

STEGE SANITARY DISTRICT

FINANCIAL REPORT

FOR THE

YEAR ENDED

JUNE 30, 2015

WITH

INDEPENDENT AUDITORS' REPORT

STEGE SANITARY DISTRICT
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JUNE 30, 2015

BOARD OF DIRECTORS
Elected Officials

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

DISTRICT MANAGEMENT

Rex W. Delizo
District Manager

Kary Richardson
Administrative Supervisor

STEGE SANITARY DISTRICT

JUNE 30, 2015

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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 financial statements of the Stege Sanitary District (the District), as of and for the year ended June 30, 2015, 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.

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, 2015, 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 described in Note 1 to the financial statements, the District adopted Governmental Accounting Standards Board (GASB) Statements No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB 68*, effective July 1, 2014. 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 plan 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 financial information 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 relate 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 7, 2015, 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 7, 2015

STEGE SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

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, 2015. Please read it in conjunction with the District financial statements

FINANCIAL HIGHLIGHTS

When comparing 2015 to 2014 figures, it should be noted that the impact of implementing Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting And Financial Reporting For Pensions—An Amendment of GASB Statement No. 27* and GASB 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*, is not reflected in the 2014 figures. This explains why there are balances for deferred outflows of resources and deferred inflows of resources in 2015 but not 2014.

- Current assets increased by \$792,389, or 21.3 percent as a result of this year's operations.
- Noncurrent assets increased by \$996,877, or 2.8 percent. This increase is mainly the result of the annual pipe replacement project.
- Long-term liabilities increased by \$1,000,863, or 92.1 percent. This increase is mainly the result of recording the GASB 68 net pension liability.
- Total operating revenues increased by \$708,031, over the previous year, or 18.8 percent. This was a result of the 12.8% increase in sewer service charge.
- Operating expenses decreased by \$89,324, or 3.0 percent. This decrease is a result of decreases in salaries and benefits due to the retirement of a long-time employee.
- Connection fee revenues increased \$144,226, or 129.4 percent from the previous year. The revenue increase is due to the development of Creekside Walk Condominiums, a 128 unit apartment building.
- Other revenues increased by \$66,710 or 18.1 percent.

DISTRICT HIGHLIGHTS

- The District completed another major sewer renewal project in fiscal year 2014-2015 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 \$1.725M per year. This may be increased significantly in the future depending upon the details of future discharge permits and orders from regulatory agencies.

STEGE SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

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.

STEGE SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

Changes in Net Position

District total net position increased from the previous year by \$996,254, or 2.7 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 2014-15	Fiscal Year 2013-14	Amount of Increase (Decrease)	Percent of Increase (Decrease)
Current and other assets	\$ 4,505,155	\$ 3,712,766	\$ 792,389	21.3%
Noncurrent assets	36,626,579	35,629,702	996,877	2.8%
Total assets	<u>41,131,734</u>	<u>39,342,468</u>	<u>1,789,266</u>	4.5%
Deferred outflows of resources	<u>150,212</u>	<u>-</u>	<u>150,212</u>	N/A
Current liabilities	432,531	744,333	(311,802)	-41.9%
Long-term liabilities	<u>2,087,652</u>	<u>1,086,789</u>	<u>1,000,863</u>	92.1%
Total liabilities	<u>2,520,183</u>	<u>1,831,122</u>	<u>689,061</u>	37.6%
Deferred inflows of resources	<u>254,163</u>	<u>-</u>	<u>254,163</u>	N/A
Net Position:				
Net investment in capital assets	35,457,129	34,343,140	1,113,989	3.2%
Unrestricted	<u>3,050,471</u>	<u>3,168,206</u>	<u>(117,735)</u>	-3.7%
Total net position	<u>\$ 38,507,600</u>	<u>\$ 37,511,346</u>	<u>\$ 996,254</u>	2.7%

STEGE SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

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

	<u>Fiscal Year 2014-15</u>	<u>Fiscal Year 2013-14</u>	<u>Amount of Increase (Decrease)</u>	<u>Percent of Increase (Decrease)</u>
Revenues:				
Operating revenues	\$ 4,477,610	\$ 3,769,579	\$ 708,031	18.8%
Other revenues	434,699	367,989	66,710	18.1%
Connection fees	255,680	111,454	144,226	129.4%
Total revenues	<u>5,167,989</u>	<u>4,249,022</u>	<u>918,967</u>	21.6%
Expenses:				
Operating expenses	2,876,931	2,966,255	(89,324)	-3.0%
Interest expenses	29,045	33,316	(4,271)	-12.8%
Total expenses	<u>2,905,976</u>	<u>2,999,571</u>	<u>(93,595)</u>	-3.1%
Increase (decrease) in net position	2,262,013	1,249,451	1,012,562	81.0%
Beginning net position	37,511,346	36,261,895	1,249,451	3.4%
Prior period adjustment (Note 9)	(1,265,759)	-	(1,265,759)	N/A
Beginning net position, as restated	<u>36,245,587</u>	<u>36,261,895</u>	<u>(16,308)</u>	
Ending net position	<u>\$ 38,507,600</u>	<u>\$ 37,511,346</u>	<u>\$ 996,254</u>	2.7%

Revenues

Total revenues increased, \$918,967 or 21.6 percent compared to the previous fiscal year. Total revenues increased due to a sewer service charge increase and connection fee revenue from the development of Creekside Walk Condominiums, a 128 unit apartment building. Operating revenues increased \$708,031, or 18.8 percent from the previous year. Other revenues increased by \$66,710, or 18.1 percent over the previous year. Connection fees increased \$144,226, or 129.4 percent from the previous year due to new construction.

Expenses

Operating expenses decreased by \$89,324, or 3.0 percent in fiscal year 2014-2015 compared to fiscal year 2013-2014.

STEGE SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 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 \$1.725 million annually and will be financed on a pay-as-you-go system.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2015, the District had \$36,537,133 (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 \$996,010 or 2.8 percent more than last year.

The major capital asset event during the fiscal year is completion of a sewer construction project, the "Standard Pipebursting Project".

The following table summarizes District capital assets at historical costs and accumulated depreciation for fiscal years ended June 30, 2015, and June 30, 2014:

Table 3 – Historical Cost and Accumulated Depreciation

	Balance at June 30, 2015	Balance at June 30, 2014
Land easements	\$ 134,475	\$ 134,475
Subsurface lines, buildings, vehicles/equipment	49,752,878	48,136,587
Total Capital Assets	49,887,353	48,271,062
Accumulated Depreciation	(13,350,220)	(12,729,939)
Total Capital Assets (Net of Depreciation)	<u>\$ 36,537,133</u>	<u>\$ 35,541,123</u>

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

STEGE SANITARY DISTRICT

MANAGEMENT’S DISCUSSION AND ANALYSIS JUNE 30, 2015

Long Term Liabilities

At the end of the current reporting period, the District's long term portion in State revolving fund loans outstanding was \$959,024 versus \$1,080,004 last year— a decrease of \$120,980 or 11.2 percent as shown below:

Table 4 – Outstanding Long Term Debt

	Balance at June 30, 2015	Balance at June 30, 2014
Long term debt, net of current portion	\$ 959,024	\$ 1,080,004

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 #4.

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, 2015

	<u>2015</u>
CURRENT ASSETS	
Cash and cash equivalents	\$ 4,435,901
Accounts receivable	36,571
Prepaid insurance	32,683
Total current assets	<u>4,505,155</u>
NONCURRENT ASSETS	
Capital Assets	
Non depreciable capital assets:	
Land and easements	134,475
Depreciable assets	
Sewer lines, building, vehicles and equipment	49,752,878
Less: Accumulated depreciation	<u>(13,350,220)</u>
Net capital assets	<u>36,537,133</u>
OTHER ASSETS	
OPEB asset	89,446
Total non-current assets	<u>36,626,579</u>
TOTAL ASSETS	<u>41,131,734</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to pensions	<u>150,212</u>
CURRENT LIABILITIES	
Accounts payable and accrued expenses	202,435
Accrued payroll and related expenses	13,301
Interest payable	11,341
Current portion of accrued compensated absences	84,474
Current portion of long-term debt	<u>120,980</u>
Total current liabilities	<u>432,531</u>
LONG-TERM LIABILITIES	
Accrued compensated absences, net of current portion	8,836
Net pension liability	1,119,792
Long-term debt, net of current portion	<u>959,024</u>
Total long-term liabilities	<u>2,087,652</u>
TOTAL LIABILITIES	<u>2,520,183</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	<u>254,163</u>
NET POSITION	
Net investment in capital assets	35,457,129
Unrestricted	<u>3,050,471</u>
TOTAL NET POSITION	<u>\$ 38,507,600</u>

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, 2015

	2015
OPERATING REVENUE	
Sewer service charges	\$ 4,423,369
Other operating revenues	54,241
Total operating revenue	<u>4,477,610</u>
OPERATING EXPENSES	
Sewage collection	1,527,621
General and administration	582,405
Depreciation	766,905
Total operating expenses	<u>2,876,931</u>
Operating income	<u>1,600,679</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest and investment income	8,333
Interest Expense	(29,045)
Other Income	426,366
Total non-operating revenue (expense)	<u>405,654</u>
INCOME BEFORE CONTRIBUTED CAPITAL	2,006,333
Connection fees	<u>255,680</u>
CHANGE IN NET POSITION	<u>2,262,013</u>
Net position, beginning of year	37,511,346
Prior period adjustment	(1,265,759)
Net Position, beginning of year, as restated	<u>36,245,587</u>
NET POSITION, END OF YEAR	<u>\$ 38,507,600</u>

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

STEGE SANITARY DISTRICT

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2015

	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 4,495,622
Payments to suppliers	(926,762)
Payments to and in behalf of employees and directors	<u>(1,535,906)</u>
Cash flows provided (used in) by operating activities	<u>2,032,954</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal payments on long-term debt	(117,979)
Interest paid on long-term debt	(30,240)
Acquisition and construction of capital assets	(1,762,915)
Connection fees	255,680
Cash flows provided by (used in) capital and related financing activities	<u>(1,655,454)</u>
CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITIES	
Other Income	426,366
Cash flows provided by (used in) non capital financing activities	<u>426,366</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and investment income	8,333
Cash flows provided by (used in) investing activities	<u>8,333</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	812,199
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>3,623,702</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 4,435,901</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES	
Operating income	\$ 1,600,679
Adjustments to reconcile operating income to cash flows provided by operating activities	
Depreciation	766,905
Decrease in accounts receivable and prepaids	19,810
Increase (decrease) in accounts payable and accrued expenses	(311,557)
(Increase) in deferred pensions	(144,055)
Increase in pension expense	102,039
(Increase) decrease in other assets	<u>(867)</u>
Cash flows provided by operating activities	<u>\$ 2,032,954</u>

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

STEGE SANITARY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

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 bonds, 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.

STEGE SANITARY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

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 District's cash and cash equivalents are considered to be cash-on-hand and amounts held in the Local Agency Investment Funds.

The State Treasurer's Investment Pool 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.

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.

STEGE SANITARY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015

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. 68 – In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. This statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of statements No. 27 and No. 50 remain applicable for pensions that are not covered by the scope of this statement. This statement was implemented by the District as of July 1, 2014.

GASB Statement No. 69 – In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. The objective of this statement is to improve accounting and financial reporting by State and local governments for government combinations and disposals of government operations. The statement provides authoritative guidance on a variety of government combinations including mergers, acquisitions, and transfers of operations. This statement was effective July 1, 2014. The District has determined that this statement is not applicable.

STEGE SANITARY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

GASB Statement No. 71 – In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*—an amendment of GASB Statement No. 68. The objective of this statement is to improve accounting and financial reporting by addressing an issue in Statement No. 68, Accounting and Financial Reporting for Pensions, concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that statement by employers and nonemployer contributing entities. The provisions of this statement are required to be applied simultaneously with the provisions of Statement 68. This statement was implemented by the District as of July 1, 2014.

New Accounting Pronouncements

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. The District has not determined its effect on the financial statements.

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 has not determined its effect on the financial statements.

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.

STEGE SANITARY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015

NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 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.

STEGE SANITARY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE #2 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015 is summarized as follows:

	Balance June 30, 2014	Additions	Deletions	Transfers	Balance June 30, 2015
Capital assets, not being depreciated:					
Land	\$ 134,475	\$ -	\$ -	\$ -	\$ 134,475
Construction in progress	-	1,735,026	-	(1,735,026)	-
Total Capital assets, not being depreciated:	<u>134,475</u>	<u>1,735,026</u>	<u>-</u>	<u>(1,735,026)</u>	<u>134,475</u>
Capital assets, being depreciated:					
Sewage collection facilities	43,993,198	-	-	1,735,026	45,728,224
Buildings and equipment	2,827,720	6,915	(10,829)	-	2,823,806
Maintenance equipment	417,583	-	(102,917)	-	314,666
Vehicles	898,086	20,974	(32,878)	-	886,182
Total Capital assets, being depreciated:	<u>48,136,587</u>	<u>27,889</u>	<u>(146,624)</u>	<u>1,735,026</u>	<u>49,752,878</u>
Less: Accumulated depreciation					
Sewage collection facilities	11,556,406	604,142	-	-	12,160,548
Buildings and equipment	298,251	96,687	(10,829)	-	384,109
Maintenance equipment	338,795	32,496	(102,917)	-	268,374
Vehicles	536,487	33,580	(32,878)	-	537,189
Total Accumulated depreciation:	<u>12,729,939</u>	<u>766,905</u>	<u>(146,624)</u>	<u>-</u>	<u>13,350,220</u>
Total capital assets, being depreciated , net	<u>35,406,648</u>	<u>(739,016)</u>	<u>-</u>	<u>1,735,026</u>	<u>36,402,658</u>
Total Capital Assets, net	<u>\$ 35,541,123</u>	<u>\$ 996,010</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 36,537,133</u>

Construction in progress consists primarily of the direct construction costs associated with numerous District projects plus related construction overhead.

STEGE SANITARY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE #3 – CASH AND INVESTMENTS

A. Summary of Cash and Cash Equivalents and Investments

Cash and cash equivalents and investments at June 30, 2015 are detailed as follows:

	<u>2015</u>
Cash on hand and in financial institutions	\$ 289,546
Investments	<u>4,146,355</u>
Total Cash and Cash Equivalents	<u>\$ 4,435,901</u>

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.

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:

<u>Authorized Investment Type</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment In One Issuer</u>
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

STEGE SANITARY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE #3 – CASH AND INVESTMENTS – CONTINUED

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, 2015, LAIF had a weighted average maturity of 239 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:

	<u>Maturities of 12 months or less</u>
LAIF	<u>\$ 4,146,355</u>

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, 2015, the District's cash deposit at Mechanic's Bank was \$387,862 and was covered by federal depository insurance or by collateral held in an undivided collateral pool, as described above (before reduction for outstanding checks).

STEGE SANITARY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE #3 – CASH AND INVESTMENTS – CONTINUED

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. 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 – 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-06-4008-410 for an original amount of \$1,122,256 under agreement dated October 1, 1993, has an interest rate of 2.9 percent and maturity date of January 31, 2014. 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			Balance	Current
	July 1, 2014	Additions	Deductions	June 30, 2015	Portion
Loan C-06-4665-110	\$ 744,532	\$ -	\$ 84,923	\$ 659,609	\$ 87,131
Loan C-06-4665-210	453,451	-	33,056	420,395	33,849
Total	<u>\$ 1,197,983</u>	<u>\$ -</u>	<u>\$ 117,979</u>	1,080,004	
Less Current Portion				(120,980)	
Long Term Portion				<u>\$ 959,024</u>	
 Compensated absences	 <u>\$ 98,368</u>	 <u>\$ 78,783</u>	 <u>\$ (83,841)</u>	 \$ 93,310	 <u>\$ 84,474</u>
Less Current Portion				(84,474)	
Long Term Portion				<u>\$ 8,836</u>	

STEGE SANITARY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE #4 – LONG-TERM LIABILITIES – CONTINUED

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

Year Ended June 30	Principal	Interest	Total
2016	\$ 120,980	\$ 27,240	\$ 148,220
2017	124,058	24,162	148,220
2018	127,214	21,006	148,220
2019	130,451	17,769	148,220
2020	133,770	14,450	148,220
2021-2025	400,623	27,632	428,255
2026	42,908	1,028	43,936
Totals	<u>\$ 1,080,004</u>	<u>\$ 133,287</u>	<u>\$ 1,213,291</u>

NOTE #5 – 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, 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.

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 addition to creating new retirement formulas for newly hired members PEPRA also effectively closed all existing active risk pools to new employees.

STEGE SANITARY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE #5 – PENSION PLAN – CONTINUED

The Plans’ provisions and benefits in effect at June 30, 2015, are summarized as follows:

	Miscellaneous	
	Prior to January 1, 2013	Starting January 1, 2013
Hire Date		
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	16.02%	8.51%

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 both Plans are determined annual 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, 2015, the contributions to the Plan were \$144,055.

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

As of June 30, 2015, the District’s reported net pension liability for its proportionate share of the pension liability of the Plan is as follows:

	<u>Miscellaneous</u>
Proportionate Share of Net Pension Liability	\$ 1,119,792

STEGE SANITARY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE #5 – PENSION PLAN – CONTINUED

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, 2014 and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 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, 2013 and 2014 is as follows:

	Total
Proportion - June 30, 2013	0.01741%
Proportion - June 30, 2014	0.01800%
Change - Increase (Decrease)	<u>0.00058%</u>

At the year ended June 30, 2015, the District recognized pension expense of \$102,039. At June 30, 2015, 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	\$ 144,055	\$ -
Net differences between projected and actual earnings on plan investments	-	(275,742)
Adjustment due to differences in proportion	6,157	21,579
Total	<u>\$ 150,212</u>	<u>\$ (254,163)</u>

The amount of \$144,055 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, 2015. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year ended June 30</u>	
2016	\$ (61,395)
2017	(61,395)
2018	(61,800)
2019	<u>(63,416)</u>
	<u>\$ (248,006)</u>

STEGE SANITARY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015

NOTE #5 – PENSION PLAN – CONTINUED

Actuarial Assumptions – The total pension liabilities in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions.

Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.5%
Inflation	2.75%
Payroll Growth	3.0%
Projected Salary Increase	3.3% - 14.2% ⁽¹⁾
Investment Rate of Return	7.5% ⁽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, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period of 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website at:

<http://www.calpers.ca.gov/index.jsp?bc=/about/forms-pubs/calpers-reports/actuarial-reports.xml>

Discount Rate – The discount rate used to measure the total pension liability was 7.50% for each Plan. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that the District’s contributions will be made at rates equal to the difference between actuarially determined contributions rates and the employee rate. Based on those assumptions, each pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

In determining the long-term expected 7.50% rate of return on pension plan investments, CalPERS took into account both short and long-term market return expectations as well as the expected pension fund cash flows. Based on the expected benefit payments of the Public Employees’ Retirement Fund, CalPERS indicated that a 19 year horizon was ideal in determining the level equivalent discount rate assumption. Using simulated rates of return, together with the CalPERS asset allocation mix, the medium net return over the 19 years was calculated. The final geometric rate of return was set after removing 15 basis points for expected administrative expenses.

STEGE SANITARY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE #5 – PENSION PLAN – CONTINUED

The target allocation and best estimates of arithmetic real rates of return for each major asset class are the same for each Plan and are summarized in the following table:

Asset Class	Target Allocation	Real Return Years 1-10 ^(a)	Long-Term Expected Real Rate of Return ^(b)
Global Equity	47%	5.25%	5.71%
Global Fixed Income	19%	0.99%	2.43%
Inflation Sensitive	6%	0.45%	3.36%
Private Equity	12%	6.83%	6.95%
Real Estate	11%	4.50%	5.13%
Infrastructure and Forestland	3%	4.50%	5.09%
Liquidity	2%	-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

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	6.50%
Net Pension Liability	\$ 1,800,905
Current Discount Rate	7.50%
Net Pension Liability	\$ 1,119,792
1% Increase	8.50%
Net Pension Liability	\$ 554,532

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

STEGE SANITARY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015

NOTE #6 - 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, 2015.

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, 2015, \$4,452 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 CalPERS' 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 \$89,446 as of June 30, 2015.

Annual OPEB Cost and Net OPEB Obligation (Asset). For 2015, the District's annual OPEB cost (expense) was \$21,333. The District contributed \$22,200 for retiree health care premiums (including an implied subsidy).

STEGE SANITARY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE #6 - OTHER RETIREMENT BENEFITS – CONTINUED

The following table shows the components of the District's annual OPEB costs for the 2015, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

	2015
Annual Required Contribution (ARC)	\$ 22,200
Interest on net OPEB obligation (asset)	(6,578)
Amortization of net OPEB obligation (asset)	5,711
Annual OPEB cost	21,333
Contributions made	22,200
Change in net OPEB obligation (asset)	(867)
OPEB obligation (asset) - beginning of year	(88,579)
OPEB obligation (asset) - end of year	\$ (89,446)

Trend Information. The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the OPEB obligation for 2015 and the two preceding years are presented below:

Fiscal Year Ending	Annual OPEB Cost	Actual Employer Contributions	Percentage Contributed	Net OPEB Obligation (Asset)
2015	\$ 21,333	\$ 22,200	104%	\$ (89,446)
2014	20,733	21,600	104%	(88,579)
2013	19,900	19,632	99%	(87,712)

Funded Status. The District's most recent actuarial report dated July 1, 2013 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, 2013	\$ 141,300	\$ 357,300	\$ 216,000	39.55%	\$ 876,200	24.65%

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.

STEGE SANITARY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015

NOTE #6 - 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, 2013, was performed by enrolled actuary Steven T. Itelson.

The actuary used following actuarial method and assumption:

Valuation date	July 1, 2013
Actuarial cost method	Projected Unit Credit
Amortization method	Level percentage of payroll
Amortization Period	30 Years
Asset valuation method	Market Value of Assets
Actuarial Assumptions:	
Investment rate of return (funded)	7.50%
Salary increase	3.00%
Inflation Rate	2.75%

NOTE #7 - 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.

STEGE SANITARY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE #7 - RISK MANAGEMENT – CONTINUED

The following is a summary of the insurance coverage carried by the District as of June 30, 2015:

	<u>Insured Value</u>
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	1,895,497
Workers compensation	Statutory
Mobile equipment	606,187

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.

NOTE #8 – CLEAN WATER ACT ENFORCEMENT

The Environmental Protection Agency and the State of California filed a Clean Water Act civil enforcement action against the District and six other East Bay satellite agencies. The complaint alleged that the agencies violated National Pollutant Discharge Elimination System permits and section 301(a) of the Clean Water Act by allowing sewage to overflow from their respective collection systems to waters of the United States.

The parties negotiated a Stipulated Order for Preliminary Relief, which was entered by the Court on September 6, 2011. The Stipulated Order required the agencies to implement certain collection system operations and maintenance programs to improve the performance of their respective collection systems and reduce the number of overflows. The parties negotiated a subsequent settlement agreement which significantly increased the capital improvement, operating, and maintenance costs of the agencies over a 23 year period.

The Clean Water Act Enforcement Stipulated Order settlement agreement became a Consent Decree on September 22, 2014 and included penalties and fines to the District of approximately \$68,850 which were paid on September 29, 2014.

STEGE SANITARY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015

NOTE #9 – RESTATEMENT

Prior period adjustments were made to decrease the beginning net position. These adjustments were made to record beginning net pension liability and deferred outflows of resources as a result of implementing GASB 68 and 71. (See note 1)

The restatements of beginning net positions are summarized as follows:

	<u>Proprietary funds</u>
Beginning net position previously reported	\$ 37,511,346
Beginning net pension liability	(1,403,600)
Beginning deferred outflows	<u>137,841</u>
Beginning net position as restated	<u><u>\$ 36,245,587</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

STEGE SANITARY DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2015**

Schedule of Funding Progress for Retiree Health Benefit Plan

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
July 1, 2013	\$ 141,300	\$ 357,300	\$ 216,000	39.6%	\$ 876,200	24.7%
July 1, 2011	121,300	312,400	191,100	38.8%	808,400	23.6%

STEGE SANITARY DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2015**

**Miscellaneous Plan
Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
As of June 30, 2015
Last 10 Years **
Schedule of Proportionate Share of the Net Pension Liability**

	<u>2015</u>
Plan's proportion of the Net Pension Liability (Asset)	0.01800%
Plan's proportion share of the Net Pension Liability (Asset)	\$ 1,119,792
Plan's Covered-Employee Payroll	\$ 860,430
Plan's proportion share of the Net Pension Liability (Asset) as a percentage of its Covered-Employee payroll	130.14%
Plan's Fiduciary Net Position as a percentage of the Plan's Total Pension Liability	79.82%

Notes to Schedule:

Changes in assumptions. In 2015, amounts reported as changes in assumptions resulted primarily from adjustments to expected retirement ages of general employees.

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

STEGE SANITARY DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2015**

**Miscellaneous Plan
Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
As of June 30, 2015
Last 10 Years **
Schedule of Contributions**

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

Notes to Schedule

Valuation date 6/30/2013

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal in accordance with the requirements of GASB Statement No. 68
Discount Rate	7.50%
Inflation	2.75%
Salary increases	varies by entry age and service
Payroll growth	3.00%
Investment rate of return	7.5%, net of pension plan investment expenses, including inflation
Post Retirement benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using scale AA published by the Society of Actuaries.

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

SUPPLEMENTARY INFORMATION

STEGE SANITARY DISTRICT

COMPARISON OF BUDGET TO ACTUAL FOR THE YEAR ENDED JUNE 30, 2015

	Final Budget (Unaudited)	Actual	Favorable (Unfavorable) Variance	Variance %
OPERATING REVENUE				
Sewer service charges	\$ 4,252,000	\$ 4,423,369	\$ 171,369	4%
Permit and inspection fees	25,000	10,335	(14,665)	-59%
Contracted services	15,000	43,906	28,906	193%
Total operating revenue	<u>4,292,000</u>	<u>4,477,610</u>	<u>185,610</u>	4%
NON-OPERATING REVENUE AND CONNECTION FEES				
Property tax	339,000	387,730	48,730	14%
Interest income	10,000	8,333	(1,667)	-17%
Other income	21,000	38,636	17,636	84%
Connection fees	100,000	255,680	155,680	156%
Total non operating revenue	<u>470,000</u>	<u>690,379</u>	<u>220,379</u>	47%
Total revenues	<u>4,762,000</u>	<u>5,167,989</u>	<u>405,989</u>	9%
OPERATING EXPENSES				
Maintenance/Engineering	1,686,830	1,473,419	213,411	13%
Pump Stations	15,740	5,924	9,816	62%
Contracted Repairs	57,000	48,278	8,722	15%
General & Administrative	783,690	582,405	201,285	26%
Total operating expenses	<u>2,543,260</u>	<u>2,110,026</u>	<u>433,234</u>	17%
NON-OPERATING EXPENSES				
Interest expense	<u>30,221</u>	<u>29,045</u>	<u>1,176</u>	4%
Total expenses	<u>2,573,481</u>	<u>2,139,071</u>	<u>434,410</u>	17%
CHANGE IN NET POSITION BEFORE DEPRECIATION	<u>\$ 2,188,519</u>	3,028,918	<u>\$ 840,399</u>	38%
Depreciation and amortization		<u>(766,905)</u>		
CHANGE IN NET POSITION		<u>\$ 2,262,013</u>		
BALANCE SHEET RELATED				
Debt principal repayment	\$ 117,979	\$ 117,979	\$ -	0%
Capital Equipment	20,000	4,726	15,274	76%
Construction	<u>1,780,000</u>	<u>1,418,193</u>	<u>361,807</u>	20%
	<u>\$ 1,917,979</u>	<u>\$ 1,540,898</u>	<u>\$ 377,081</u>	20%

STEGE SANITARY DISTRICT

**SCHEDULE OF OPERATING EXPENSES BEFORE DEPRECIATION
FOR THE YEAR ENDED JUNE 30, 2015**

	Sewage Collection	General & Administrative	Total
Salaries and wages	\$ 833,008	\$ 166,614	\$ 999,622
Employee benefits	377,842	66,805	444,647
Director's meeting fees	-	18,000	18,000
Director's training and travel	-	29,382	29,382
Gasoline, oil and fuel	22,507	-	22,507
Membership	1,466	13,603	15,069
Repairs and maintenance	203,907	7,040	210,947
Operating supplies	55,363	-	55,363
Office and safety supplies	-	5,059	5,059
Insurance	-	52,283	52,283
Training & Travel	6,172	1,264	7,436
Professional services	22,646	97,565	120,211
Utilities	4,710	23,171	27,881
Other	-	101,009	101,009
Rents/Leases	-	610	610
Total Operating Expense Before Depreciation	<u>\$ 1,527,621</u>	<u>\$ 582,405</u>	<u>\$ 2,110,026</u>