

**SOUTH SAN LUIS OBISPO COUNTY  
SANITATION DISTRICT**

**FINANCIAL STATEMENTS**  
June 30, 2017



**SOUTH SAN LUIS OBISPO COUNTY SANITATION DISTRICT**  
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**June 30, 2017**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
South San Luis Obispo County Sanitation District  
Oceano, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the South San Luis Obispo County Sanitation District (District) as of and for the fiscal 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 auditors' 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 South San Luis Obispo County Sanitation District, as of June 30, 2017, and the respective changes in financial position and cash flows thereof for the fiscal 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 on pages 3 through 5, the schedule of Proportionate Share of Net Pension Liability on page 22, and the schedule of Contributions on page 23 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, of 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 Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2018, on our consideration of the South San Luis Obispo County Sanitation District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Moss, Levy & Hargheim LLP*

Santa Maria, CA  
November 8, 2018

SOUTH SAN LUIS OBISPO COUNTY SANITATION DISTRICT  
POST OFFICE BOX 339  
1600 ALOHA PLACE  
OCEANO, CA 93475

Management's Discussion and Analysis  
Fiscal Year Ending June 30, 2017

The following is a discussion of the consolidated financial condition and the results of operations of the South San Luis Obispo County Sanitation District (the District) for the year ending June 30, 2017. This discussion refers to and is qualified by information contained in the financial statements and in the notes to the financial statements. Thus, it should be read together with these statements in the Audit Report. The financial audit of the South San Luis Obispo County Sanitation District has been performed by Moss, Levy & Hartzheim, CPAs, in accordance with U.S. generally accepted auditing standards.

**Financial Highlights**

- At June 30, 2017 the District's a total net position was \$11.88 million. Fiscal Year 2016 ended with a total net position of \$10.98 million. This is an increase of 8% for net position. .
- Total operating revenues increased by 36% from \$3.46 million to \$4.69 million. This increase is due to a rate increase that began in 2016.
- Depreciation expense decreased 0.5% from \$1.24 million in Fiscal Year 2016 to \$1.23 million in Fiscal Year 2017.
- Total operating expenses increased by 5% from \$3.98 million to \$4.18 million.
- Non-operating revenues and expenses increased 329% from \$43 thousand gain in Fiscal Year 2016 to \$183 thousand gain in Fiscal Year 2017.
- Overall increase of cash and cash equivalents realized a 4% increase from \$5.58 million in Fiscal Year 2016 to \$5.81 million in Fiscal year 2017.
- Net cash provided by operating activities increased 129% from \$835 thousand in Fiscal year 2016 to \$1.91 million in Fiscal Year 2017.

## **Overview of the Financial Statements:**

This annual report consists of a series of financial statements. The statement of net position, statement of revenues, expenses and changes in net position, and statement of cash flows all provide information about the District's activities and present a long-term view of its finances.

These statements are prepared using the accrual basis of accounting which recognizes expenses when incurred and revenue when earned rather than when payment is made or received and is widely used by most private sector companies. These statements also report on the District's net position and changes in the position resulting from the current years' activity. Over time, increases or decreases in the District's net position is one indicator of whether its financial position is improving or declining.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The various funds are presented in the accompanying financial statements as a proprietary fund category, enterprise fund type.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 10-21 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's progress in funding its obligation to provide pension benefits to its employees.

## **Government-wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, net position increased from \$10.98 million at June 30, 2016 to \$11.88 million at the close of June 30, 2017.

The largest portion of the net position, \$7.85 million as of June 30, 2017, reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

## **Business-type activities.**

The business-type activities increased the District's net position by \$807 thousand. The key elements are as follows: operating and non-operating revenues exceeded operating and non-operating expenses as of June 30, 2017. Capital contributions to the District's



system totaled \$117 thousand as of June 30, 2017. The total revenues exceeded expenses during the 2017 fiscal year. The District's construction in progress value has been recorded as capitalized amounts as detailed in Note 4 on page 15.

### **Capital Asset and Debt Administration**

**Capital Assets.** The District's investments in capital assets for its business type activities as of June 30, 2017 amounts to \$7.85 million (net of accumulated depreciation and related debt). This investment in capital assets includes land, buildings and systems, improvements, machinery and equipment.

Additional information on the South San Luis Obispo County Sanitation District capital assets can be found in Note 4 on page 15 of this report.

**Long-term debt.** At the end of June 30, 2017, the District held debt of loan payable and compensated absences. The District's total debt decreased by \$68,317 during the fiscal year ended June 30, 2017 due to payment on the District's only loan payable, CoGen payment.

Additional information on the District's long-term debt can be found in Notes 5 and 6 on page 15 of this report.

### **Economic Factors and Next Year's Budgets and Rates**

**Financial Plan.** Bartle Wells has been engaged to evaluate evolving capital and maintenance needs and the District's ability to accommodate these needs within the existing rate structure. Upon completion of the Updated Financial Plan by Bartle Wells the District will consider financial strategies, including rate adjustments, to fulfill the financial demands of the District.

**Rate Increase.** The District implemented a rate increase beginning July 1, 2016. The new rates are designed to meet the District's operational and capital funding needs, comply with legal requirements and be fair to all customers. Rate increases are phased in over approximately five years to minimize the annual impact on District customers.

**Other Post-Employment Benefits.** The District provides other post-employment benefits (OPEB) through the California Employers' Retiree Benefit fund which is administered by CalPERS. In 2000, the District joined the CalPERS medical program. An actuarial was performed for 2016-17 fiscal year to determine the District's Annual Required Contribution (ARC) to the OPEB Fund in order to meet the obligation of providing Retiree Medical Insurance.

### **Requests for Information**

This financial report is designed to provide a general overview of the South San Luis Obispo County Sanitation District's finances for all those with an interest in the government's finances. Questions concerning any of the information should be addressed to the District Administrator, South San Luis Obispo County Sanitation District 1600 Aloha Place, Oceano, CA 93445.

**SOUTH SAN LUIS OBISPO COUNTY SANITATION DISTRICT**  
**STATEMENT OF NET POSITION - PROPRIETARY FUND**  
June 30, 2017

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**ASSETS**

Current Assets:

Cash and investments	\$ 5,807,764
Accounts receivable	651,912
Interest receivable	5,608
Prepaid expenses	19,204
Total current assets	<u>6,484,488</u>

Noncurrent Assets:

Deposits	6,697
Capital assets	
Land	431,425
Construction in progress	1,096,120
Property, plant & equipment	23,554,483
Accumulated depreciation	(17,155,439)
Total noncurrent assets	<u>7,933,286</u>

Total assets	<u>14,417,774</u>
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**DEFERRED OUTFLOWS OF RESOURCES**

Deferred pensions	<u>293,370</u>
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Total deferred outflows of resources	<u>293,370</u>
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**LIABILITIES**

Current Liabilities:

Accounts payable	161,174
Accrued liabilities	21,222
Accrued interest payable	1,406
Brine deposits	20,000
Settlement payable	443,925
Loan payable, current portion	71,952
Total current liabilities	<u>719,679</u>

Long-Term Liabilities:

Compensated absences	43,055
Net pension liability	1,006,552
Other post employment benefits	997,770
Total long term liabilities	<u>2,047,377</u>

Total liabilities	<u>2,767,056</u>
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**DEFERRED INFLOWS OF RESOURCES**

Deferred pensions	<u>68,318</u>
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Total deferred inflows of resources	<u>68,318</u>
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**NET POSITION**

Net investment in capital assets	7,854,637
Restricted for capital expansion	4,125,019
Unrestricted	(103,886)
Total net position	<u>\$ 11,875,770</u>

The notes to basic financial statements are an integral part of this statement.

**SOUTH SAN LUIS OBISPO COUNTY SANITATION DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -**  
**PROPRIETARY FUND**  
For the Fiscal Year Ended June 30, 2017

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**Operating Revenues:**

Sewer services fees	\$ 4,687,671
Total operating revenues	<u>4,687,671</u>

**Operating Expenses:**

Gross wages	799,203
Payroll taxes and benefits	62,105
Employee benefits	225,261
Retirement contribution	173,067
OPEB expense	200,838
Uniforms	11,671
Repairs and maintenance	227,703
Equipment rental	17,855
Insurance	29,554
Depreciation	1,231,628
Communications	19,882
Utilities	189,397
Property tax	29,181
Special services	197,780
Office and supplies	16,821
Fuel and oil	3,611
Membership, permits, and license fees	52,501
Legal	273,431
Accounting	11,488
Plant chemicals, lab, and analysis	247,684
Water recycling study	101,352
Employee training	2,150
Solids handling	49,572
Small tools	<u>6,992</u>
Total operating expenses	<u>4,180,727</u>
Net operating income	<u>506,944</u>

**Non-Operating Revenues (Expenses):**

Governmental agencies	2,042
Interest income	42,633
Grant income	109,500
Lease income	33,026
Interest expense	<u>(3,876)</u>
Total non-operating revenues (expenses)	<u>183,325</u>

**Capital Contributions:**

Connection fees	<u>116,943</u>
Change in net position	<u>807,212</u>

**Net Position:**

Net position, beginning of fiscal year	10,982,592
Prior period adjustment	<u>85,966</u>
Net position, beginning of fiscal year- restated	<u>11,068,558</u>
Net position, end of fiscal year	<u><u>\$ 11,875,770</u></u>

The notes to basic financial statements are an integral part of this statement.

**SOUTH SAN LUIS OBISPO COUNTY SANITATION DISTRICT**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND**  
For the Fiscal Year Ended June 30, 2017

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**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from customers	\$ 4,781,471
Payments to vendors	(2,312,640)
Payments to employees	<u>(554,326)</u>
Net cash provided by operating activities	<u>1,914,505</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Cash received from other governmental agencies	2,042
Payment of settlement payable	(665,888)
Grant income	109,500
Lease income	<u>33,026</u>
Net cash used by noncapital financing activities	<u>(521,320)</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Capital contributions	116,943
Acquisition and construction of capital assets	(1,269,907)
Payments of capital debt	(68,317)
Interest paid on capital debt	<u>(6,479)</u>
Net cash used by capital and related financing activities	<u>(1,227,760)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest received	<u>66,410</u>
Net cash provided by investing activities	<u>66,410</u>
Net change in cash and cash equivalents	231,835
Cash and cash equivalents, July 1, 2016	<u>5,575,929</u>
Cash and cash equivalents, June 30, 2017	<u><u>\$ 5,807,764</u></u>

The notes to basic financial statements are an integral part of this statement.

**SOUTH SAN LUIS OBISPO COUNTY SANITATION DISTRICT**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND (Continued)**  
**For the Fiscal Year Ended June 30, 2017**

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**Reconciliation of operating income to net cash provided**

**by operating activities:**

Operating income \$ 506,944

Adjustments to reconcile operating income to net  
cash used by operating activities:

Depreciation 1,231,628

Change in assets, deferred outflows, liabilities, and deferred inflows:

Accounts receivable 93,996

Prepaid expenses (19,204)

Deposits (992)

Deferred outflows of resources (157,425)

Accounts payable (162,744)

Accrued liabilities 21,222

Brine deposits 20,000

Compensated absences 10,683

OPEB liability 144,013

Net pension liability 239,751

Deferred inflows of resources (13,367)

Net cash provided by operating activities \$ 1,914,505

## NOTE 1 - REPORTING ENTITY

The reporting entity is the South San Luis Obispo County Sanitation District. The District is responsible for trunk main and sewer pipes from the Cities of Arroyo Grande, Grover Beach, and the Oceano Community Services District. The District is governed by a three-member body, known as the District Board, who are appointed by the respective member agencies on a yearly basis. The District Board includes one representative from each of its Member Agencies, specifically, the City of Arroyo Grande, City of Grover Beach and the Oceano Community Services District. The District provides wastewater disposal services.

There are no component units included in this report which meet the criteria of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statements No. 39, No. 61 and No. 80.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Accounting Policies - The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

- B. Accounting Method - The District is organized as an Enterprise Fund and follows the accrual method of accounting, whereby revenues are recorded as earned, and expenses are recorded when incurred.

- C. Fund Financial Statements – The fund financial statements provide information about the District’s proprietary fund.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

- D. Proprietary Fund Type

### Enterprise Fund

Enterprise fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body 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; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

- E. Cash and Cash Equivalents - For purposes of the statement of cash flows, cash and cash equivalents include restricted and unrestricted cash and restricted and unrestricted certificates of deposit with original maturities of three months or less.
- F. Property, Plant, and Equipment – Capital assets purchased by the District are recorded at cost. Contributed or donated capital assets are recorded at fair value when acquired.
- G. Depreciation – Capital assets owned by the District are depreciated over their estimated useful lives (ranging from 5-40 years) under the straight-line method of depreciation.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- H. Receivables - The District did not experience bad debt losses; accordingly, no adjustment has been made for doubtful accounts, and accounts receivable is shown at the adjusted value.
- I. Encumbrances - Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is not utilized by the District.
- J. Compensated Absences - Accumulated unpaid employee vacation and sick leave benefits are recognized as liabilities of the District. The amounts are included in current liabilities.
- K. Restricted Assets – Restricted assets are financial resources segregated for a special purpose such as construction of improvements and financing of debt obligations. These assets are for the benefit of a distinct group and as such are legally or contractually restricted.
- L. Use of Estimates  
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, as prescribed by the GASB and the AICPA, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.
- M. Net Position  
GASB Statement No. 63, requires that the difference between assets added to the deferred outflows of resources and liabilities be added to the deferred inflows of resources be reported as net position. Net position is classified as either net investment in capital assets, restricted, or unrestricted.  
  
Net position that is net investment in capital assets consist of capital assets, net of accumulated depreciation, and reduced by the outstanding principal of related debt. Restricted net position is the portion of net position that has external constraints placed on them by creditors, grantors, contributors, laws, or regulations of other governments, or through constitutional provisions, or enabling legislation. Unrestricted net position consists of net position that does not meet the definition of net investment in capital assets or restricted net position.
- N. 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 South San Luis Obispo County Sanitation District's Public Employee's Retirement System (CalPERS) plan (Plan) and additions to/deductions from the Plan fiduciary net position have been determined on the same basis as they are reported by 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.
- O. Deferred Outflows and Inflows of Resources  
Pursuant to GASB Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*," and GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities*," the District recognizes deferred outflows and inflows of resources.  
  
In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period. The District has one item which qualifies for reporting in this category; refer to Note 7 for a detailed listing of the deferred outflows of resources the District has reported.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

O. Deferred Outflows and Inflows of Resources (Continued)

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. A deferred inflow of resources is defined as an acquisition of net position by the District that is applicable to a future reporting period. The District has one item which qualifies for reporting in this category; refer to Note 7 for a detailed listing of the deferred inflows of resources the District has reported.

P. Future Accounting Pronouncements

GASB Statements listed below will be implemented in future financial statements:

Statement No. 75	"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"	The provisions of this statement are effective for fiscal years beginning after June 15, 2017.
Statement No. 81	"Irrevocable Split-Interest Agreements"	The provisions of this statement are effective for fiscal years beginning after December 15, 2016.
Statement No. 82	"Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73"	The provisions of this statement are effective for fiscal years beginning after June 15, 2017.
Statement No. 83	"Certain Asset Retirement Obligations"	The provisions of this statement are effective for fiscal years beginning after June 15, 2018.
Statement No. 84	"Fiduciary Activities"	The provisions of this statement are effective for fiscal years beginning after December 15, 2018.
Statement No. 85	"Omnibus 2017"	The provisions of this statement are effective for fiscal years beginning after June 15, 2017.
Statement No. 86	"Certain Debt Extinguishment Issues"	The provisions of this statement are effective for fiscal years beginning after June 15, 2017.
Statement No. 87	"Leases"	The provisions of this statement are effective for fiscal years beginning after December 15, 2019.

**NOTE 3 - CASH AND INVESTMENTS**

Investments are carried at fair value in accordance with GASB Statement No. 31. On June 30, 2017 the District had the following cash and investments on hand:

Cash on hand	\$	140
Cash in Bank		156,900
Cash and investments with County Treasurer		3,215,466
Local Agency Investment Fund (LAIF)		<u>2,435,258</u>
Total cash and investment	\$	<u><u>5,807,764</u></u>



**NOTE 3 - CASH AND INVESTMENTS (Continued)**

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. These principles recognize a three-tiered fair value hierarchy. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District had investments in the San Luis Obispo County Investment Pool and the Local Agency Investment Fund, however, those external pools are not measured under Level 1, 2 or 3.

Investments Authorized by the California Government Code

The table below identifies the investment types that are authorized for the District by the California Government Code. The table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
Federal Agency Securities	N/A	None	None
Bankers' Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase and Reverse Repurchase Agreements	92 days	20% of base value	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	5 years	15%	10%
Money Market Mutual Funds	N/A	None	None
Mortgage Pass-Through Securities	N/A	20%	None
County Pooled Investment Fund	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
State Registered Warrants, Notes, or Bonds	5 years	None	None
Notes and Bonds of other Local California Agencies	5 years	None	None

Disclosures Relating to 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. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

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

**SOUTH SAN LUIS OBISPO COUNTY SANITATION DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
June 30, 2017

**NOTE 3 - CASH AND INVESTMENTS (Continued)**

Disclosures Relating to Interest Rate Risk (Continued)

Investment Type	Carrying Amount	Remaining Maturity (in Months)			
		12 Months or Less	13 - 24 Months	25 - 60 Months	More than 60 Months
San Luis Obispo Investment Pool	\$ 3,215,466	\$ 3,215,466	\$ -	\$ -	\$ -
State Investment Pool (LAIF)	2,435,258	2,435,258			
	<u>\$ 5,650,724</u>	<u>\$ 5,650,724</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code and the District's investment policy, and the actual rating as of fiscal year end for each investment type.

Investment Type	Carrying Amount	Minimum Legal Rating	Rating as of Fiscal Year End			
			AAA	Aa	Baa	Not Rated
San Luis Obispo Investment Pool	\$ 3,215,466	N/A	\$ -	\$ -	\$ -	\$ 3,215,466
State Investment Pool (LAIF)	2,435,258	N/A				2,435,258
	<u>\$ 5,650,724</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,650,724</u>

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer that represent 5% or more of total District investments.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair 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 also allows financial institutions to secure the District's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2017, none of the District's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts.

**SOUTH SAN LUIS OBISPO COUNTY SANITATION DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
June 30, 2017

**NOTE 3 - CASH AND INVESTMENTS (Continued)**

Investment in State Pool (LAIF)

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements 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 are recorded on an amortized cost basis.

**NOTE 4 - SCHEDULE OF CAPITAL ASSETS**

A schedule of changes in capital assets and depreciation for the fiscal year ended June 30, 2017, is shown below:

	Balance July 1, 2016	Additions	Deletions	Transfers	Balance June 30, 2017
Land	\$ 431,425	\$ -	\$ -	\$ -	\$ 431,425
Construction in Progress	545,932	1,244,377		(694,189)	1,096,120
Property, Plant, & Equipment	22,834,764	25,530		694,189	23,554,483
Total capital assets	23,812,121	1,269,907	-	-	25,082,028
Less Accumulated Depreciation	(15,923,811)	(1,231,628)			(17,155,439)
Net capital assets	<u>\$ 7,888,310</u>	<u>\$ 38,279</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,926,589</u>

**NOTE 5 – LOAN PAYABLE**

On October 19, 2009, the District received a loan from Municipal Finance Corporation in the amount of \$483,159. The purpose of the loan was to install a new electrical generator system. The District will make semi-annual payments under the loan agreement of \$37,398 through August 16, 2017. The interest rate for the loan is 5.25%. Future debt service payments are as follows:

Fiscal Year Ended June 30	Principal	Interest	Total
2018	\$ 71,952	\$ 2,845	\$ 74,797
	<u>\$ 71,952</u>	<u>\$ 2,845</u>	<u>\$ 74,797</u>

**NOTE 6 – LONG-TERM DEBT**

The changes in long-term debt at June 30, 2017, are as follows:

	Balance July 1, 2016	Additions	Retirements	Balance June 30, 2017	Due within One year
Compensated Absences	\$ 32,372	\$ 38,890	\$ (28,207)	\$ 43,055	\$ -
Loan Payable	140,269		(68,317)	71,952	71,952
OPEB	853,757	200,838	(56,825)	997,770	
Net Pension Liability	766,801	316,770	(77,019)	1,006,552	
Total	<u>\$ 1,793,199</u>	<u>\$ 556,498</u>	<u>\$ (230,368)</u>	<u>\$ 2,119,329</u>	<u>\$ 71,952</u>

**NOTE 7 – DEFINED BENEFIT PENSION PLAN**

**A. General Information about the Pension Plans**

*Plan Descriptions*

All qualified permanent and probationary employees are eligible to participate in the District's Miscellaneous Employee Pension Plans, cost-sharing multiple employer defined benefit plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and 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 service 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 nonduty 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.

The Plans' provisions and benefits in effect at June 30, 2017, are summarized as follows:

	Miscellaneous	
	Prior to	On or after
Hire Date	January 1, 2013	January 1, 2013
Benefit formula	2.0% @ 60	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50-63	52-67
Monthly benefits, as a % of eligible compensation	1.09% to 2.42%	1.0% to 2.5%
Required employee contribution rates	7%	6.5%
Required employer contribution rates	9.539%	6.533%

*Contributions*

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan is 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 rate of employees. Contributions to the pension plan from the District were \$104,648 for the fiscal year ended June 30, 2017.

**SOUTH SAN LUIS OBISPO COUNTY SANITATION DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
June 30, 2017

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**NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued)**

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

At June 30, 2017, the District reported a liability of \$1,006,552 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and the total pension liability 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 update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all Pension Plan participants, actuarially determined. At June 30, 2016, the District's proportion was 0.02897%, which increased by 0.00102% from June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of \$173,607. Pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 104,648	\$ -
Differences between expected and actual experience	1,854	
Changes in assumptions		22,821
Net difference between projected and actual earnings on retirement plan investments	118,774	
Adjustment due to differences in proportions	68,094	
Difference in actual contributions and proportionate share of contributions		45,497
	<u>\$ 293,370</u>	<u>\$ 68,318</u>

\$104,648 reported as deferred outflows of resources related to pensions resulting from District 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 in the pension expenses as follows:

Fiscal Year Ended June 30	Amount
2018	\$ 16,743
2019	17,070
2020	55,828
2021	30,763
	<u>\$ 120,404</u>

**NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued)**

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

*Actuarial Assumptions*

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions:

	Miscellaneous
Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.5% Net of Pension Plan Investment and Administrative Expenses; includes Inflation
Mortality Rate Table (1)	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

- (1) The mortality table used was 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 2014 experience study report.

*Discount Rate*

The discount rate used to measure the total pension liability was 7.65%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for public agency plans (including PERF C), CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 percent will be applied to all plans in the Public Employees Retirement Fund, including PERF C. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB No. 68 section.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB No. 67 and No. 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

**NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued)**

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

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits were calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1-10(a)	Real Return Years 11+(b)
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	20.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	1.0%	-0.55%	-1.05%
Total	100%		

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

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

*Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*

The following represents the District's proportionate share of the net pension liability calculated using the discount rate of 7.65 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.65 percent) or 1- percentage point higher (8.65 percent) than the current rate:

	1% Decrease 6.65%	Discount Rate 7.65%	1% Increase 8.65%
District's proportionate share of the net pension plan liability	\$ 1,568,181	\$ 1,006,552	\$ 542,393

**SOUTH SAN LUIS OBISPO COUNTY SANITATION DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
June 30, 2017

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**NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued)**

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

*Pension Plan Fiduciary Net Position*

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

**C. Payable to the Pension Plan**

At June 30, 2017, the District had no amount outstanding for contributions to the pension plan required for the fiscal year ended June 30, 2017.

**NOTE 8 – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS**

Plan Description

The District provides post-retirement health benefits to all retirees who retire from the System and have reached the minimum age of 50.

Funding Policy

The District is required to contribute the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of the GASB Statement No. 45. The System used the alternative measurement method as allowed under GASB Statement No. 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Annual OPEB Cost and Net OPEB Obligation/(Asset)

The following table shows the components of the District's Annual OPEB Cost for the fiscal year ended June 30, 2017, the amount actually contributed to the plan (including administrative costs), and changes in the System's Net OPEB Obligation/(Asset):

	Fiscal Year Ending June 30, 2017
Annual Required Contributions	\$ 162,419
Interest on Net OPEB Obligation/(Asset)	38,419
Annual OPEB Cost/Expense	200,838
Contributions made	56,825
Increase in Net OPEB Obligations/(Asset)	144,013
Net OPEB Obligations/(Assets) - beginning of fiscal year	853,757
Net OPEB Obligations/(Assets) - end of fiscal year	\$ 997,770

The District's Annual OPEB cost, the percentage of Annual OPEB Cost contributed to the plan, and the Net OPEB Obligation (Asset) are as follows:

Fiscal Year Ended	Annual OPEB Cost	Actual Contribution	Percentage of OPEB Cost Contributed	Net OPEB Obligation (Asset)
June 30, 2015	\$ 155,232	\$ 35,273	23%	\$ 731,192
June 30, 2016	\$ 178,655	\$ 56,090	31%	\$ 853,757
June 30, 2017	\$ 200,838	\$ 56,825	28%	\$ 997,770



**SOUTH SAN LUIS OBISPO COUNTY SANITATION DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
June 30, 2017

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**NOTE 8 – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)**

Annual OPEB Cost and Net OPEB Obligation/(Asset) (Continued)

The funded status of the plan was as follows:

Valuation Date	Value of Assets	Projected Unit Credit Actuarial Accrued Liabilities	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UUAL as a Percentage of Covered Payroll
June 30, 2013	\$ -	\$ 1,017,897	\$ 1,017,897	0%	\$ 405,804	251%
June 30, 2014	\$ -	\$ 1,295,363	\$ 1,295,363	0%	\$ 366,444	353%
June 30, 2017	\$ -	\$ 1,569,113	\$ 1,569,113	0%	\$ 776,539	202%

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce short-term volatility in accrued liabilities and the value of assets, consistent with the long-term perspective of the calculations.

The District did not pre-fund retiree healthcare costs nor establish an irrevocable trust for retiree healthcare costs. The decision not to use an irrevocable trust was made because of the current national and state economic issues and the possibility that the funds may be required to provide current services.

**NOTE 9 – COMMITMENTS AND CONTINGENCIES**

According to the District's staff and attorney, no contingent liabilities are outstanding and no lawsuits are pending of any real financial consequence.

**NOTE 10 – SETTLEMENT PAYABLE**

On October 3, 2012, the District was levied a penalty of \$1,109,813 from the State Water Resources Control Board for a sewage spill in December 2010. On September 1, 2016, the District agreed with the State Water Resources Control Board, that \$554,906 would go to the State Water Resources Control Board, \$110,981 would fund the Central Coast Ambient Monitoring Program Groundwater Assessment and Protection through the Bay Foundation of Morro Bay, \$221,963 would be contributed towards developing a groundwater basin model for the Northern Cities Management Area and Nipomo Mesa Management Area of the Santa Maria Groundwater Basin through the Bay Foundation of Morro Bay, and \$221,963 would be used to fund construction of a grit removal system at the District's treatment facility. As of June 30, 2017, the balance is \$443,925.

**NOTE 11 – SUBSEQUENT EVENT**

On October 10, 2017, the District agreed to a separation settlement with Plant Superintendent John Clemons for \$150,000 to be paid in two installments.

**NOTE 12 – PRIOR PERIOD ADJUSTMENT**

A prior period adjustment of \$85,966 was made which affects the statement of net position- proprietary fund. The prior period adjustment was to adjust Deferred Outflows (\$37,012) and Deferred Inflows (\$48,954) to their correct values.

**SOUTH SAN LUIS OBISPO COUNTY SANITATION DISTRICT**  
**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY**  
Last 10 Years\*  
As of June 30, 2017

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The following table provides required supplementary information regarding the District's Pension Plan.

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Proportion of the net pension liability	0.0116%	0.0112%	0.0089%
Proportionate share of the net pension liability	\$ 1,006,552	\$ 766,801	\$ 556,113
Covered- employee payroll	\$ 648,335	\$ 512,061	\$ 496,070
Proportionate share of the net pension liability as percentage of covered-employee payroll	155.3%	149.7%	112.1%
Plan's total pension liability	\$ 33,358,627,624	\$ 31,771,217,402	\$ 30,829,966,631
Plan's fiduciary net position	\$ 24,705,532,291	\$ 24,907,305,871	\$ 24,607,502,515
Plan fiduciary net position as a percentage of the total pension liability	74.06%	78.40%	79.82%

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

**SOUTH SAN LUIS OBISPO COUNTY SANITATION DISTRICT**  
**SCHEDULE OF CONTRIBUTIONS**  
Last 10 Years\*  
As of June 30, 2017

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The following table provides required supplementary information regarding the District's Pension Plan.

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution (actuarially determined)	\$ 104,648	\$ 77,019	\$ 48,422
Contribution in relation to the actuarially determined contributions	<u>104,648</u>	<u>77,019</u>	<u>48,422</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered- employee payroll	\$ 776,539	\$ 648,335	\$ 512,061
Contributions as a percentage of covered-employee payroll	13.48%	11.88%	9.46%

**Notes to Schedule**

Valuation Date:	6/30/2014
Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Entry Age
Asset valuation method	5-year smoothed market
Amortization method	The unfunded actuarial accrued liability is amortized over an open 17 year period as a level percentage of payroll
Discount rate	7.50%
Amortization growth rate	3.75%
Price inflation	3.25%
Salary increases	3.75% plus merit component based on employee classification and years of service.
Mortality	Sex distinct RP-2000 Combined Mortality projected to 2010 using Scale AA with a 2 year setback for males and a 4 year setback for females.
Valuation Date:	6/30/2015
Discount rate:	7.65%

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

