STEGE
SANITARY DISTRICT

FINANCIAL REPORT

FOR THE

YEAR ENDED

JUNE 30, 2016

WITH

INDEPENDENT AUDITORS' REPORT

STEGE SANITARY DISTRICT
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JUNE 30, 2016

BOARD OF DIRECTORS
Elected Officials

Name	Office
Alan C. Miller	President
Beatrice O'Keefe	Vice President
Dwight Merrill	Board Member
Jay James	Board Member
Paul Gilbert-Snyder	Board Member

DISTRICT MANAGEMENT

Rex W. Delizo
District Manager

Kary Richardson
Administrative Supervisor

STEGE SANITARY DISTRICT

JUNE 30, 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Stege Sanitary District

Report on the Financial Statements

We have audited the accompanying statement of net position; statement of revenues, expenses, and changes in net position; and statement of cash flows of the Stege Sanitary District (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Stege Sanitary District as of June 30, 2016, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's office for special districts.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the District adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, effective July 1, 2015. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The budgetary comparison schedule and schedule of operating expenses before depreciation listed as supplementary information in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The supplementary information, as listed in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic 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 5, 2016, on our consideration of the District's internal control over financial reporting and 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 the 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 Stege Sanitary District's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co., LLP.

Pleasanton, California
December 5, 2016

The following discussion and analysis of the Stege Sanitary District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2016. Please read it in conjunction with the District financial statements

FINANCIAL HIGHLIGHTS

- Current assets increased by $1,008,085 or 22.4 percent as a result of this year's operations.
- Noncurrent assets increased by $1,295,780 or 3.5 percent. This increase is mainly the result of the annual pipe replacement project.
- Long-term liabilities decreased by $112,013 or 5.4 percent. This decrease is mainly the result of paying down the debt.
- Total operating revenues increased by $180,307, over the previous year, or 4.0 percent. This was a result of an increase in water discharge permits.
- Operating expenses decreased by $24,478, or .09 percent. This decrease is a result of decreases in salaries, benefits and retirement contributions due to the retirement of a long-time employee.
- Connection fee revenues decrease by $230,506, or 90.2 percent from the previous year. The revenue decrease is due to a pause in developments in the area.
- Other revenues increased by $53,453 or 12.3 percent.

DISTRICT HIGHLIGHTS

- The District completed another major sewer renewal project in fiscal year 2015-2016 and this is represented on the financial statements as a conversion of cash to capital assets. This annual project for the cyclical replacement and/or rehabilitation of sewer lines is anticipated to be typical of future ones with an expense of at least $2.2M per year.

USING THIS ANNUAL REPORT

District financial statements report information about the District using accounting methods similar to those used by private sector companies. The Statement of Net Position includes all District assets, deferred outflows of resources, liabilities, and deferred inflows of resources and provides information about the nature and amounts of investments in resources (assets) and deferred outflows of resources and obligations to creditors (liabilities) and deferred inflows of resources. It also provides the basis for computing rate of return; evaluating the capital structure of the District; and assessing the liquidity and financial flexibility of the District. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the success of District operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges. The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about District cash receipts, cash disbursements and net changes in cash resulting from operations, investing, capital, and noncapital financial activities. It provides answers to questions such as, "Where did the cash come from?", "Cash was used for what purpose?", and "What was the change in cash balance during the reporting period?"

FINANCIAL ANALYSIS OF THE DISTRICT

One of the most important questions asked about District finances is whether or not the District's overall financial position has improved or deteriorated. The Statement of Net Position and the Statement of Revenues and Expenses and Changes of Net Position report information about District activities in a way that will help answer this question. These two statements report the net position of the District and changes in it. You can think of District net position - the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources - as one way to measure financial health or financial position. Over time, increases or decreases in District net position are one indicator of whether its financial health is improving or deteriorating. Other factors to consider include changes in economic conditions, population growth, and new or changed legislation.

Changes in Net Position

District total net position increased from the previous year by $2,292,776 or 6.0 percent. The following condensed financial statements show net position and statement of revenue and expenses and changes in net position, in a comparative format indicating the amount and percentage of change.

Table 1 – Condensed Statement of Net Position

	Fiscal Year 2015-2016	Fiscal Year 2014-2015	Amount of Increase (Decrease)	Percent of Increase (Decrease)
Current and other assets	$ 5,513,240	$ 4,505,155	$ 1,008,085	22.4%
Noncurrent assets	37,922,359	36,626,579	1,295,780	3.5%
Total assets	43,435,599	41,131,734	2,303,865	5.6%
Deferred outflows of resources	178,030	150,212	27,818	18.5%
Current liabilities	695,017	432,531	262,486	60.7%
Long-term liabilities	1,975,639	2,087,652	(112,013)	-5.4%
Total liabilities	2,670,656	2,520,183	150,473	6.0%
Deferred inflows of resources	142,597	254,163	(111,566)	-43.9%
Net Position:				
Net investment in capital assets	36,862,896	35,457,129	1,405,767	4.0%
Unrestricted	3,937,480	3,050,471	887,009	29.1%
Total net position	$ 40,800,376	$ 38,507,600	$ 2,292,776	6.0%

Changes in District net position can be determined by reviewing the following condensed Statement of Revenue, Expenses, and Changes in Net Position.

Table 2 – Condensed Statement of Revenues, Expenses, and Changes in Net Position

	Fiscal Year 2015-2016	Fiscal Year 2014-2015	Amount of Increase (Decrease)	Percent of Increase (Decrease)
Revenues:				
Operating revenues	$ 4,657,917	$ 4,477,610	$ 180,307	4.0%
Other revenues	488,153	434,700	53,453	12.3%
Connection fees	25,174	255,680	(230,506)	-90.2%
Total revenues	5,171,244	5,167,990	3,254	0.1%
Expenses:				
Operating expenses	2,852,454	2,876,932	(24,478)	-0.9%
Interest expenses	26,014	29,045	(3,031)	-10.4%
Total expenses	2,878,468	2,905,977	(27,509)	-0.9%
Increase (decrease) in net position	2,292,776	2,262,013	30,763	1.4%
Beginning net position	38,507,600	36,245,587	2,262,013	6.2%
Ending net position	$ 40,800,376	$ 38,507,600	$ 2,292,776	6.0%

Revenues

Total revenues increased, $3,254 or .1 percent compared to the previous fiscal year. Operating revenues increased $180,307, or 4.0 percent from the previous year. Other revenues increased by $53,453, or 12.3 percent over the previous year. Connection fees decreased by $230,506, or 90.2 percent from the previous year due to a pause in new construction in the area.

Expenses

Operating expenses decreased by $24,478, or .9 percent in fiscal year 2015-2016 compared to fiscal year 2014-2015.

Budgetary Highlights

The District is not required by statute to adopt a budget; however, in its commitment to fiscal responsibility and transparency, the District adopts an annual budget each year which outlines the major elements of forthcoming operations and capital improvements.

The District maintains an ongoing capital improvement program which is updated annually at the same time the operating budget is approved. The program includes an ongoing sewer renewal program, whose purpose is to replace and/or rehabilitate aging District sewer main lines that may cause overflows and result in expensive, unplanned repairs. The program, which includes repairs, replacement, rehabilitation and condition assessment, currently costs approximately $2.2 million annually and will be financed on a pay-as-you-go policy.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2016, the District had $37,821,920 (net of accumulated depreciation) invested in a variety of capital assets.

The assets included: land; collection system subsurface lines and pump stations; administration building and vehicles. The total increase in District capital assets for the current fiscal year was $1,284,787 or 3.5 percent more than last year.

The following table summarizes District capital assets at historical costs and accumulated depreciation for fiscal years ended June 30, 2016, and June 30, 2015:

Table 3 – Historical Cost and Accumulated Depreciation

	Balance at June 30, 2016	Balance at June 30, 2015
Land and easements	$ 134,475	$ 134,475
Subsurface lines, buildings, vehicles and equipment	51,873,137	49,752,878
Total Capital Assets	52,007,612	49,887,353
Accumulated Depreciation	(14,185,692)	(13,350,220)
Total Capital Assets (Net of Depreciation)	$ 37,821,920	$ 36,537,133

More detailed information regarding capital assets can be found in footnote #2.

Long Term Liabilities

At the end of the current reporting period, the District's long term portion in State revolving fund loans outstanding was $834,966 versus $959,024 last year— a decrease of $124,058 or 12.9 percent as shown below:

Table 4 – Outstanding Long Term Debt

	Balance at June 30, 2016	Balance at June 30, 2015
Long term debt, net of current portion	$ 834,966	$ 959,024

The District has previously used State revolving fund loans to finance previous sewer upgrade projects. The interest rate on these loans is one-half of the rate of the most recent issuance of State general obligation (GO) bonds.

Additional information on Long Term Liabilities can be found in footnote #5.

ECONOMIC AND OTHER FACTORS

The District is governed in part by provisions 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 is not subject to general economic conditions such as increases or declines in property tax values or other types of revenues that vary with economic conditions such as sales taxes. Accordingly, the District sets its rates to its users to cover the costs of OM&R and debt financed capital improvements, plus any increments for known or anticipated changes in program costs.

Increases in operating costs have been kept at or below inflationary levels in recent years. Medical premiums have risen dramatically and may continue to do so in the near future.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers and creditors with a general overview of District finances, and demonstrate District accountability for the money it receives. If you have any questions about this report, or need additional financial information, contact the District Manager at 7500 Schmidt Lane, El Cerrito, CA 94530 or (510) 524-4668.

STEGE SANITARY DISTRICT

STATEMENT OF NET POSITION
JUNE 30, 2016

	2016
CURRENT ASSETS	
Cash and cash equivalents	$ 5,467,759
Accounts receivable	11,118
Prepaid insurance	34,363
Total current assets	5,513,240
NONCURRENT ASSETS	
Capital Assets	
Non depreciable capital assets:	
Land and easements	134,475
Depreciable assets	
Sewer lines, building, vehicles and equipment	51,873,137
Less: Accumulated depreciation	(14,185,692)
Net capital assets	37,821,920
OTHER ASSETS	
OPEB asset	100,439
Total non-current assets	37,922,359
TOTAL ASSETS	43,435,599
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to pensions	178,030
CURRENT LIABILITIES	
Accounts payable and accrued expenses	423,132
Accrued payroll and related expenses	35,841
Interest payable	10,115
Current portion of accrued compensated absences	101,871
Current portion of long-term debt	124,058
Total current liabilities	695,017
LONG-TERM LIABILITIES	
Accrued compensated absences, net of current portion	7,229
Net pension liability	1,133,444
Long-term debt, net of current portion	834,966
Total long-term liabilities	1,975,639
TOTAL LIABILITIES	2,670,656
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	142,597
NET POSITION	
Net investment in capital assets	36,862,896
Unrestricted	3,937,480
TOTAL NET POSITION	$ 40,800,376

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

STEGE SANITARY DISTRICT

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

	2016
OPERATING REVENUE	
Sewer service charges	$ 4,483,151
Other operating revenues	174,766
Total operating revenue	4,657,917
OPERATING EXPENSES	
Sewage collection	1,516,154
General and administration	500,828
Depreciation	835,472
Total operating expenses	2,852,454
Operating income	1,805,463
NON-OPERATING REVENUES (EXPENSES)	
Interest and investment income	17,403
Interest Expense	(26,014)
Other Income	470,753
Total non-operating revenue (expense)	462,142
INCOME BEFORE CONTRIBUTED CAPITAL	2,267,605
Connection fees	25,171
CHANGE IN NET POSITION	2,292,776
Net position, beginning of year	38,507,600
NET POSITION, END OF YEAR	$ 40,800,376

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

STEGE SANITARY DISTRICT

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

	2016
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	$ 4,683,370
Payments to suppliers	(391,189)
Payments to and in behalf of employees and directors	(1,505,171)
Cash flows provided (used in) by operating activities	2,787,010
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal payments on long-term debt	(120,980)
Interest paid on long-term debt	(27,240)
Acquisition and construction of capital assets	(2,120,259)
Connection fees	25,171
Cash flows provided by (used in) capital and related financing activities	(2,243,308)
CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITIES	
Other Income	470,753
Cash flows provided by (used in) non capital financing activities	470,753
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and investment income	17,403
Cash flows provided by (used in) investing activities	17,403
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,031,858
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,435,901
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 5,467,759

RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITES	
Operating income	$ 1,805,463
Adjustments to reconcile operating income to cash flows provided by operating activities	
Depreciation	835,472
Decrease in accounts receivable and prepaids	23,773
(Increase) in deferred outflows	(27,818)
Increase (decrease) in accounts payable and accrued expenses	259,027
Increase (decrease) in net pension liability	13,652
Increase (decrease) in deferred inflow	(111,566)
(Increase) decrease in other assets	(10,993)
Cash flows provided by operating activities	$ 2,787,010

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

NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The Stege Sanitary District (the "District") was formed in May 1913 and provides a service of sanitary sewage collection to over 33,000 residents in El Cerrito, Kensington, and portions of the Richmond Annex. Treatment and disposal of the sewage is the responsibility of the East Bay Municipal Utility District (EBMUD) which maintains a pumping station on Point Isabel to receive the sewage from the Stege Sanitary District service areas.

Reporting Entity

For financial reporting purposes, and in conformity with the Governmental Accounting Standards Board (GASB) Codification Section 2100, which defines the governmental entity, the District includes all funds that are controlled by, or are dependent on the Board of Directors of the District. Since no other entities are controlled by, or rely upon the District, the reporting entity consists solely of the District.

Fund Accounting Classification

The financial statements of the District are presented as those of an enterprise fund under the broad category of funds called proprietary funds.

Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprise, where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The acquisition and capital improvement of the physical plant facilities required to provide these goods and services are financed from existing cash resources, cash flow from operations, the issuances of debt, and contributed capital.

Basis of Accounting

Enterprise funds are accounted for using the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when they are incurred. The District applies all applicable GASB pronouncements for accounting and financial reporting guidance.

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for sales and services. Operating expenses for the District include the costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Budgetary Policy and Control

The District adopts an operations and maintenance budget at the beginning of each year for the following fiscal year. Capital budgets are adopted on a project basis. Formal budgetary integration is employed as a management control device.

Cash and Cash Equivalents

The State Treasurer's Investment Pool or Local Agency Investment Funds (LAIF) operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares. Investments for the District are reported at fair value.

The District's cash and cash equivalents are considered to be cash-on-hand and amounts held in LAIF.

Property, Plant and Equipment

Property, plant and equipment are recorded at historical cost, or estimated historical cost if actual cost is not available. Contributed assets are recorded at estimated fair value on the date contributed. Depreciation is recognized on buildings, furniture, fixtures, equipment, and subsurface lines by the straight-line method over their estimated useful lives.

The District uses a minimum cost of $1,500 for equipment, structures, and improvements as the basis for capitalization of assets. All additions under $1,500 are considered current expenses. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend lives are also expensed in the current period. Property, plant, and equipment assets are depreciated using the straight-line method and estimated useful lives are determined as follows:

Sewage Collection	75 years
Building	30 years
Vehicles	5 - 10 years
Equipment	5 - 15 years

Compensated Absences

The District records employees' vacation and sick leave benefits in the period in which they accumulate and become vested.

Estimates

Management uses estimates and assumptions in preparing the financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities, and the reported revenues and expenses. Accordingly, actual results could differ from those estimates.

NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Deferred Outflows and Inflows of Resources

Deferred outflows of resources are a consumption of net position that is applicable to a future reporting period and deferred inflows of resources are in acquisition of net position that is applicable to a future reporting period. A deferred outflows of resources has a positive effect on net position, similar to assets, and a deferred inflows of resources has a negative effect on net position, similar to liabilities. The District has certain items, which qualify for reporting as deferred outflows of resources and deferred inflows of resources.

Pensions

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

New Governmental Accounting and Reporting Standards

GASB Statement No. 72 – In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. These disclosures should be organized by type of asset or liability reported at fair value. It also requires additional disclosures regarding investments in certain entities that calculate net asset value per share (or its equivalent). The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015. This statement was implemented by the District as of July 1, 2015.

GASB Statement No. 73 – In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The provisions in statement 73 are effective for fiscal years beginning after June 15, 2015—except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. The District implemented the provisions that apply to the current fiscal year with no impact. The District has not determined the effect of provisions required in the future on the financial statements.

GASB Statement No. 76 – In June 2015, GASB issues Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). This statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement is effective for reporting periods beginning after June 15, 2015. The District implemented the provisions of this statement as of July 1, 2015.

NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The District has implemented the provisions of this Statement as of July 1, 2015.

Future Governmental Accounting Standards Board (GASB) Pronouncements

GASB Statement No. 74 – In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. Statement No. 74 replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, statement 43, and statement No. 50, *Pension Disclosures*. The provisions in statement 74 are effective for fiscal years beginning after June 15, 2016. The District has not determined its effect on the financial statements.

GASB Statement No. 75 - In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Statement 75 establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. The provisions in statement 75 are effective for fiscal years beginning after June 15, 2017. The District has not determined its effect on the financial statements.

GASB Statement No. 77 – In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. The objective of this statement is to provide financial statement users with essential information about the nature and magnitude of the reduction in tax revenues through tax abatement programs. This statement is effective for reporting periods beginning after December 15, 2015. The District has not determined its effect on the financial statements.

In December 2015, the GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment to GASB Statement No. 27*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to State or local governmental employers whose employees are provided with such pensions. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. The District has not determined its effect on the financial statements.

NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units—an amendment to 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. This Statement amends the blending requirements established in paragraph 53 of GASB Statement No. 14, *The Financial Reporting Entity*. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units—an amendment to GASB Statement No. 14*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The District has not determined its effect on the financial statements.

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. The District has not determined its effect on the financial statements.

In March 2016, the GASB issued Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to GASB Statement No. 67, *Financial Reporting for Pension Plans—an amendment to GASB Statement No. 25*, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment to GASB Statement No. 27*, and GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information; (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes; and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. The District has not determined its effect on the financial statements.

NOTE #2 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 is summarized as follows:

	Balance June 30, 2015	Additions	Deletions	Transfers	Balance June 30, 2016
Capital assets, not being depreciated:					
Land and easements	$ 134,475	$ -	$ -	$ -	$ 134,475
Total Capital assets, not being depreciated:	134,475	-	-	-	134,475
Capital assets, being depreciated:					
Sewage collection facilities	45,728,224	2,078,499	-	-	47,806,723
Buildings and equipment	2,823,806	-	-	-	2,823,806
Maintenance equipment	314,666	15,676	-	-	330,342
Vehicles	886,182	26,084	-	-	912,266
Total Capital assets, being depreciated:	49,752,878	2,120,259	-	-	51,873,137
Less: Accumulated depreciation					
Sewage collection facilities	12,160,548	669,847	-	-	12,830,395
Buildings and equipment	384,110	94,450	-	-	478,560
Maintenance equipment	268,373	19,213	-	-	287,586
Vehicles	537,189	51,962	-	-	589,151
Total Accumulated depreciation:	13,350,220	835,472	-	-	14,185,692
Total capital assets, being depreciated , net	36,402,658	1,284,787	-	-	37,687,445
Total Capital Assets, net	$ 36,537,133	$ 1,284,787	$ -	$ -	$ 37,821,920

NOTE #3 – CASH AND INVESTMENTS

A. Summary of Cash and Cash Equivalents and Investments

Cash, cash equivalents and investments at June 30, 2016 are detailed as follows:

	Fair Value
Cash on hand and in financial institutions	$ 267,977
Investments	5,199,782
Total Cash and Cash Equivalents	$ 5,467,759

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

The Governmental Accounting Standards Board establishes accounting and financial reporting standards for all investments held by governmental external investment pools. The statement requires governmental entities to report investments at fair value.

NOTE #3 – CASH AND INVESTMENTS – CONTINUED

B. Authorized Investments by the District

Limitations as they relate to interest rate risk and concentration of credit risk are indicated in the schedule below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Obligations	5 years	None	None
Bankers Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Funds	N/A	20%	10%
Mortgage Pass-through and Asset Backed Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Agency Authority Pools	N/A	None	None

C. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value 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 manages its exposure to interest rate risk by depositing the majority of its funds with the State Local Agency Investment Fund (LAIF). At June 30, 2016, LAIF had a weighted average maturity of 167 days.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the District's investment by maturity:

	Maturities of 12 months or less
LAIF	$ 5,199,782

NOTE #3 – CASH AND INVESTMENTS – CONTINUED

D. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measure by the assignment of a rating by a nationally recognized statistical rating organization. LAIF is not required to, and does not, have a credit rating.

E. Custodial Credit Risk

Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy for custodial credit risk, as well as the California Government Code, requires that a financial institution secure deposits by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105% of the secured deposits. As of June 30, 2016, the District's cash deposit balance at Mechanic's Bank was $292,039 with a carrying balance of $267,977, and was covered by federal depository insurance or by collateral held in an undivided collateral pool, as described above (before accounting for outstanding items).

Investments

This is the risk that, in the event of the failure of the counterparty transaction, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. It is the District's policy that all securities held, be secured through third-party custody for safekeeping. The District was not holding any securities at year end.

F. Investments in the State Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California government code Section 16429 under the oversight of the Treasurer of the State of California. LAIF is not registered with the Securities and Exchange Commission. The fair value of the District's investment in the pool is reported in the accompanying financial statement at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which is recorded on the amortized cost basis.

NOTE #4 – FAIR VALUE MEASUREMENTS

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets that the District has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that data if reasonably available information indicates that other market participants would use different data or certain circumstances specific to the District are not available to other market participants.

Uncategorized - The funds deposited in the Local Agency Investment Fund are invested in accordance with Government Code Sections 16430 and 16480, the stated investment authority for the Pooled Money Investment Account and are not required to be categorized using the levels above because it’s an alternative investment for California's local governments and special districts.

Investment Type	Fair Value/ Uncategorized
LAIF	$ 5,199,782

NOTE #5 – LONG-TERM LIABILITIES

The District has secured State Revolving fund loans from the State Water Control Board. Each loan is payable in annual principal and interest payments. Loan C-06-4665-110 for an original amount of $1,586,165 under agreement dated October 2, 2000, has an interest rate of 2.6 percent and maturity date of February 21, 2022. Loan C-06-4665-210 for an original amount of $706,004 under agreement dated June 13, 2006, has an interest rate of 2.4 percent and maturity date of December 21, 2025.

Long-Term Debt	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016	Current Portion
Loan C-06-4665-110	$ 659,608	$ -	$ 87,131	$ 572,477	$ 89,397
Loan C-06-4665-210	420,396	-	33,849	386,547	34,661
Total	$ 1,080,004	$ -	$ 120,980	959,024	
Less Current Portion				(124,058)	
Long Term Portion				$ 834,966	
Compensated absences	$ 93,310	$ 62,641	$ (46,851)	$ 109,100	$ 101,871
Less Current Portion				(101,871)	
Long Term Portion				$ 7,229	

Maturities for the next five years and thereafter on the loans are as follows:

Year Ended June 30		Principal	Interest	Total
2017		$ 124,058	$ 24,162	$ 148,220
2018		127,214	21,005	148,219
2019		130,451	17,769	148,220
2020		133,770	14,450	148,220
2021		137,173	11,046	148,219
2022-2026		306,358	17,615	323,973
	Totals	$ 959,024	$ 106,047	$ 1,065,071

NOTE #6 – PENSION PLAN

A. General Information about the Pension Plans

Plan Descriptions – All qualified permanent employees are eligible to participate in the District's Miscellaneous Employee Pension Plan, a cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plans are established by State statute and may be amended by District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

NOTE #6 – PENSION PLAN - CONTINUED

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

On January 1, 2013, the Public Employees' Pension Reform Act of 2013 (PEPRA) took effect. In additional to creating new retirement formulas for newly hired members PEPRA also effectively closed all existing active risk pools to new employees.

The Plans' provisions and benefits in effect at June 30, 2016, are summarized as follows:

	Miscellaneous	
Hire Date	Prior to January 1, 2013	Starting January 1, 2013
Formula	2.0% @ 55	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50-55	52-67
Monthly benefits, as a % of annual salary	2.0% to 2.7%	1.0% to 2.5%
Required employee contribution rates	7.00%	6.25%
Required employer contribution rates	8.51%	6.24%

Contributions – Section 20814(c) of the California Public Employees' Retirement law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in rate. Funding contributions for Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rates of employees.

For the year ended June 30, 2016, the contributions to the Plan were $151,311.

NOTE #6 – PENSION PLAN - CONTINUED

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

As of June 30, 2016, the District's reported net pension liability for its proportionate share of the pension liability of the Plan is as follows:

	Miscellaneous
Proportionate Share of Net Pension Liability	$ 1,133,444

The District's net pension liability for the Plan is measured as the proportionate share of the collective net pension liability. The net pension liability of the Plan is measured as of June 30, 2015 and the total pension liability for the Plan used to calculated the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard actuarial update procedures. The District's proportion of the collective net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for the Plan as of June 30, 2015 and 2016 is as follows:

	Total
Proportion - June 30, 2015	0.01800%
Proportion - June 30, 2016	0.01651%
Change - Increase (Decrease)	-0.00148%

At the year ended June 30, 2016, the District recognized pension expense of $169,634. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 151,312	$ -
Differences between actual and expected experience	8,888	
Changes in assumptions	-	(84,088)
Net differences between projected and actual earnings on plan investments	-	(42,155)
Changes in proportion and difference between District's contributions and proportionate share of contributions	17,830	(16,354)
Total	$ 178,030	$ (142,597)

NOTE #6 – PENSION PLAN - CONTINUED

The amount of $151,312 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year ended June 30		
2017	$	(33,331)
2018		(33,331)
2019		(38,678)
2020		(10,539)
	$	(115,879)

Actuarial Assumptions **–** The total pension liabilities in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions.

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method (Closed)
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.0%
Projected Salary Increase	3.3% - 14.2% (1)
Investment Rate of Return	7.65% (2)
Mortality	Derived using CalPERS membership for data for all funds

(1) Depending on age, service and type of employment

(2) Net of pension plan investment expenses, including inflation

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2015 valuation were developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the CalPERS 2014 experience study report available on CalPERS website. All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

NOTE #6 – PENSION PLAN – CONTINUED

Discount Rate - The discount rate used to measure the total pension liability was increased from 7.50 percent to 7.65 percent in 2015. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the current 7.65 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained at CalPERS’ website under the GASB 68 section.

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

In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension fund (Public Employees’ Retirement Fund) cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds’ asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects 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. The target allocation shown was adopted by the Board effective on July 1, 2014.

Asset Class	Target Allocation	Real Return Years 1-10 [(a)]	Long-Term Expected Real Rate of Return [(b)]
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36$
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	100%		

(a) An expected inflation of 2.5% used for this period

(b) An expected inflation of 3.0% used for this period

NOTE #6 – PENSION PLAN – CONTINUED

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability of the District Miscellaneous Plan, calculated using the discount rate for the Plan, as well as what the District's 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		6.65%
Net Pension Liability	$	1,850,700
Current Discount Rate		7.65%
Net Pension Liability	$	1,133,444
1% Increase		8.65%
Net Pension Liability	$	543,578

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

NOTE #7 - OTHER RETIREMENT BENEFITS

Postemployment Healthcare Plan (OPEB)

Plan Description. The District provides post-retirement benefits to eligible employees. Eligibility is based upon active employee status of the District at the time of retirement, completion of at least ten years employment with the District, having achieved the age of 55 or older, eligibility to retire under PERS, and not receiving health care benefits from any other source other than Medicare or workers' compensation. During the fiscal year 2008-2009, the District Resolution 1946-1208 established the amount of the employer's contribution of retiree health medical benefit at $280 per month per retired employee. That rate is still in effect for the year ended June 30, 2016.

California Public Employees' Retirement System (CalPERS) and the California Employers' Retiree Benefit Trust (CERBT). To comply with recommendation of the Governmental Accounting Standards Board (GASB) statement No. 43 and No. 45, the District joined the CalPERS CERBT fund in fiscal 2010. During the year ended June 30, 2016, $20,360 was contributed to the trust. The purpose of the CalPERS CERBT Fund is to provide California government employers with a trust through which they may prefund retiree medical costs and other post-employment benefits. The objective of the Trust is to seek favorable returns that reflect the broad investment performance. The Trust utilizes the concept of diversification through asset allocation. However, there is no guarantee that the Trust will achieve its investment objective. The Employers who participate in the Trust own units of the Trust's portfolio that invests in accordance with the approved strategic asset allocation, they do not have direct ownership of the securities in the portfolio. The Trust's unit value changes with market condition. The CERBT is a self-funded program, in which the participating employers pay the program costs. The cost charged to participating employers is based on the average daily balance of assets. CalPERS issues a separate Comprehensive Annual Financial Report. Copies of the Ca1PERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Policy. Statement No. 45 sets rules for computing the employer's expense for retiree benefits other than pension, called OPEBs. The expense, called the annual OPEB Cost (AOC), is determined similarly to pensions. The *annual required contribution (ARC)* of the employer, represents a level of funding that, if paid on an ongoing basis, is projected to cover normal annual costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. When an agency contributes more than the ARC, there is a net OPEB asset; when the contribution is less, a net OPEB obligation results. The District has a net OPEB asset of $100,439 as of June 30, 2016.

Annual OPEB Cost and Net OPEB Obligation (Asset). For 2016, the District's annual OPEB cost (expense) was $9,367. The District contributed $20,360 for retiree health care premiums (including an implied subsidy).

NOTE #7 - OTHER RETIREMENT BENEFITS – CONTINUED

The following table shows the components of the District's annual OPEB costs for the 2016, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

	2016
Annual Required Contribution (ARC)	$ 9,367
Interest on net OPEB obligation (asset)	-
Amortization of net OPEB obligation (asset)	-
Annual OPEB cost	9,367
Contributions made	20,360
Change in net OPEB obligation (asset)	(10,993)
OPEB obligation (asset) - beginning of year	(89,446)
OPEB obligation (asset) - end of year	$ (100,439)

Trend Information. The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the OPEB obligation for 2016 and the two preceding years are presented below:

Fiscal Year Ending	Annual OPEB Cost	Actual Employer Contributions	Percentage Contributed	Net OPEB Obligation (Asset)
2016	$ 9,367	$ 20,360	217%	$ (100,439)
2015	21,333	22,200	104%	(89,446)
2014	20,733	21,600	104%	(88,579)

Funded Status. The District's most recent actuarial report dated July 1, 2015 estimates the funded status of the plan as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2015	$ 178,690	$ 264,189	$ 85,499	67.64%	$ 876,660	9.75%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. The funded status of the plan and the annual required contributions of the employer are subject to continual revision, as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information, presents multiyear trend information that shows whether the actuarial value of the plan assets is increasing or decreasing over time, relative to the actuarial liabilities for benefits.

NOTE #7 - OTHER RETIREMENT BENEFITS – CONTINUED

Actuarial Methods and Assumptions. GASB Statement No. 43 requires actuarial reporting by the retiree health benefits trust fund and Statement No. 45 requires that an employer's expense be determined using actuarial methods so that costs accrue over the employees' working lifetimes. In addition, the CERBT trust requires biennial valuation. In order to comply with the above requirements, the Actuarial Analysis of Retiree Health Benefits for the District's, as of July 1, 2015, was performed by enrolled actuary Geoffrey Kischuck.

The actuary used following actuarial method and assumption:

Valuation date	July 1, 2015
Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of payroll
Amortization Period	24 Years
Asset valuation method	Market Value of Assets
Actuarial Assumptions:	
Investment rate of return (funded)	7.00%
Salary increase	2.75%
Inflation Rate	2.75%

NOTE #8 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District joined together with other entities to form the California Sanitation Risk Management Authority (CSRMA), a public entity risk pool currently operating as a common risk management and insurance program for 54 member entities. The purpose of CSRMA is to spread the adverse effects of losses among the member entities and to purchase excess insurance as a group, thereby reducing its cost. The District pays annual premiums to CSRMA for its general liability, property damage and workers compensation insurance.

CSRMA is governed by a Board composed of one representative from each member agency. The Board controls the operations of CSRMA including selection of management and approval of operating budgets, independent of any influence by member entities.

In addition to the primary insurance types provided for through CSRMA listed above, the District also maintains commercial fidelity bonds, public employee dishonesty and public official bonds, to protect against employee theft or defalcation. Settled claims for CSRMA or commercial fidelity bonds have not exceeded coverage in any of the past three fiscal years.

NOTE #8 - RISK MANAGEMENT – CONTINUED

The following is a summary of the insurance coverage carried by the District as of June 30, 2016:

	Insured Value
General liability (pooled liability program)	
Bodily injury, property damage, and personal injury	$ 15,000,000
Public entity errors and omissions and other related practices	Included above
Employment related practices	Included above
Excess Liability	10,000,000
Public Official Bond	100,000
Special Form Property	1,935,437
Workers compensation	Statutory
Mobile equipment	627,982

The financial statements of CSRMA are available upon request from: The California Sanitation Risk Management Authority, c/o Alliant Insurance Services, Inc., 100 Pine Street, 11th Floor, San Francisco, California 96111-5101.

REQUIRED SUPPLEMENTARY INFORMATION

STEGE SANITARY DISTRICT

SCHEDULE OF FUNDING PROGRESS FOR RETIREE HEALTH BENEFIT PLAN
FOR THE YEAR ENDED JUNE 30, 2016

Fiscal Year End	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2016	July 1, 2015	$ 178,690	$ 264,189	$ 85,499	67.64%	$ 876,660	9.75%
June 30, 2015	July 1, 2013	141,300	357,300	216,000	39.6%	876,200	24.7%
June 30, 2014	July 1, 2011	121,300	312,400	191,100	38.8%	808,400	23.6%

STEGE SANITARY DISTRICT

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2016

Miscellaneous Plan
Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
Last 10 Years **
Schedule of Proportionate Share of the Net Pension Liability

	2016	2015
Plan's proportion of the Net Pension Liability (Asset)	0.01651%	0.01800%
Plan's proportion share of the Net Pension Liability (Asset)	$ 1,133,444	$ 1,119,792
Plan's Covered-Employee Payroll	$ 899,390	$ 860,430
Plan's proportion share of the Net Pension Liability (Asset) as a percentage of its Covered-Employee payroll	126.02%	130.14%
Plan's proportionate share of the fiduciary net position as a percentage of the plan's total pension liability	78.90%	78.19%

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

Changes in assumptions. In 2016, amounts reported as changes in assumptions resulted primarily from adjustments to expected retirement ages of general employees.

STEGE SANITARY DISTRICT

SCHEDULE OF CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2016

Miscellaneous Plan
Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
Last 10 Years **
Schedule of Contributions

	2016	2015
Actuarially determined contribution	$ 151,311	$ 144,055
Contributions in relation to the actuarially determined contribution	(151,311)	(144,055)
Contributions deficiency (excess)	$ -	$ -
Covered-employee payroll	$ 874,035	$ 899,390
Contributions as a percentage of covered-employee payroll	17.31%	16.02%

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

STEGE SANITARY DISTRICT

SUPPLEMENTARY INFORMATION
COMPARISON OF BUDGET TO ACTUAL
FOR THE YEAR ENDED JUNE 30, 2016

	Final Budget (Unaudited)	Actual	Favorable (Unfavorable) Variance	Variance %
OPERATING REVENUE				
Sewer service charges	$ 4,677,000	$ 4,483,151	$ (193,849)	-4%
Permit and inspection fees	15,000	12,893	(2,107)	-14%
Contracted services	40,000	161,873	121,873	305%
Total operating revenue	4,732,000	4,657,917	(74,083)	-2%
NON-OPERATING REVENUE AND CONNECTION FEES				
Property tax	339,000	432,619	93,619	28%
Interest income	10,000	17,400	7,400	74%
Other income	21,000	38,134	17,134	82%
Connection fees	100,000	25,174	(74,826)	-75%
Total non operating revenue	470,000	513,327	43,327	9%
Total revenues	5,202,000	5,171,244	(30,756)	-1%
OPERATING EXPENSES				
Maintenance/Engineering	1,582,090	1,443,338	138,752	9%
Pump Stations	15,060	25,603	(10,543)	-70%
Contracted Repairs	58,000	47,213	10,787	19%
General & Administrative	637,360	500,828	136,532	21%
Total operating expenses	2,292,510	2,016,982	275,528	12%
NON-OPERATING EXPENSES				
Interest expense	27,220	26,014	1,206	100%
Total expenses	2,319,730	2,042,996	276,734	12%
CHANGE IN NET POSITION BEFORE DEPRECIATION	$ 2,882,270	3,128,248	$ 245,978	9%
Depreciation		(835,472)		
CHANGE IN NET POSITION		$ 2,292,776		
BALANCE SHEET RELATED				
Debt principal repayment	$ 120,980	$ 120,980	$ -	0%
Capital Equipment	70,000	41,760	28,240	40%
Construction	2,156,000	2,078,499	77,501	4%
	$ 2,346,980	$ 2,241,239	$ 105,741	5%

STEGE SANITARY DISTRICT

SUPPLEMENTARY INFORMATION
SCHEDULE OF OPERATING EXPENSES BEFORE DEPRECIATION
FOR THE YEAR ENDED JUNE 30, 2016

	Sewage Collection	General & Administrative	Total
Salaries and wages	$ 819,781	$ 170,367	$ 990,148
Employee benefits	325,251	64,463	389,714
Director's meeting fees	-	19,595	19,595
Director's training and travel	-	7,319	7,319
Gasoline, oil and fuel	18,332	-	18,332
Membership	1,274	10,174	11,448
Repairs and maintenance	223,834	4,121	227,955
Operating supplies	46,042	-	46,042
Office and safety supplies	-	6,004	6,004
Insurance	53,525	74,565	128,090
Training & Travel	4,795	350	5,145
Professional services	16,946	80,574	97,520
Utilities	6,374	27,964	34,338
Other	-	34,609	34,609
Rents/Leases	-	723	723
Total Operating Expense Before Depreciation	$ 1,516,154	$ 500,828	$ 2,016,982