Depreciation	-	647,489	(647,489)
	$ 2,122,997	$ 2,636,408	$ (513,411)

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, 2017
LAST 10 YEARS*

	2017	2016	2015
Proportion of the net pension liability	0.01500 %	0.02600 %	0.01530 %
Proportionate share of the net pension liability	$ 203,750	$ 393,628	$ 182,951
Covered - employee payroll	$ 609,667	$ 568,265	$ 589,379
Proportionate share of the net pension liability as a percentage of covered - employee payroll	33.42 %	69.27 %	31.04 %
Plan fiduciary net position as a percentage of the total pension liability	84.16 %	82.24 %	85.25 %

Notes to Schedule:

Changes in assumptions- Inflation changed from 3.25% to 2.75% in the 2015 valuation report. 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% in the 2015 valuation report.

* Fiscal year 2015 was the 1st year of implementation, therefore only three years are shown.

RODEO SANITARY DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CONTRIBUTIONS TO THE COST SHARING DEFINED BENEFIT PENSION PLAN
AS OF JUNE 30, 2017
LAST 10 YEARS*

	2017	2016	2015
Contractually required contribution (actuarially determined)	$ 177,632	$ 178,020	$ 200,506
Contributions in relation to the actuarially determined contributions	(177,632)	(178,020)	(200,506)
Contribution deficiency (excess)	$ -	$ -	$ -
Covered - employee payroll	$ 609,667	$ 568,265	$ 589,379
Contributions as a percentage of covered - employee payroll	29.14 %	31.33 %	34.02 %

Notes to Schedule:

Valuation Date:	December 31, 2016

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-2014 Healthy Annuitant Mortality Table

* Fiscal year 2015 was the 1st year of implementation, therefore only three years are shown.

OTHER REPORTS

MANN • URRUTIA • NELSON CPAs & ASSOCIATES, LLP
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INDEPENDENT AUDITOR'S 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, 2017, 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 January 15, 2018.

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*.

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.

Sacramento, California
January 15, 2018