Annual Financial Statements

For the Year Ended

June 30, 2020

and

Independent Auditor's Report

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RODEO SANITARY DISTRICT
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

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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, 2020, 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.

Opinions

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, 2020, and the respective changes in financial position and cash flows, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and 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. Such information is the responsibility of management and was derived from and relates 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 December 8, 2020, 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.

Mann, Urrutia, Nelson CPAs

Sacramento, California
December 8, 2020

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, 2020. 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, 2020 and 2019

	2020	2019
Current and other assets	$ 5,737,647	$ 6,295,732
Net pension asset	501,019	-
Capital assets, net	23,354,264	22,004,012
Total Assets	29,592,930	28,299,744
Deferred outflow of resources	148,835	374,626
Current liabilities	1,551,777	870,813
Non-current liabilities	14,428,283	15,298,437
Total Liabilities	15,980,060	16,169,250
Deferred inflow of resources	153,714	22,155
Net Position	$ 13,607,991	$ 12,482,965

Net Position increased significantly from 2019 to 2020 by $1,125,026 or 9%. Changes in current assets and liabilities are a result of implementation of the District-wide rehabilitation projects for the District's Comprehensive Wastewater Master Plan (CWWMP). The decrease in current assets of $558,085 or 9% 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 $1,350,252 or 6%; capital assets totaled $36,350,418, netted with total accumulated depreciation of $12,996,154. The decrease in non-current liabilities of $(870,154) or (6)% is a result of net pension liability decrease due to GASB 68 adjustments and decreasing outstanding loan balances.

Statements of Revenues, Expenses, and Changes in Net Position
for the years ended June 30, 2020 and 2019

	2020	2019
Sewer service charges	$ 3,320,479	$ 3,286,846
Operating expenses	2,658,601	2,974,450
Net Operating Income	661,878	312,396
Ad valorem taxes	392,628	364,315
Other non-operating revenues (expense)	70,520	(165,803)
Total Capital Contributions and Non-Operating Revenues	463,148	198,512
Change in Net Position	$ 1,125,026	$ 510,908

Sewer service charges increased $33,633 from 2019 to 2020. Operating expenses decreased by $(315,849). Of this amount, depreciation expense increased $43,266 or 5%, salaries decreased $(9,771) or (1)%, and maintenance supplies decreased $(16,488) or (12)%, while pension benefit increased $285,765 or 86%, and insurance expense increased $(985) or (0.9)%.

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 bypasses to alleviate hydraulic bottlenecks, addition of manholes to ease maintenance of sewer lines, and the replacement of failed 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 2019 - 2020 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 2013-2014 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 including a major SCADA Alarming Computer, Main Plant PLC, and Emergency Notification project. Currently, construction activities include replacing corroded conduits and wires and bringing electrical infrastructure up to current code. Expenditures through June 30, 2020 were $18,402.

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. Expenditures through June 30, 2020 were $134,955.

Outfall Cathodic Protection System Rehabilitation Project. The District owns and operates a shared deep-water outfall system with the City's of Pinole and Hercules. The City's of Pinole and Hercules own and operate a wastewater treatment facility that discharges its effluent through a land outfall that joins the shared deep-water outfall. The Districts effluent is combined at the Eductor Station at the Districts facility with the City's of Pinole and Hercules effluent. The combined effluents proceed approximately 3,900 feet out into through the shared deep-water outfall. The Design Services for the project were started in June 2018. This project has an estimated capital cost of $259,958. The Project was bid in September 2019, with construction primarily completed in March 2020, with polarization and certification in August 2020.

Bar Screen Project. This Project is being funded from District Reserves. This project includes a minor component of the District Wide Electrical and Control Rehabilitation and a major rehabilitation of the District's Headworks Structure. Project elements include but are not limited to new MCCs and Ventilation System in the , concrete repair, new grating and new handrail for the Headworks Structure, and a new Bar Screen Structure consisting of new Bar Screen, Conveyance, and Washing and Compacting Equipment.

The Bar Screen Project was bid in July 2019. Construction began in September 2019 with an anticipated final completion in October 2020. As of June 30, 2020, the construction was approximately 70% complete. The Bar Screen Project and complementary minor projects have an estimated capital cost of 4.17 million. Expenditures through June 30, 2020 were $1,486,328.

2020 Priority Improvements. The District initiated the 2020 Priority Improvements Project to perform several minor sewer rehabilitations. Planning and design level activities occurred prior to June 30, 2020. It is anticipated that design will be completed with the project being bid in October 2020. The engineer's estimate of probable construction cost was $154,000. Expenditures through June 30, 2020 were $7,420.

Debt Activities

The District's mission is "To safely provide the highest level of wastewater collection and treatment as economically possible for the people of Rodeo while protecting the sensitive ecosystem of the and the overall environment. In June 2013, the District completed a planning process to determine how to best meet this mission over the next 20 years." The plan is identified in the Comprehensive Wastewater Master Plan (CWWMP) prepared for the District.

The primary objectives of the CWWMP were to assess the ability of existing facilities to provide reliable wastewater collection and treatment, plan for future regulations, and develop a prioritized and comprehensive 20-year Capital Improvement Program (CIP) that address the District's current and future needs. The District Board reviewed a number of potential options presented in the master plan and selected a CIP alternative that included various hydraulic improvements at the wastewater treatment plant (WWTP) and Influent Pump Station, along with an extensive sewer replacement program to address sewer rehabilitation needs where sanitary sewer overflows had occurred or risk of overflow was very high. The estimated budget to fund these projects over the next 20 years was approximately $16.6 million. The District Board chose to finance the initial CIP projects primarily through the use of Clean Water State Revolving Fund (CWSRF) low interest loans in order to minimize the long-term cost of borrowing. The District Board prioritized eight separate projects as listed in the table below. The final CWWMP Project was completed in spring 2019.

Schedule	Project	Budget Cost (million)
Complete 2015	Sewer Year 1 Improvements	$2.0
Complete 2016	Sewer Year 2A Improvements	$2.4
Start September 2016	WWTP Improvements	$1.8
Start October 2016	Sewer Year 2B Improvements	$2.4
Start January 2017	Sewer Year 3A Improvements	$2.4
Start December 2016	Influent Pump Station Improvements	$1.8
Start May 2017	Sewer Year 3B Improvements	$2.4
Start July 2018	Sewer Year 3C Improvements	$1.4
	TOTAL COST	$16.6

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 in rate increase schedule from the 2018-2019 fiscal year to the 2022-2023 fiscal year. However, the Board of Directors chose to eliminate Sewer Service Fee increase for the 2020 – 2021 Fiscal Year. This was predominantly in response to the COVID 19 Pandemic. It is anticipated that the Board of Directors will continue with the plan phased rate increase for the 2021 and 2022 Fiscal Years.

Current Rate	Proposed 2018-2019 Rate (2.5% increase)	Proposed 2019-2020 Rate (1% increase)	Proposed 2020-2021 Rate (1% increase)	Proposed 2021-2022 Rate (2.5% increase)	Proposed 2022-2023 Rate (1% increase)
$962.44	$986.50	$996.38	$996.38	$1,021.28	$1,031.50

Each year, District staff will present a comprehensive financial report to the Board during the FY Budget preparation. The Board has asked that each years' increase be justified or omitted for the fiscal year.

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 2020-2021. 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 rate based 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 District Administrator at Rodeo Sanitary District, 800 San Pablo Avenue, Rodeo, California 94572.

RODEO SANITARY DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2020

ASSETS	
Current Assets	
Cash and investments (Note 2)	$ 5,401,043
Accounts receivable	263,089
Franchise fee receivable	19,132
Prepaid assets	48,660
Other assets	5,723
Total Current Assets	5,737,647
Non-Current Assets	
Net pension asset (Note 6)	501,019
Capital assets, net of accumulated depreciation (Note 3)	23,354,264
Total Non-Current Assets	23,855,283
Total Assets	29,592,930
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources - pension (Note 6)	148,835
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 29,741,765
LIABILITIES	
Current Liabilities	
Accounts payable	$ 816,744
Accrued payroll	38,786
Compensated absences (Note 4)	48,058
Other liabilities	10,845
Long term liabilities, current portion (Note 4)	637,344
Total Current Liabilities	1,551,777
Non-Current Liabilities	
Long term liabilities, net of current portion (Note 4)	14,428,283
Total Non-Current Liabilities	14,428,283
Total Liabilities	15,980,060
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources - pension (Note 6)	153,714
NET POSITION	
Net investment in capital assets	8,288,637
Restricted for current capital projects	762,764
Restricted for future capital projects	1,795,927
Unrestricted	2,760,663
Total Net Position	13,607,991
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	$ 29,741,765

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, 2020

OPERATING REVENUE	
Sewer service charges	$ 3,320,479
Total Operating Revenue	3,320,479
OPERATING EXPENSES	
Operating expenses	2,658,601
Net Operating Income	661,878
NON-OPERATING REVENUES (EXPENSES)	
Ad valorem taxes	392,628
Franchise fees	80,786
Miscellaneous income	197,157
Interest expense	(207,423)
Net Non-Operating Revenues	463,148
Change in Net Position	1,125,026
Net Position - July 1, 2019	12,482,965
Net Position - June 30, 2020	$ 13,607,991

See accompanying notes to the financial statements.

RODEO SANITARY DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from customers	$ 3,184,112
Cash paid to suppliers for goods and services	(996,902)
Cash paid to employees	(1,148,883)
Net Cash Provided by Operating Activities	1,038,327
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of equipment and capital improvements	(1,665,472)
Proceeds from State Water Resources Control Board	1,925,293
Proceeds on new debt	42,331
Principal paid on capital debt	(545,020)
Interest paid on capital debt	(105,949)
Net Cash Used for Capital and Related Financing Activities	(348,817)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Ad valorem taxes	392,628
Fees and services	196,297
Franchise fees	80,084
Net Cash Provided by Non-Capital Financing Activities	669,009
Net Increase in Cash and Cash Equivalents	1,358,519
Cash and Cash Equivalents - July 1, 2019	4,042,524
Cash and Cash Equivalents - June 30, 2020	$ 5,401,043
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating income	$ 661,878
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	865,983
Change in assets and liabilities:	
(Increase) decrease in accounts receivable, net	(136,367)
(Increase) decrease in net deferred items	357,350
(Increase) decrease in prepaid assets	28,283
(Increase) decrease in other assets	(517)
Increase (decrease) in accounts payable	(55,435)
Increase (decrease) in accrued payroll & benefits	2,856
Increase (decrease) in accrued liabilities	(3,676)
Increase (decrease) in net pension asset	(688,162)
Increase (decrease) in compensated absences	6,134
Net Cash Provided by Operating Activities	$ 1,038,327

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 2,504 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 was completed in September 2019. Project 4 is part of the Pump Station Improvements and was completed in March 2018. Project 5 is part of the Wastewater Treatment Plant Improvements and was completed in December 2017.

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 accepted 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 main operating fund. The main operating 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. The main operating fund consists of two subfunds - the operating fund and the capital fund.

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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 purpose 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, 2020, there is no allowance for uncollectible accounts.

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. 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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. Accordingly, actual results could differ from these estimates.

P. Implementation of Government Accounting Standards Board Statements

Effective July 1, 2019, the District implemented the following accounting and financial reporting standards:

<u>Government Accounting Standards Board Statement No. 90</u>

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests*. The purpose of this statement is to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The new standard clarifies the differences between a majority equity interests reported as an investment and majority equity interest reported as a component unit of the governmental entity. Application of this statement has had no material impact on District's financial statements for the fiscal year ending June 30, 2020.

<u>Government Accounting Standards Board Statement No. 95</u>

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018 and later. The District adopted this accounting guidance for its June 30, 2020 year-end.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Future Government Accounting Standards Board Statements

These statements are not effective until July 1, 2020 or later and may be applicable for the District. However, the District has not determined the effects, if any, on the financial statements.

Government Accounting Standards Board Statement No. 87

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement requires 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. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-of-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. Application of this statement is effective for the District's fiscal year ending June 30, 2022. The District has not determined what impact, if any, this pronouncement will have on the financial statements.

Government Accounting Standards Board Statement No. 89

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This statement requires interest costs incurred before the end of a construction period to be recorded as an expenditure in the applicable period. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. 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.

Government Accounting Standards Board Statement No. 91

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligation*s. The purpose of this statement is to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. 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.

NOTE 2: CASH AND INVESTMENTS

Cash and investments were comprised of the following at June 30, 2020:

County Investment Pool	$	5,401,043

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, 2020, 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, 2020, 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, 2020, the deposits with financial institutions, in excess of the federal depositary insurance limits, were collateralized as required by law. As of June 30, 2020, the carrying amount of the District’s bank deposits totaled $5,401,043 and the bank balances totaled $5,397,803. 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, 2020:

	Balance July 1, 2019	Additions	Transfers	Balance June 30, 2020
Non-Depreciable Assets:				
Land	$ 40,000	$ -	$ -	$ 40,000
Construction in progress	63,652	2,216,235	(2,131,715)	148,172
Total Non-Depreciable Assets	103,652	2,216,235	(2,131,715)	188,172
Depreciable Assets:				
Plant (prior to 1974)	3,703,054	-	-	3,703,054
Plant	6,186,140	-	1,911,783	8,097,923
Plant maintenance	811,099	-	12,983	824,082
Pump station	3,941,635	-	3,590	3,945,225
Collection system	2,727,290	-	134,955	2,862,245
Laboratories	28,800	-	-	28,800
Administration	60,606	-	5,227	65,833
Underground sewer lines	15,143,610	-	63,177	15,206,787
Pre-1970 District system	1,428,297	-	-	1,428,297
Total Depreciable Assets	34,030,531	-	2,131,715	36,162,246
Accumulated Depreciation:				
Plant (prior to 1974)	(3,703,053)	-	-	(3,703,053)
Plant	(3,137,658)	(224,879)	-	(3,362,537)
Plant maintenance	(459,013)	(52,044)	-	(511,057)
Pump station	(813,134)	(117,654)	-	(930,788)
Collection system	(1,027,706)	(88,574)	-	(1,116,280)
Laboratories	(28,798)	-	-	(28,798)
Administration	(36,512)	(2,294)	-	(38,806)
Underground sewer lines	(1,496,000)	(380,538)	-	(1,876,538)
Pre-1970 District system	(1,428,297)	-	-	(1,428,297)
Total Accumulated Depreciation	(12,130,171)	(865,983)	-	(12,996,154)
Total Capital Assets, net	$ 22,004,012	$ 1,350,252	$ -	$ 23,354,264

Depreciation expense for the year ended June 30, 2020 totaled $865,983.

NOTE 4: LONG-TERM LIABILITIES

The following is a summary of long-term liability activity for the year ended June 30, 2020:

	Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020	Current Portion
Long-term liabilities:					
SRF Loan (Year 1) 14-822-550-0	$ 1,664,717	$ -	$ (174,696)	$ 1,490,021	$ -
SRF Loan (Year 2) D15-01006-550-0	4,531,772	-	(205,983)	4,325,789	209,279
SRF Loan (Year 3) D15-01032-550-0	5,798,283	42,331	-	5,840,614	263,131
SRF Loan - IPS D15-01008-550-0	1,866,151	-	(84,822)	1,781,329	86,179
SRF Loan - WWTP D15-01020-550-0	1,707,393	-	(79,519)	1,627,874	78,755
Total long-term liabilities	$ 15,568,316	$ 42,331	$ (545,020)	$ 15,065,627	$ 637,344
Other liabilities:					
Compensated absences	$ 41,924	$ 48,058	$ (41,924)	$ 48,058	$ 48,058

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 $1,999,643 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. During the current year ended June 30, 2020, principal and interest incurred in the current year but due in the subsequent period was paid prior to June 30, as a result no payment will be required to be made by the District in the year ended June 30, 2021. Future debt service payments as of June 30 are as follows:

Year Ending June 30	Principal	Interest	Total
2021	$ -	$ -	$ -
2022	89,319	22,350	111,669
2023	90,658	21,011	111,669
2024	92,018	19,651	111,669
2025	93,398	18,270	111,668
2026-2030	488,430	69,911	558,341
2031-2035	526,179	32,164	558,343
2036	110,019	1,650	111,669
Total	$ 1,490,021	$ 185,007	$ 1,675,028

NOTE 4: LONG-TERM LIABILITIES (continued)

B. State Revolving Fund Year 2 Loan

On September 21, 2015, the District entered into a loan agreement with the State Water Resources Control Board. The loan provided up to $4,983,016 to be used for capital expenditures relating to the SRF Year 2 project. The note is payable in annual installments of $278,492, including interest at 1.6% through October 2037. Future debt service payments as of June 30 are as follows:

Year Ending June 30	Principal	Interest	Total
2021	$ 209,279	$ 69,213	$ 278,492
2022	212,628	65,864	278,492
2023	216,029	62,462	278,491
2024	219,485	59,006	278,491
2025	222,997	55,494	278,491
2026-2030	1,169,660	222,795	1,392,455
2031-2035	1,266,277	126,180	1,392,457
2036-2038	809,434	26,039	835,473
Total	$ 4,325,789	$ 687,053	$ 5,012,842

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, 2020, $5,840,614, including $58,283 in disbursement requests exceeding the funding agreement that were approved by the State Water Resource Control Board. Loan payments will begin in the year ended June 30, 2021 and accrue interest at 1.7% through September 2039. Future debt service payments as of June 30 are as follows:

Year Ending June 30	Principal	Interest	Total
2021	$ 263,131	$ 82,844	$ 345,975
2022	251,158	94,817	345,975
2023	255,427	90,548	345,975
2024	259,770	86,205	345,975
2025	264,186	81,789	345,975
2026-2030	1,389,843	340,032	1,729,875
2031-2035	1,512,065	217,810	1,729,875
2036-2040	1,645,034	84,839	1,729,873
Total	$ 5,840,614	$ 1,078,884	$ 6,919,498

NOTE 4: LONG-TERM LIABILITIES (continued)

D. State Revolving Fund IPS Loan

In September 2017, 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. The note is payable in annual installments of $114,680, including interest at 1.6% through March 2038. Future debt service payments as of June 30 are as follows:

Year Ending June 30	Principal	Interest	Total
2021	$ 86,179	$ 28,501	$ 114,680
2022	87,558	27,122	114,680
2023	88,959	25,721	114,680
2024	90,383	24,298	114,681
2025	91,829	22,852	114,681
2026-2030	481,658	91,745	573,403
2031-2035	521,443	51,959	573,402
2036-2038	333,320	17,778	351,098
Total	$ 1,781,329	$ 289,976	$ 2,071,305

E. State Revolving Fund Wastewater Treatment Plan Loan

In March 2016, the District entered into a loan agreement with the State Water Resources Control Board. The loan provided up to $1,900,000 to be used for capital expenditures related to the Wastewater Treatment Plan project. The note is payable in annual installments of $104,802, including interest at 1.6% through 2038. Future debt service payments as of June 30 are as follows:

Year Ending June 30	Principal	Interest	Total
2021	$ 78,755	$ 26,046	$ 104,801
2022	80,015	24,786	104,801
2023	81,296	23,506	104,802
2024	82,596	22,205	104,801
2025	83,918	20,883	104,801
2026-2030	440,166	83,843	524,009
2031-2035	476,523	47,483	524,006
2036-2038	304,605	9,799	314,404
Total	$ 1,627,874	$ 258,551	$ 1,886,425

F. Compensated Absences

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

NOTE 5: INTRAFUND TRANSACTIONS

The following intrafund transactions are between the sub funds of the main operating fund of the District. Therefore these transactions are shown on the combining statements on pages 26 and 27, but are eliminated and not shown on the statement of net position and statement of revenue, expenses and changes in net position on pages 7 and 8, respectively.

Due to/from Other Funds

Receivable Fund	Payable Fund	Description	Amount
Operating Fund	Capital Fund	Capital Improvements	$ 13,115,809

The Capital Fund has borrowed from the Operating Fund a cumulative amount of $13,115,809 as of June 30, 2020 to finance on-going construction projects as part of the Capital Improvements Program. This loan is to be repaid from future receipts of the Ad Valorem Tax, Capital Improvement Charges, Connection Fees and Additional Sewer Service fees designated for the Capital Fund. The Operating Fund has made these funds available for the Capital Improvement Program by incurring loans from the State Revolving Fund as presented in Note 4. Loan will be repaid to the Operating Fund and then in turn the Operating Fund will repay loans from State Revolving Fund. No payments were made to the Operating Fund during the year ended June 30, 2020.

Interfund Transfers to/from Other Funds

Transfers between funds during the fiscal year ended June 30, 2020 were as follows:

Transfer from	Transfer To	Description of Transfers	Amount
Operating Fund	Capital Fund	Capital Improvements	$ 1,039,438

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 1200 Concord Avenue, Suite 300, 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.

NOTE 6: RETIREMENT PLAN (continued)

The Plan's provisions and benefits in effect at June 30, 2020, 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 2.61%	1.0% to 2.50%
Required employee contribution rates	10.23%-15.09%	12.38%
Required employer contribution rates	16.58%	12.76%

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, 2019 (based on the December 31, 2019 valuation) was 16.58% of compensation for legacy and 12.76% of compensation for PEPRA.

For the year ended June 30, 2020, the contributions recognized as part of pension expense for the Plan were as follows:

Contributions - employer	$	136,962
Contributions - employee		77,957

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

As of June 30, 2020, the District reported a net pension asset of $501,019 for its proportionate share of the net pension liability of the Plan.

The District's net pension asset for the Plan is measured as the proportionate share of the net pension liability. The net pension asset of the Plan is measured as of December 31, 2019 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, 2019. 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, 2019 and 2020 was as follows:

Proportion - June 30, 2019	.013%
Proportion - June 30, 2020	(.048%)
Change - Increase (Decrease)	(.061%)

NOTE 6: RETIREMENT PLAN (continued)

For the year ended June 30, 2020, the District recognized pension benefit of $193,850. At June 30, 2020, 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	$ 104,310	$ -
Differences between actual and expected experience	(71,584)	(7,473)
Changes in assumptions	-	(30,394)
Change in employer's proportion and differences between the employer's contributions and employer's proportionate share of contributions.	116,109	307,799
Net differences between projected and actual earnings on plan investments	-	(116,218)
Total	$ 148,835	$ 153,714

During the fiscal year, $104,310 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, 2020. 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		
2021	$	(6,392)
2022	$	(17,272)
2023	$	(103,102)
2024	$	17,577

C. Actuarial Assumptions – The total pension liabilities in the December 31, 2019 actuarial valuations were determined using the following actuarial assumptions:

	Legacy	PEPRA
Valuation Date	December 31, 2019	December 31, 2019
Measurement Date	December 31, 2019	December 31, 2019
Actuarial Cost Method	Entry-Age	Entry-Age
Actuarial Assumptions:		
Discount Rate	7.00%	7.00%
Inflation	2.75%	2.75%
Projected Salary Increase	3.25%	3.25%
Investment Rate of Return	7.00%	7.00%
Mortality	RP-2014 Healthy Annuitant Mortality Table	RP-2014 Healthy Annuitant Mortality Table

NOTE 6: RETIREMENT PLAN (continued)

D. Discount Rate – The discount rate used to measure the total pension liability and net pension asset was 7.00% as of December 31, 2019. 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, 2019.

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 1.14% of the projected beginning plan fiduciary net position amount. An investment return excluding administrative expenses would have been 8.14%. 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 using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

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	5%	5.44%
Developed International Equity	13%	6.54%
Emerging Markets Equity	11%	8.73%
Short-Term Govt/Credit	23%	0.84%
U.S. Treasury	3%	1.05%
Private Equity	8%	9.27%
Risk Diversifying	7%	3.53%
Global infrastructure	3%	7.90%
Private Credit	12%	5.80%
REIT	1%	6.80%
Value Add Real Estate	5%	8.80%
Opportunistic Real Estate	4%	12.00%
Risk Parity	5%	5.80%
Total	100%	

NOTE 6: RETIREMENT PLAN (continued)

Sensitivity of the Proportionate Share of the Net Pension Asset to Changes in the Discount Rate – The following presents the District's proportionate share of the net pension asset for the Plan, calculated using the discount rate for the Plan, as well as what the District's proportionate share of the net pension asset 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	$234,166
Current Discount Rate	7.00%
Net Pension Asset	($501,019)
1% Increase	8.00%
Net Pension Asset	($1,103,511)

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, 2020, the District made $78,153 in insurance premium payments to CSRMA.

Condensed audited financial statements for CSRMA was as follows for the year ended June 30, 2019 (the most recent available):

Total Assets	$	26,991,334
Total Liabilities	$	20,588,497
Total Net Position	$	6,402,837
Total Revenues	$	13,274,331
Total Expenses	$	14,577,244
Change in Net Position	$	(1,302,913)

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.

NOTE 8: COMMITMENTS AND CONTINGENCIES

The World Health Organization declared the worldwide coronavirus (COVID-19) outbreak a public health emergency on January 30, 2020 and officially declared it as a pandemic as of March 11, 2020. Management has performed an evaluation of certain financial statement line items such as investments, net pension liability, and net OPEB obligation to determine whether valuation or impairment adjustments should be made. Management has determined that the amounts reported on the financial statements are properly valued as of June 30, 2020. However, since the duration and full effects of the COVID-19 outbreak are yet unknown there could be future negative impacts to the financial condition of the District.

SUPPLEMENTARY INFORMATION

RODEO SANITARY DISTRICT
COMBINING SCHEDULE OF NET POSITION
JUNE 30, 2020

	Operating Fund	Capital Fund	Total
ASSETS			
Current Assets			
Cash and investments	$ 4,638,279	$ 762,764	$ 5,401,043
Accounts receivable	263,089	-	263,089
Franchise fee receivable	19,132	-	19,132
Prepaid assets	48,660	-	48,660
Interfund receivable (payable)	13,115,809	-	13,115,809
Other assets	5,723	-	5,723
Total Current Assets	18,090,692	762,764	18,853,456
Non-Current Assets			
Net pension asset	501,019	-	501,019
Capital assets (net of accumulated depreciation)	23,354,264	-	23,354,264
Total Non-Current Assets	23,855,283	-	23,354,264
Total Assets	41,945,975	762,764	42,708,739
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources	148,835	-	148,835
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 42,094,810	$ 762,764	$ 42,857,574
LIABILITIES			
Current Liabilities			
Accounts payable	$ 816,744	$ -	$ 816,744
Accrued payroll	38,786	-	38,786
Compensated absences	48,058	-	48,058
Interfund payable	-	13,115,809	13,115,809
Other liabilities	10,845	-	10,845
Long term liabilities, current portion	637,344	-	637,344
Total Current Liabilities	1,551,777	13,115,809	14,667,586
Non-Current Liabilities			
Long term liabilities, net of current portion	14,428,283	-	14,428,283
Total Non-Current Liabilities	14,428,283	-	14,428,283
Total Liabilities	15,980,060	13,115,809	29,095,869
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources	153,714	-	153,714
NET POSITION			
Invested in capital assets, net of related debt	8,288,637	-	8,288,637
Restricted for current capital projects	13,115,809	(12,353,045)	762,764
Restricted for future capital projects	1,795,927	-	1,795,927
Unrestricted	2,760,663	-	2,760,663
Total Net Position	25,961,036	(12,353,045)	13,607,991
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	$ 42,094,810	$ 762,764	$ 42,857,574

RODEO SANITARY DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2020

	Operating Fund	Capital Fund	Total
OPERATING REVENUE			
Sewer service charges	$ 2,448,479	$ 872,000	$ 3,320,479
OPERATING EXPENSES			
Operating expenses	2,658,601	-	2,658,601
Net Operating Income (Loss)	(210,122)	872,000	661,878
NON-OPERATING REVENUES (EXPENSES)			
Ad valorem taxes	392,628	-	392,628
Franchise fees	80,786	-	80,786
Miscellaneous income	197,157	-	197,157
Interest expense	(207,423)	-	(207,423)
Net Non-Operating Revenues	463,148	-	463,148
Income before transfers	253,026	872,000	1,125,026
TRANSFERS			
Interfund transfers	1,039,438	(1,039,438)	-
Change in Net Position	1,292,464	(167,438)	1,125,026
Net Position - July 1, 2019	24,668,572	(12,185,607)	12,482,965
Net Position - June 30, 2020	$ 25,961,036	$ (12,353,045)	$ 13,607,991

RODEO SANITARY DISTRICT
SCHEDULE OF OPERATING EXPENSES
BUDGET TO ACTUAL
FOR THE YEAR ENDED JUNE 30, 2020

	Budget	Actual	Favorable (Unfavorable) Variance
Salaries	$ 891,436	$ 852,695	$ 38,741
Payroll taxes	63,131	64,256	(1,125)
Employee benefits - retirement	145,000	(193,850)	338,850
Employee benefits - insurance	107,066	103,960	3,106
Worker's compensation insurance	116,405	110,186	6,219
Director fees and costs	16,500	6,321	10,179
Solid disposal	24,630	19,405	5,225
Utilities and telephone	188,286	197,480	(9,194)
Chemicals	76,793	76,453	340
Maintenance supplies	189,500	149,648	39,852
Laboratory supplies and services	64,314	72,634	(8,320)
Equipment lease/rental	3,240	2,932	308
Vehicle operations and maintenance	7,500	7,532	(32)
Small tools	2,500	1,645	855
Permits, licenses, and fees	62,373	61,010	1,363
Legal counsel	31,000	31,500	(500)
Professional services	100,000	128,362	(28,362)
Training and education	24,500	11,904	12,596
Janitorial supplies and services	6,850	6,324	526
Office supplies and expenses	22,600	24,738	(2,138)
Safety items	7,000	13,880	(6,880)
Regulatory payments	9,000	-	9,000
Pollution prevention	14,500	10,503	3,997
Grant program	21,000	33,000	(12,000)
Miscellaneous expense	-	100	(100)
	2,195,124	1,792,618	402,506
Depreciation	-	865,983	(865,983)
	$ 2,195,124	$ 2,658,601	$ (463,477)

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, 2020
LAST 10 YEARS*

	2020	2019	2018	2017	2016	2015
Proportion of the net pension liability	(0.05800)%	0.01300 %	0.01400 %	0.01500 %	0.02600 %	0.01530 %
Proportionate share of the net pension liability	$ (501,019)	$ 187,143	$ 111,965	$ 203,750	$ 393,628	$ 182,951
Covered payroll	$ 734,973	$ 689,729	$ 635,682	$ 609,667	$ 568,265	$ 589,379
Proportionate share of the net pension liability as a percentage of covered payroll	(68.17)%	27.13 %	17.61 %	33.42 %	69.27 %	31.04 %
Plan fiduciary net position as a percentage of the total pension liability	109.10 %	96.58 %	98.00 %	95.67 %	91.43 %	95.83 %

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.

* Schedule is intended to show information for ten years. Fiscal year 2015 was the first year of implementation, therefore only six years are shown. Additional years' information will be displayed as it becomes available.

See accompanying notes to the financial statements.

RODEO SANITARY DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CONTRIBUTIONS TO THE COST SHARING DEFINED BENEFIT PENSION PLAN
AS OF JUNE 30, 2020
LAST 10 YEARS*

	2020	2019	2018	2017	2016	2015
Contractually required contribution (actuarially determined)	$ 141,303	$ 230,441	$ 189,027	$ 177,632	$ 178,020	$ 200,506
Contributions in relation to the actuarially determined contributions	(141,303)	(230,441)	(189,027)	(177,632)	(178,020)	(200,506)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 734,973	$ 689,729	$ 635,682	$ 609,667	$ 568,265	$ 589,379
Contributions as a percentage of payroll	19.23 %	33.41 %	29.74 %	29.14 %	31.33 %	34.02 %

See accompanying notes to the financial statements.

SCHEDULE OF CONTRIBUTIONS TO THE COST SHARING DEFINED BENEFIT PENSION PLAN
AS OF JUNE 30, 2020
LAST 10 YEARS*

Notes to Schedule:

Valuation Date:	December 31, 2019

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

*Schedule is intended to show information for ten years. Fiscal year 2015 was the first year of implementation, therefore only six years are shown. Additional years' information will be displayed as it becomes available.

OTHER REPORTS

MANN • URRUTIA • NELSON CPAs & ASSOCIATES, LLP
GLENDALE • ROSEVILLE • SACRAMENTO • SOUTH LAKE TAHOE • KAUAI, HAWAII

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, 2020, 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 December 8, 2020.

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) as a basis for designing 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 financial statements. 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.

Mann, Urrutia, Nelson CPAs

Sacramento, California
December 8, 2020