



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

To the Board of Directors
Stege Sanitary District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Stege Sanitary District (District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 14, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Vavrinch, Trine, Day & Co. LLP

Pleasanton, California
December 14, 2017



To the Board of Directors
Stege Sanitary District

We have audited the financial statements of the Stege Sanitary District (District) for the years ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates and disclosures are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates and disclosures affecting the District's financial statements were related to the net pension liability, related deferred inflows of resources and deferred outflows of resources, and Other Post Employment Benefits, based on actuarial valuations. We evaluated the key factors and assumptions used to develop these estimates in determining they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 14, 2017.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to Management's Discussion and Analysis, Schedule of Funding Progress for Retiree Health Benefit Plan, Schedule of Proportionate Share of the Net Pension Liability, and Schedule of Contributions, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the comparison of budget to actual and schedule of operating expenses before depreciation which are supplementary information that accompany the financial statements but are not RSI. With respect to this supplementary information we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the comparison of budget to actual and schedule of operating expenses before depreciation to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of the Board of Directors and management of the District and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinek, Trine, Day & Co. LLP

Pleasanton, California
December 14, 2017

**STEGE
SANITARY DISTRICT**

ANNUAL FINANCIAL REPORT

FOR THE

YEAR ENDED

JUNE 30, 2017

WITH

INDEPENDENT AUDITORS' REPORT

STEGE SANITARY DISTRICT
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JUNE 30, 2017

BOARD OF DIRECTORS
Elected Officials

<u>Name</u>	<u>Office</u>
Beatrice O'Keefe	President
Dwight Merrill	Vice President
Alan C. Miller	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, 2017

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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 (District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 District as of June 30, 2017, and the 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.

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 14, 2017, 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 the District's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co. LLP

Pleasanton, California
December 14, 2017

STEGE SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

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, 2017. Please read it in conjunction with the District financial statements

FINANCIAL HIGHLIGHTS

- Current assets increased by \$816,273 or 14.8 percent as a result of this year's operations.
- Noncurrent assets increased by \$1,665,591 or 4.4 percent. This increase is mainly the result of the annual pipe replacement project.
- Long-term liabilities increased by \$173,447 or 8.8 percent. This increase is mainly the result of the GASB 68 net pension liability adjustment.
- Total operating revenues increased by \$248,180, over the previous year, or 5.3 percent. This was a result of an increase in new developments.
- Operating expenses decreased by \$4,733, or 0.2 percent. This decrease is a result of decreases in utilities and supplies.
- Connection fee revenues increase by \$176,889, or 702.7 percent from the previous year. The revenue increase is due to the new developments in the area.
- Other revenues increased by \$48,199 or 9.9 percent.

DISTRICT HIGHLIGHTS

- The District completed another major sewer renewal project in fiscal year 2016-2017 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 \$2.4 million 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?"

STEGE SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

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 \$2,773,898 or 6.8 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 2016-2017	Fiscal Year 2015-2016	Amount of Increase (Decrease)	Percent of Increase (Decrease)
Current and other assets	\$ 6,329,513	\$ 5,513,240	\$ 816,273	14.8%
Noncurrent assets	39,587,950	37,922,359	1,665,591	4.4%
Total assets	45,917,463	43,435,599	2,481,864	5.7%
Deferred outflows of resources	447,277	178,030	269,247	151.2%
Current liabilities	579,569	695,017	(115,448)	-16.6%
Long-term liabilities	2,149,086	1,975,639	173,447	8.8%
Total liabilities	2,728,655	2,670,656	57,999	2.2%
Deferred inflows of resources	61,811	142,597	(80,786)	-56.7%
Net Position:				
Net investment in capital assets	38,641,548	36,862,896	1,778,652	4.8%
Unrestricted	4,932,726	3,937,480	995,246	25.3%
Total net position	\$ 43,574,274	\$ 40,800,376	\$ 2,773,898	6.8%

STEGE SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

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 2016-2017	Fiscal Year 2015-2016	Amount of Increase (Decrease)	Percent of Increase (Decrease)
Revenues:				
Operating revenues	\$ 4,906,097	\$ 4,657,917	\$ 248,180	5.3%
Other revenues	536,353	488,154	48,199	9.9%
Connection fees	202,063	25,174	176,889	702.7%
Total revenues	<u>5,644,513</u>	<u>5,171,245</u>	<u>473,268</u>	9.2%
Expenses:				
Operating expenses	2,847,722	2,852,455	(4,733)	-0.2%
Interest expenses	22,904	26,014	(3,110)	-12.0%
Total expenses	<u>2,870,626</u>	<u>2,878,469</u>	<u>(7,843)</u>	-0.3%
Increase (decrease) in net position	2,773,887	2,292,776	481,111	21.0%
Beginning net position	40,800,377	38,507,601	2,292,776	6.0%
Ending net position	<u>\$ 43,574,264</u>	<u>\$ 40,800,377</u>	<u>\$ 2,773,887</u>	6.8%

Revenues

Total revenues increased, \$473,268 or 9.2 percent compared to the previous fiscal year. Operating revenues increased \$248,180, or 5.3 percent from the previous year. Other revenues increased by \$48,199, or 9.9 percent over the previous year. Connection fees increased by \$176,889, or 702.7 percent from the previous year due to a new development in the area.

Expenses

Operating expenses decreased by \$4,733, or .2 percent in fiscal year 2016-2017 compared to fiscal year 2015-2016.

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.

STEGE SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2017, the District had \$39,476,514 (net of accumulated depreciation) invested in a variety of capital assets.

The capital 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 \$1,654,594 or 4.4 percent more than last year.

The following table summarizes District capital assets at historical costs and accumulated depreciation for fiscal years ended June 30, 2017, and June 30, 2016:

Table 3 – Historical Cost and Accumulated Depreciation

	Balance at June 30, 2017	Balance at June 30, 2016
Land and easements	\$ 134,475	\$ 134,475
Subsurface lines, buildings, vehicles and equipment	54,228,141	51,873,137
Total Capital Assets	54,362,616	52,007,612
Accumulated Depreciation	(14,886,102)	(14,185,692)
Total Capital Assets (Net of Depreciation)	<u>\$ 39,476,514</u>	<u>\$ 37,821,920</u>

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

STEGE SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

Long Term Liabilities

At the end of the current reporting period, the District's long term portion in State revolving fund loans outstanding was \$707,752 versus \$834,966 last year—a decrease of \$127,214 or 15.2 percent as shown below:

Table 4 – Outstanding Long Term Debt

	Balance at June 30, 2017	Balance at June 30, 2016
Long term debt, net of current portion	<u>\$ 707,752</u>	<u>\$ 834,966</u>

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 note #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, 2017

	<u>2017</u>
CURRENT ASSETS	
Cash and cash equivalents	\$ 6,265,099
Accounts receivable	29,368
Prepaid insurance	35,046
Total current assets	<u>6,329,513</u>
NONCURRENT ASSETS	
Capital Assets	
Non depreciable capital assets:	
Land and easements	134,475
Depreciable assets	
Sewer lines, building, vehicles and equipment	54,228,141
Less: Accumulated depreciation	<u>(14,886,102)</u>
Net capital assets	39,476,514
OPEB asset	<u>111,436</u>
Total non-current assets	<u>39,587,950</u>
TOTAL ASSETS	<u>45,917,463</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to pensions	<u>447,277</u>
CURRENT LIABILITIES	
Accounts payable and accrued expenses	288,998
Accrued payroll and related expenses	38,887
Interest payable	8,858
Current portion of accrued compensated absences	115,612
Current portion of long-term debt	<u>127,214</u>
Total current liabilities	<u>579,569</u>
LONG-TERM LIABILITIES	
Accrued compensated absences, net of current portion	5,606
Long-term debt, net of current portion	707,752
Net pension liability	<u>1,435,728</u>
Total long-term liabilities	<u>2,149,086</u>
TOTAL LIABILITIES	<u>2,728,655</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	<u>61,811</u>
NET POSITION	
Net investment in capital assets	38,641,548
Unrestricted	<u>4,932,726</u>
TOTAL NET POSITION	<u>\$ 43,574,274</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, 2017

	<u>2017</u>
OPERATING REVENUE	
Sewer service charges	\$ 4,669,242
Other operating revenues	236,855
Total operating revenue	<u>4,906,097</u>
OPERATING EXPENSES	
Sewage collection	1,533,416
General and administration	592,963
Depreciation	721,343
Total operating expenses	<u>2,847,722</u>
Operating income	<u>2,058,375</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest and investment income	39,344
Interest Expense	(22,904)
Other Income	497,009
Total non-operating revenue (expense)	<u>513,449</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	2,571,824
Connection fees	<u>202,063</u>
CHANGE IN NET POSITION	2,773,887
Net position, beginning of year	<u>40,800,387</u>
NET POSITION, END OF YEAR	<u>\$ 43,574,274</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, 2017

	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 4,887,847
Payments to suppliers	(703,654)
Payments to and on behalf of employees and directors	(1,601,113)
	<u>2,583,080</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal payments on long-term debt	(124,058)
Interest paid on long-term debt	(24,161)
Acquisition and construction of capital assets	(2,375,937)
Connection fees	202,063
Cash flows provided by (used in) capital and related financing activities	<u>(2,322,093)</u>
CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITIES	
Other Income	497,009
Cash flows provided by (used in) non capital financing activities	<u>497,009</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and investment income	39,344
Cash flows provided by (used in) investing activities	<u>39,344</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	797,340
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>5,467,759</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 6,265,099</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES	
Operating income	\$ 2,058,375
Adjustments to reconcile operating income to cash flows provided by operating activities	
Depreciation	721,343
Decrease in accounts receivable and prepaids	(18,922)
(Increase) in deferred outflows	(269,247)
Increase (decrease) in accounts payable and accrued expenses	(118,970)
Increase (decrease) in net pension liability	302,284
Increase (decrease) in deferred inflow	(80,786)
(Increase) decrease in other assets	(10,997)
	<u>\$ 2,583,080</u>

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

STEGE SANITARY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

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.

STEGE SANITARY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

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.

Capital Assets - Property, Plant and Equipment

Property, plant and equipment are recorded at historical cost, or estimated historical cost if actual cost is not available. Contributed and donated capital assets are recorded at their acquisition value on the date contributed or donated. 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	50 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 and disclosures. Accordingly, actual results could differ from those estimates.

STEGE SANITARY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

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 an 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

In 2017, the District has/will be adopting new accounting and reporting standards in order to conform to the following Governmental Accounting Standards Board (GASB) Statements:

Effect of New 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. This statement did not impact 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. This statement did not impact the financial statements.

STEGE SANITARY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

New Governmental Accounting and Reporting Standards (Continued)

GASB Statement No. 78 – 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. This statement did not impact the financial statements.

GASB Statement No. 80 – 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. This statement did not impact the financial statements.

GASB Statement No. 82 – 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 Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 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 District implemented this statement as of July 1, 2016.

Future Governmental Accounting Standards Board (GASB) Pronouncements

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 is evaluating its effect on the financial statements.

STEGE SANITARY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

New Governmental Accounting and Reporting Standards (Continued)

GASB Statement No. 81 – 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 is evaluating its effect on the financial statements.

GASB Statement No. 83 – In November 2016, the GASB issued Statement No. 83, Certain Asset Retirement Obligations. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. The District is evaluating its effect on the financial statements.

GASB Statement No. 84 – In January 2017, the GASB issued Statement No. 84, Fiduciary Activities. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. The District is evaluating its effect on the financial statements.

GASB Statement No. 85 – In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation;
- Reporting amounts previously reported as goodwill and "negative" goodwill;
- Classifying real estate held by insurance entities;
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost;
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus;

STEGE SANITARY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

- Recognizing on-behalf payments for pensions or OPEB in employer financial statements;

NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

New Governmental Accounting and Reporting Standards (Continued)

- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB;
- Classifying employer-paid member contributions for OPEB;
- Simplifying certain aspects of the alternative measurement method for OPEB;
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The District is evaluating its effect on the financial statements.

GASB Statement No. 86 – In May 2017, the GASB issued Statement No. 86, Certain Debt Extinguishment Issues. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The District is evaluating its effect on the financial statements.

GASB Statement No. 87 – In June 2017, the GASB issued Statement No. 87, Leases. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for the reporting periods beginning after December 15, 2019. The District is evaluating its effect on the financial statements.

STEGE SANITARY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

NOTE #2 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 is summarized as follows:

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
Capital assets, not being depreciated:				
Land and easements	\$ 134,475	\$ -	\$ -	\$ 134,475
Total Capital assets, not being depreciated:	<u>134,475</u>	<u>-</u>	<u>-</u>	<u>134,475</u>
Capital assets, being depreciated:				
Sewage collection facilities	47,806,723	2,090,718	-	49,897,441
Buildings and equipment	2,823,806	5,337	-	2,829,143
Maintenance equipment	330,342	17,350	-	347,692
Vehicles	912,266	262,532	(20,933)	1,153,865
Total Capital assets, being depreciated:	<u>51,873,137</u>	<u>2,375,937</u>	<u>(20,933)</u>	<u>54,228,141</u>
Less: Accumulated depreciation				
Sewage collection facilities	12,830,395	570,868	-	13,401,263
Buildings and equipment	478,560	93,364	-	571,924
Maintenance equipment	287,586	8,888	-	296,474
Vehicles	589,151	48,223	(20,933)	616,441
Total Accumulated depreciation:	<u>14,185,692</u>	<u>721,343</u>	<u>(20,933)</u>	<u>14,886,102</u>
Total capital assets, being depreciated , net	<u>37,687,445</u>	<u>1,654,594</u>	<u>-</u>	<u>39,342,039</u>
Total Capital Assets, net	<u>\$ 37,821,920</u>	<u>\$ 1,654,594</u>	<u>\$ -</u>	<u>\$ 39,476,514</u>

STEGE SANITARY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE #3 – CASH AND INVESTMENTS

A. Summary of Cash and Cash Equivalents and Investments

Cash, cash equivalents and investments at June 30, 2017 are detailed as follows:

	<u>Fair Value</u>
Cash on hand and in financial institutions	\$ 279,129
Investments	<u>5,985,970</u>
Total Cash and Cash Equivalents	<u>\$ 6,265,099</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.

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.

STEGE SANITARY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

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, 2017, LAIF had a weighted average maturity of 194 days.

STEGE SANITARY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

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 rated.

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 150% of the secured deposits. As of June 30, 2017, the District's cash deposit balance at Mechanic's Bank was \$289,591 with a carrying balance of \$279,129, 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 did not hold 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 but is required to invest according to the California Government Code. 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.

STEGE SANITARY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

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 as deposits and withdrawals are made on the basis of \$1 and not fair value.

STEGE SANITARY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

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			Balance June 30, 2017	Current Portion
	July 1, 2016	Additions	Deductions		
Loan C-06-4665-110	\$ 572,477	\$ -	\$ 89,397	\$ 483,080	\$ 91,721
Loan C-06-4665-210	386,547	-	34,661	351,886	35,493
Total	<u>\$ 959,024</u>	<u>\$ -</u>	<u>\$ 124,058</u>	834,966	127,214
Less Current Portion				(127,214)	
Long Term Portion				<u>\$ 707,752</u>	
Compensated absences	<u>\$ 109,100</u>	<u>\$ 59,542</u>	<u>\$ (47,424)</u>	\$ 121,218	115,612
Less Current Portion				(115,612)	
Long Term Portion				<u>\$ 5,606</u>	

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

Year Ended June 30	Principal	Interest	Total
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	140,664	7,556	148,219
2023-2026	165,694	12,702	178,396
Totals	<u>\$ 834,966</u>	<u>\$ 84,528</u>	<u>\$ 919,494</u>

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.

STEGE SANITARY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

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 addition 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, 2017, are summarized as follows:

Hire Date	Miscellaneous	
	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, 2017, the contributions to the Plan were \$167,788.

STEGE SANITARY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE #6 – PENSION PLAN - CONTINUED

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

As of June 30, 2017, the District’s reported net pension liability for its proportionate share of the pension liability of the Plan is as follows:

Proportionate Share of Net Pension Liability	<u>Miscellaneous</u> <u>\$ 1,435,727</u>
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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, 2016 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, 2015 rolled forward to June 30, 2016 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 is as follows:

Proportion - June 30, 2015 measurement date	Total 0.01651%
Proportion - June 30, 2016 measurement date	0.01659%
Change - Increase (Decrease)	<u>0.00008%</u>

At the year ended June 30, 2017, the District recognized pension expense of \$279,350. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 167,787	\$ -
Differences between actual and expected experience	5,294	(1,213)
Changes in assumptions	-	(50,085)
Net differences between projected and actual earnings on plan investments	260,674	-
Changes in proportion and difference between District’s contributions and proportionate share of contributions	13,522	(10,513)
Total	<u>\$ 447,277</u>	<u>\$ (61,811)</u>

STEGE SANITARY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE #6 – PENSION PLAN - CONTINUED

The amount of \$167,787 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year ended June 30</u>		
2018	\$	16,682
2019		14,902
2020		118,579
2021		<u>67,516</u>
	<u>\$</u>	<u>217,679</u>

Actuarial Assumptions – The total pension liabilities in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions.

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
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, 2014 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, 2015 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.

STEGE SANITARY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

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, 2017.

California Public Employees' Retirement System (CalPERS) and the California Employers' Retiree Benefit Trust (CERBT). The District joined the CalPERS CERBT fund in fiscal 2010, an agent-multiple employer plan. During the year ended June 30, 2017, \$20,364 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 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 *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 \$111,436 as of June 30, 2017.

Annual OPEB Cost and Net OPEB Obligation (Asset). For 2017, the District's annual OPEB cost (expense) was \$9,367. The District contributed \$20,364 for retiree health care premiums (including an implied subsidy).

STEGE SANITARY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE #7 - OTHER RETIREMENT BENEFITS – CONTINUED

The following table shows the components of the District's annual OPEB costs for the 2017, the amount actually contributed to the plan, and changes in the District's net OPEB asset:

	2017
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	20,364
Change in net OPEB obligation (asset)	(10,997)
OPEB obligation (asset) - beginning of year	(100,439)
OPEB obligation (asset) - end of year	<u>\$ (111,436)</u>

Trend Information. The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the OPEB obligation for 2017 and the two preceding years are presented below:

Fiscal Year Ending	Annual OPEB Cost	Actual Employer Contributions	Percentage Contributed	Net OPEB Obligation (Asset)
2017	\$ 9,367	\$ 20,364	217%	\$ (111,436)
2016	9,367	20,360	217%	(100,439)
2015	21,333	22,200	104%	(89,446)

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.

STEGE SANITARY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

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
Remaining amortization period	24 Years - closed basis
Asset valuation method	Market Value of Assets
Actuarial Assumptions:	
Investment rate of return (funded)	7.00%
Salary increase	2.75%
Inflation rate	2.75%
Healthcare trend	4.00%

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.

STEGE SANITARY DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE #8 - RISK MANAGEMENT – CONTINUED

The following is a summary of the insurance coverage carried by the District as of June 30, 2017:

The District's insurance policies and coverages in effect at June 30, 2017 are as follows:

	<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	1,943,156
Workers compensation	Statutory
Mobile equipment	651,687

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, 2017**

<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, 2015	\$ 178,690	\$ 264,189	\$ 85,499	67.64%	\$ 876,660	9.75%
July 1, 2013	141,300	357,300	216,000	39.60%	876,200	24.65%
July 1, 2011	121,300	312,400	191,100	38.83%	808,400	23.64%

STEGE SANITARY DISTRICT

**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION
LIABILITY
FOR THE YEAR ENDED JUNE 30, 2017**

	2017	2016	2015
Plan's proportion of the Net Pension Liability (Asset)	0.01659%	0.01651%	0.01800%
Plan's proportion share of the Net Pension Liability (Asset)	\$ 1,435,727	\$ 1,133,444	\$ 1,119,792
Plan's Covered Payroll	\$ 874,035	\$ 899,390	\$ 860,430
Plan's proportion share of the Net Pension Liability (Asset) as a percentage of its Covered payroll	164.26%	126.02%	130.14%
Plan's proportionate share of the fiduciary net position as a percentage of the plan's total pension liability	75.09%	78.90%	78.19%

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

Changes in assumptions. In 2017, amounts reported as changes in assumptions resulted primarily from adjustments to expected retirement ages of general employees. In addition, the discount rate was changed from 7.5% in 2015 to 7.65% in 2016.

STEGE SANITARY DISTRICT

**SCHEDULE OF CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 167,788	\$ 151,311	\$ 144,055
Contributions in relation to the actuarially determined contribution	<u>(167,788)</u>	<u>(151,311)</u>	<u>(144,055)</u>
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 936,925	\$ 874,035	\$ 899,390
Contributions as a percentage of covered payroll	17.91%	17.31%	16.02%

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

STEGE SANITARY DISTRICT

SUPPLEMENTARY INFORMATION COMPARISON OF BUDGET TO ACTUAL FOR THE YEAR ENDED JUNE 30, 2017

	Budget	Actual	Variance	Variance %
OPERATING REVENUE				
Sewer service charges	\$ 4,677,000	\$ 4,669,242	\$ (7,758)	0%
Permit and inspection fees	15,000	10,092	(4,908)	-33%
Contracted services	140,000	226,763	86,763	62%
Total operating revenue	<u>4,832,000</u>	<u>4,906,097</u>	<u>74,097</u>	2%
NON-OPERATING REVENUE AND CONNECTION FEES				
Property tax	339,000	474,842	135,842	40%
Interest income	10,000	39,344	29,344	293%
Other income	21,000	22,167	1,167	6%
Connection fees	150,000	202,063	52,063	35%
Total non operating revenue	<u>520,000</u>	<u>738,416</u>	<u>218,416</u>	42%
Total revenues	<u>5,352,000</u>	<u>5,644,513</u>	<u>292,513</u>	5%
OPERATING EXPENSES				
Maintenance/Engineering	1,665,410	1,461,452	203,958	12%
Pump Stations	18,660	11,063	7,597	41%
Contracted Repairs	59,000	60,901	(1,901)	-3%
General & Administrative	682,120	592,963	89,157	13%
Total operating expenses	<u>2,425,190</u>	<u>2,126,379</u>	<u>298,811</u>	12%
NON-OPERATING EXPENSES				
Interest expense	<u>24,142</u>	<u>22,904</u>	<u>1,238</u>	5%
Total expenses	<u>2,449,332</u>	<u>2,149,283</u>	<u>300,049</u>	12%
CHANGE IN NET POSITION BEFORE DEPRECIATION	<u>\$ 2,902,668</u>	3,495,230	<u>\$ 592,562</u>	20%
Depreciation		<u>(721,343)</u>		
CHANGE IN NET POSITION		<u>\$ 2,773,887</u>		
BALANCE SHEET RELATED				
Debt principal repayment	\$ 124,058	\$ 124,058	\$ -	0%
Capital Equipment	365,000	285,219	79,781	22%
Construction	2,311,000	2,090,718	220,282	10%
	<u>\$ 2,800,058</u>	<u>\$ 2,499,995</u>	<u>\$ 300,063</u>	11%

STEGE SANITARY DISTRICT

SUPPLEMENTARY INFORMATION SCHEDULE OF OPERATING EXPENSES BEFORE DEPRECIATION FOR THE YEAR ENDED JUNE 30, 2017

	Sewage Collection	General & Administrative	Total
Salaries and wages	\$ 878,253	\$ 189,791	\$ 1,068,044
Employee benefits	359,062	97,647	456,709
Director's meeting fees	-	18,860	18,860
Director's training and travel	-	13,918	13,918
Gasoline, oil and fuel	18,524	-	18,524
Membership	1,330	11,241	12,571
Repairs and maintenance	223,756	13,946	237,702
Operating supplies	34,271	-	34,271
Office and safety supplies	-	7,162	7,162
Insurance	(3,719)	76,796	73,077
Training & Travel	4,974	1,491	6,465
Professional services	10,780	104,113	114,893
Utilities	6,185	27,178	33,363
Other	-	30,143	30,143
Rents/Leases	-	677	677
Total Operating Expense Before Depreciation	<u>\$ 1,533,416</u>	<u>\$ 592,963</u>	<u>\$ 2,126,379</u>