

**EAST PALO ALTO SANITARY DISTRICT  
BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015**

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**EAST PALO ALTO SANITARY DISTRICT  
BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2015**

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
East Palo Alto Sanitary District  
East Palo Alto, California

We have audited the accompanying financial statements of the East Palo Alto Sanitary District (District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits 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 of America. 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 District'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 District'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 financial position of the District as of June 30, 2015, and changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of a Matter***

Management adopted the provisions of the following Governmental Accounting Standards Board Statements, which became effective during the year ended June 30, 2015 and required the a prior period adjustment of net position as discussed in Note 6 to the financial statements:

Statement No. 68 – *Accounting and Financial Reporting for Pensions*

Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date*

The emphasis of this matter does not constitute a modification to our opinion.

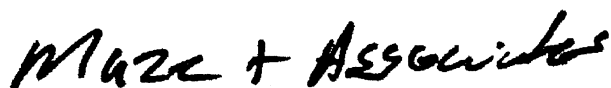
### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and other Required Supplementary Information, 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 Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2015 on our consideration of the 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 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.



Pleasant Hill, California  
November 20, 2015

**EAST PALO ALTO SANITARY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2015**

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of two components: 1) the financial statements and 2) notes to the financial statements that explain in more detail some of the information in the financial statements.

**Required Financial Statements**

The financial statements of the District report information about the District using accounting methods similar to those used by private-sector companies. These statements provide both long term and short-term information about the District's overall financial status.

The Statement of Net Position presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. This statement provides information about the nature and the amounts of investments in resources (assets) and the obligations to District creditors (liabilities). It provides one way to measure the financial health of the District by providing the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. However, there are several outside nonfinancial factors that need to be considered; such as changing economic conditions, population and customer growth, and new or changed rules and regulations.

All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its cost through its user fees.

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. This statement provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

**Financial Analysis of the District**

As previously noted, net assets may serve over time as a useful indicator of an entity's financial position. In the case of the District, assets exceeded liabilities by \$16,070,785 at the close of the most recent fiscal year. As can be seen in Table A , on the next page, the largest portion of the District's net position (40%) reflect its investment in capital assets (e.g., sewers, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. These capital assets are used primarily in the collection and treatment of wastewater throughout the District's service area. The related debt will be repaid with resources provided by system users through rates and fees.

**EAST PALO ALTO SANITARY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2015**

**Table A  
Summary of Net Position**

A summary of the statements of net position as of June 30, 2015 and 2014 is shown in the following table:

	<u>2015</u>	<u>2014</u>	<u>Change</u>
Current assets	\$ 12,556,733	\$ 11,292,556	\$ 1,264,177
Noncurrent assets	43,315	48,682	(5,367)
Net capital assets	<u>6,298,834</u>	<u>6,426,393</u>	<u>(127,559)</u>
Total assets	<u>18,898,882</u>	<u>17,767,631</u>	<u>1,131,251</u>
Deferred Outflows	<u>136,392</u>		<u>136,392</u>
Current liabilities	258,583	566,541	(307,958)
Noncurrent liabilities	<u>2,436,734</u>	<u>1,644,170</u>	<u>792,564</u>
Total liabilities	<u>2,695,317</u>	<u>2,210,711</u>	<u>484,606</u>
Deferred Intflows	<u>269,172</u>		<u>269,172</u>
Net Position	<u>\$ 16,070,785</u>	<u>\$ 15,556,920</u>	<u>\$ 513,865</u>

Net position increased by \$513,865 in 2015. The increases are a combination of income in the form of sewer service charges, connection fee charges and property taxes.

Current assets increased by \$1,264,177 compared to the prior year primarily due to:

- An increase in cash of \$1,264,521 as detailed in the statement of cash flows on page 10, and a decrease in prepaid insurance of \$344.

Noncurrent assets decreased by \$5,367 primarily due a decrease in notes receivable of \$5,107 and a decrease in OPEB asset of \$260.

Current liabilities decreased by \$307,958 due to a decrease in accounts payable of \$47,701, increase in accrued liabilities of \$5,831 and a decrease in current portion of long term debt of \$266,088.



**EAST PALO ALTO SANITARY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2015**

**Table B  
Summary of Revenues  
Expenses and Changes in Net Position**

	<u>2015</u>	<u>2014</u>	<u>Change</u>
Total operating revenues	\$ 4,583,888	\$ 4,302,690	\$ 281,198
Total operating expenses	<u>(3,744,231)</u>	<u>(3,491,388)</u>	<u>(252,843)</u>
Operating Income (loss)	839,657	811,302	28,355
Total nonoperating revenues and expenses	<u>787,353</u>	<u>700,366</u>	<u>86,987</u>
Increase in net position	1,627,010	1,511,668	115,342
Net position , beginning of year	<u>15,556,920</u>	<u>14,045,252</u>	<u>1,511,668</u>
Prior period adjustment	(1,113,145)		
Net position, end of year	<u>\$ 16,070,785</u>	<u>\$ 15,556,920</u>	<u>\$ 513,865</u>

While the Summary of Net Position (Table A) shows the change in financial position of Net position, (Table B) shows the Summary of Revenues, Expenses, and Changes in Net position and provides details as to the nature and source of these changes.

Table B shows that during 2015 total operating revenues increased by \$281,198. Total operating expenses decreased by \$252,843. Non operating revenue and expenses increased by \$86,987. The major factors which contributed to these results include:

- The increase in operating revenues of \$281,198 was due to an increase in sewer service charges of \$351,460 and a decrease in other revenue of \$70,262.
- The increase in operating expenses of \$252,843 was due to an increase in personnel services of \$106,805, a decrease in depreciation and amortization of \$36,043, a decrease in utilities, fuel and supplies of \$11,400, an increase in purchased services of \$206,609 and a decrease in other expenses of \$13,128.
- The increase of \$86,987 in non-operating revenues and expenses was due to an increase in interest income of \$ 15,082, an increase in property tax collections of \$53,708, an increase in interest expense of \$95,651, an increase in pass-through receipts of \$8,926 and a decrease in other revenue of \$(86,380).

**EAST PALO ALTO SANITARY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2015**

**BUDGETARY HIGHLIGHTS**

The District has an annual operating budget that is approved by its Board of Directors. Capital projects are approved on a project by project basis within the annually approved capital budget. The 2015 expenses were under the approved budget.

The District Engineer has completed a 10-year Sewer Master Plan Update which identifies and proposes a master schedule for future sewer rehabilitation and replacement projects.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

As of June 30, the District's investment in capital assets amounted to \$6.30 million and \$6.43 million (net of accumulated depreciation) as shown in Table C for 2015 and 2014, respectively. In 2015, the District spent \$72,367 on sewer collection facilities and \$124,435 on Buildings.

**Table C  
Capital Assets**

	<b>2015</b>	<b>2014</b>	<b>Change</b>
Land	\$ 184,601	\$ 184,601	\$ -
Cured in place pipe	1,474,518	1,474,518	-
Sewer collection facilities	6,080,224	6,007,857	72,367
Buildings	2,584,471	2,460,036	124,435
Furniture and equipment	1,918,902	1,938,467	(19,565)
Accumulated depreciation	(5,943,882)	(5,639,086)	(304,796)
Net fixed assets	<u>\$ 6,298,834</u>	<u>\$ 6,426,393</u>	<u>\$ (127,559)</u>

**EAST PALO ALTO SANITARY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2015**

**Debt Administration**

The District has financed its construction program primarily through the issuance of revenue bonds. Additional information on the District's long-term debt can be found in Note 5 to the financial statements.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The service area of the District is best described as mature. The District is not in a growth situation but one in which the system is continually televised, upgraded and repaired given budgetary constraints.

**Requests for Information**

The financial report is designed to provide a general overview of the District's finances and operations for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Office of the General Manager  
East Palo Alto Sanitary District  
901 Weeks Street  
East Palo Alto, CA 94303

EAST PALO ALTO SANITARY DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2015

ASSETS

Current Assets:

Cash and investments (Note 2)	\$12,534,404
Prepaid insurance	22,329
Total Current Assets	<u>12,556,733</u>

Noncurrent Assets:

Notes receivable	27,387
OPEB asset (Note 7)	15,928
Capital assets (Note 3):	
Land	184,601
Sewer collection facilities	6,080,224
Cured in place pipe	1,474,518
Buildings	2,584,471
Furniture and equipment	1,918,902
Less accumulated depreciation	<u>(5,943,882)</u>
Total capital assets, net	<u>6,298,834</u>
Total Non-Current Assets	<u>6,342,149</u>

TOTAL ASSETS	<u>18,898,882</u>
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DEFERRED OUTFLOW OF RESOURCES

Pension Related (Note 6)	<u>136,392</u>
TOTAL DEFERRED OUTFLOW OF RESOURCES	<u>136,392</u>

LIABILITIES

Current Liabilities

Accounts payable	34,361
Accrued liabilities	75,963
Long-term debt, current portion (Note 5)	<u>148,259</u>
Total Current Liabilities	<u>258,583</u>

Noncurrent Liabilities

Net pension liability (Note 6)	940,823
Long-term debt (Note 5)	<u>1,495,911</u>
Total Long-Term Liabilities	<u>2,436,734</u>
Total Liabilities	<u>2,695,317</u>

DEFERRED INFLOW OF RESOURCES

Pension Related (Note 6)	<u>269,172</u>
TOTAL DEFERRED INFLOW OF RESOURCES	<u>269,172</u>

NET POSITION (Note 8)

Net investment in capital assets	4,654,664
Unrestricted	<u>11,416,121</u>
Total Net Position	<u>\$16,070,785</u>

See accompanying notes to financial statements

EAST PALO ALTO SANITARY DISTRICT  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2015

OPERATING REVENUES:

Sewer service charges	\$4,556,745
Other revenues	27,143
Total Operating Revenues	<u>4,583,888</u>

OPERATING EXPENSES:

Personnel services	1,474,957
Purchased services	1,693,786
Utilities, fuel and supplies	72,342
Depreciation and amortization	304,797
Other expenses	198,349
Total Operating Expenses	<u>3,744,231</u>

NET OPERATING INCOME	<u>839,657</u>
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NONOPERATING REVENUE (EXPENSE)

Property taxes	524,908
Pass through receipts	212,799
Interest income	75,441
Interest expense	(71,883)
Other revenue	46,088
Nonoperating revenue, net	<u>787,353</u>

CHANGE IN NET POSITION	1,627,010
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NET POSITION AT BEGINNING OF YEAR	15,556,920
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Prior period adjustment (Note 1K)	<u>(1,113,145)</u>
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NET POSITION AT END OF YEAR	<u><u>\$16,070,785</u></u>
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See accompanying notes to financial statements

EAST PALO ALTO SANITARY DISTRICT  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$4,583,888
Payments to suppliers	(2,006,003)
Payments to employees	<u>(1,514,239)</u>
Cash Flows provided by Operating Activities	<u>1,063,646</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Property taxes	524,908
Pass through receipts	<u>212,799</u>
Net Cash Flows provided by Noncapital Financing Activities	<u>737,707</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(177,237)
Principal paid on debt	(414,347)
Interest paid on debt	(71,884)
Collections on note receivable	5,107
Other	<u>46,088</u>
Cash Flows provided (used) by Capital and Related Financing Activities	<u>(612,273)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received	<u>75,441</u>
Cash Flows from Investing Activities	<u>75,441</u>
NET CASH FLOWS	1,264,521
Cash and cash equivalents at beginning of year	<u>11,269,883</u>
Cash and cash equivalents at end of year	<u><u>\$12,534,404</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$839,657
Adjustment to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization expense	304,797
(Increase) decrease in assets and deferred outflows of resources:	
OPEB asset	260
Prepaid expenses	344
Pension related deferred outflows of resources	(136,392)
Increase (decrease) in liabilities and deferred inflows of resources:	
Accounts payable and accrued expenses	(41,870)
Net pension liability	(172,322)
Pension related deferred inflows of resources	<u>269,172</u>
Net cash provided by operating activities	<u><u>\$1,063,646</u></u>

See accompanying notes to financial statements

**EAST PALO ALTO SANITARY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, June 30, 2015**

<b>NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</b>
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**A.     *Description of the Reporting Entity***

The financial statements of East Palo Alto Sanitary District (District) include the financial activities of the District as well as the financial activity of the East Palo Alto Sanitary District Financing Corporation (Corporation), a component unit of the District. The Corporation is a nonprofit public benefit corporation established in fiscal year 1991 to provide financial assistance to the District by financing improvements to the District's sewer collection system and to refinance the purchase and renovation of the District's administration building. The Corporation has no employees. The District is governed by a five member Board of Directors elected at large to four year terms by residents within the District. These Directors also serve as Directors of the Corporation.

**B.     *Basis of Presentation and Accounting***

Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States.

These Standards require that the financial statements described below be presented.

The Statement of Net Position and the Statement of Activities display information about the East Palo Alto Sanitary District. Business-type activities are financed in whole or in part by fees charged to external parties.

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 interest income and connection fees, result from nonexchange transactions or ancillary activities.

Enterprise funds are accounted for on the flow of economic resources measurement focus utilizing full accrual accounting. Under this method, assets and revenues are recorded when earned, and liabilities and expenses are recorded when the related obligations are incurred.

**C.     *Budgets and Budgetary Accounting***

East Palo Alto Sanitary District adopts an operating budget at the beginning of each year for the following fiscal year. The District General Manager is authorized to transfer any unencumbered amounts from one department to another within the same major account and to transfer any unencumbered appropriation from one line item account to another within the same major account. The major accounts are defined as salaries and employee benefits, maintenance and operation, capital outlay and reserves. Any additional appropriations require approval by the Board of Directors.

**EAST PALO ALTO SANITARY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, June 30, 2015**

<b>NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)</b>
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***D. Cash and Cash Equivalents***

For purposes of the statement of cash flows, cash equivalents include time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less.

***E. Compensated Absences***

The District records the expense of employees' vacation and sick leave benefits in the period in which they accumulate and become vested. At June 30, 2015, the balance is \$52,198 and is included in accrued liabilities on the Statement of Net Position.

***F. Capital Assets***

The cost of additions to utility plant and major replacements of property is capitalized. Costs include material, direct labor, transportation and indirect items such as interest, engineering, supervision and employee fringe benefits. Contributed property is recorded at estimated fair market value at time of acquisition. Capital assets are defined by the District as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of one year.

Depreciation is computed on a straight-line basis over the estimated useful lives of the property as follows:

Sewer collection facilities	50 years
Building	30 years
Furniture and Equipment	10 years
Computers	5 years

***G. Sewer Service Charges***

Sewer service charges are billed and collected, on behalf of the District, by San Mateo County (the County) as a separate component of semi-annual property tax billings. The County assesses properties, bills for and collects property taxes on the following schedule:

	<u>Secured</u>	<u>Unsecured</u>
Valuation dates	March 1	March 1
Lien/levy dates	January 1	January 1
Due dates	50% on November 1 50% on February 1	July 1
Delinquent as of	December 10 April 10	August 31

The term "Unsecured" refers to taxes on property not secured by liens on real property. Property taxes levied are recorded as revenue and receivables, net of estimated uncollectible amounts, in the fiscal year of levy.



**EAST PALO ALTO SANITARY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, June 30, 2015**

<b>NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)</b>
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**H.     *Sewer Connection Fees***

Connection fees represent a one-time contribution of resources to the District imposed on contractors and developers for the purpose of financing growth-related construction and improvements. Connection fees are recognized as other non-operating revenues in the statement of revenues, expenses and Changes in Net Position. Any cumulative fees collected in excess of amounts expended are shown as restricted net position.

**I.     *Bond Issuance Costs***

Bond issuance costs are expensed in the year of the debt issuance.

**J.     *Use of Estimates***

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**K.     *Implementation of Governmental Accounting Standards Board (GASB) Statements***

**GASB Statement No. 68** – In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The requirements of this Statement will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014, therefore, the District implemented this Statement in fiscal year ending June 30, 2015, which required a restatement to the District's financial statements. See Note 6 for additional information.

**GASB Statement No. 69** – In 2014, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operation*. This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2013, therefore, the District will implement this Statement in fiscal year ending June 30, 2015. This Statement did not have any impact on the financial statements.

**EAST PALO ALTO SANITARY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, June 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**GASB Statement No. 70** – In 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Finance Guarantees*. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more than likely than not the government will be required to make a payment on that guarantee. The provisions of this Statement are effective for reporting periods beginning after June 15, 2013, therefore, the District implemented this statement for fiscal year ended June 30, 2015, and had no impact on the financial statements.

**GASB Statement No. 71** – In 2014, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual-basis financial statements of employers and non-employer contributing entities. This benefit will be achieved without the imposition of significant additional costs. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014, therefore, the District implemented this Statement in fiscal year ending June 30, 2015, along with GASB 68 as discussed above.

**NOTE 2 – CASH AND INVESTMENTS**

**A. Policies and Classification**

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the District's cash on deposit, or first trust deed mortgage notes with a market value of 150% of the deposit, as collateral for these deposits. Under California Law this collateral is held in a separate investment pool by another institution in the District's name and places the District ahead of general creditors of the institution.

The District's investments are carried at fair value, as required by generally accepted accounting principles. The District adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

The District's cash and investments consist of the following at June 30, 2015:

Deposits with financial institutions	\$134,009
Cash and investments with San Mateo County Treasurer	<u>12,400,395</u>
Total cash and investments	<u><u>\$12,534,404</u></u>

The District has authorized staff to invest cash with the San Mateo County Treasurer in a series of pooled accounts with cash from various other governmental entities within the County, for investment purposes. The County's investment policies are governed by State statutes.

**EAST PALO ALTO SANITARY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, June 30, 2015**

**NOTE 2 – CASH AND INVESTMENTS (Continued)**

In addition, the County has an investment committee, which prescribes written investment policies regarding the types of investments that may be made. The policies limit amounts that may be invested in any one financial institution or amounts, which may be invested in long-term instruments. Interest earned from such time deposits and investments is allocated quarterly to the District based on its average daily cash balances. The fair value of the account at June 30, 2015 was provided by the County Treasurer.

The District is a voluntary participant in the San Mateo County Investment Fund (SMCIF) that is regulated by California Government Code Section 53600 under the oversight of the treasurer of the County of San Mateo. The District reports its investment in SMCIF at the fair value amount provided by SMCIF. The balance available for withdrawal is based on the accounting records maintained by SMCIF, which are recorded on an amortized cost basis. Included in SMCIF's investment portfolio are U.S. Treasury Notes, obligations issued by agencies of the U.S. Government, LAIF, corporate notes, commercial paper, collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations.

**NOTE 3 – CAPITAL ASSETS**

Changes in property, plant and equipment accounts are summarized below:

	Balance at June 30, 2014	Additions	Transfers	Balance at June 30, 2015
Capital assets not being depreciated:				
Land	\$184,601			\$184,601
Total capital assets not being depreciated	184,601			184,601
Capital assets being depreciated:				
Sewer collection facilities	6,007,857	\$72,367		6,080,224
Cured in place pipe	1,474,518			1,474,518
Buildings	2,460,036	103,842	20,593	2,584,471
Furniture and equipment	1,938,467	1,028	(20,593)	1,918,902
Total capital assets being depreciated:	11,880,878	177,237		12,058,115
Less accumulated depreciation for:				
Sewer collection facilities	2,585,703	120,880		2,706,583
Cured in place pipe	97,562	49,151		146,713
Buildings	1,426,544	107,264		1,533,808
Furniture and equipment	1,529,277	27,501		1,556,778
Total accumulated depreciation	5,639,086	\$304,796		5,943,882
Net capital assets being depreciated	6,241,792			6,114,233
Total Capital Assets, net	\$6,426,393			\$6,298,834

**EAST PALO ALTO SANITARY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, June 30, 2015**

**NOTE 4 – CAPACITY RIGHTS IN TREATMENT PLANT**

The District has a contract with the City of Palo Alto whereby the District has rights to a specified capacity (11.90%) of the capacity of their sewage treatment facilities. The carrying value of such rights represents the District's share of construction costs relating to expansion and improvements of the City's treatment plant, net of amortization. The District is amortizing such cost (\$85,421 per year) over twenty five years, the approximate life of the treatment plant.

The District is also required to pay a portion of the operating cost on an annual basis for the treatment of the sewage. For the year ending June 30, 2015, such annual operating cost was \$75,318.

**NOTE 5 – LONG-TERM DEBT**

**A. Current Year Transactions and Balances**

Long-term debt at June 30, 2015 is summarized as follows:

	Original Issue Amount	Balance June 30, 2014	Retirements	Balance June 30, 2015	Amount due within one year
2000 Installment sale of bonds					
5.75%, due 10/01/2014	\$3,070,500	\$271,900	\$271,900		
Palo Alto 1990 Utility Revenue Bonds					
5.75%, due 6/30/2024	469,595	253,956	19,974	\$233,982	\$21,197
Palo Alto 2000 Utility Revenue Bonds					
5.75%, due 6/30/2024	573,000	310,741	24,630	286,111	25,594
Vactor Truck Note					
4.75%, due 3/31/2016	270,000	98,550	48,109	50,441	50,441
State Revolving Fund Loan					
2.60%, due 1/31/32	1,225,420	1,123,370	49,734	1,073,636	51,027
 Total Long-Term Debt		2,058,517	<u>\$414,347</u>	1,644,170	<u>\$148,259</u>
Less:					
Amount due within one year			<u>(414,347)</u>	<u>(148,259)</u>	
Total Long-Term Debt, net		<u>\$1,644,170</u>		<u>\$1,495,911</u>	

**B. 2000 Installment Sale of Bonds**

Represents indebtedness to Municipal Leasing Associates, Inc. in connection with the discharge of a 1990 Installment Sale Agreement used to finance the acquisition and construction of the District's sewer system improvements. The bonds are payable from revenues of the District.

**C. Palo Alto 1990 Utility Revenue Bonds**

Represents the District's portion of the City of Palo Alto's (City) debt related to the treatment plant (see Note 4). The District is liable to the City for this debt as long as the District utilizes the City's treatment plant. The bonds are payable from revenues of the District.

**EAST PALO ALTO SANITARY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, June 30, 2015**

**NOTE 5 – LONG-TERM DEBT (Continued)**

**D. Palo Alto 2000 Utility Revenue Bonds**

Represents a portion of the Palo Alto 1990 Utility Revenue Bonds which was refinanced. The bonds are payable from revenues of the District.

**E. Vactor Truck Note**

Represents a note with Municipal Finance Corporation for the purchase of a sewer vacuum truck. This note is payable from revenues of the District.

**F. State Revolving Fund Loan**

Represents a loan from the State Water Resources Control Board to finance the construction of the Cured in Place Siphoning Project. This loan is payable from revenues of the District.

**G. Debt Service Requirements**

For The Year Ending June 30	Principal	Interest	Total
2016	\$148,259	\$56,839	\$205,098
2017	101,488	51,370	152,858
2018	105,590	47,432	153,022
2019	109,748	43,375	153,123
2020	113,550	39,074	152,624
2021 - 2025	566,208	124,263	690,471
2026 - 2030	347,397	47,313	394,710
2031 - 2032	151,930	5,950	157,880
Total payments due	<u>\$1,644,170</u>	<u>\$415,616</u>	<u>\$2,059,786</u>

**NOTE 6 – DEFINED BENEFIT PENSION PLAN**

**A. Plan Descriptions**

The District contributes to the California Public Employees Retirement System (PERS), an cost sharing multiple-employer public employee retirement system. PERS provides retirement and disability benefits, annual cost-of living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and District resolution. PERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained from CalPERS, 400 Q Street, Sacramento, CA 95811.

**EAST PALO ALTO SANITARY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, June 30, 2015**

**NOTE 6 – DEFINED BENEFIT PENSION PLAN (Continued)**

**B. 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 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.

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

	<b>Miscellaneous</b>	
	<b>Tier 1</b>	<b>Tier 2</b>
Hire Date	Prior to 1/1/13	On or after 1/1/13
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50	60
Monthly benefits, as a % of eligible compensation	2.00% to 2.50%	2.0%
Required employee contribution rates	7.35%	N/A
Required employer contribution rates	4.00%	N/A

**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 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.

For the year ended June 30, 2015, the contributions recognized as part of pension expense for the Plans were as follows:

	<b>Miscellaneous</b>	
	<b>Tier 1</b>	<b>Tier 2</b>
Contributions - employer	\$113,321	\$12,055
Contributions - employee	48,526	12,055

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

As of June 30, 2015, the District reported net pension liabilities for its proportionate shares of the net pension liability in the amount of \$940,823.

**EAST PALO ALTO SANITARY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, June 30, 2015**

**NOTE 6 – DEFINED BENEFIT PENSION PLAN (Continued)**

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2014, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard 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 participating employers, actuarially determined. The District's proportionate share of the net pension liability for the Plan as of June 30, 2013 and 2014 was as follows:

	<b>Miscellaneous</b>	
	<b>Tier 1</b>	<b>Tier 2</b>
Proportion - June 30, 2013	3.72000%	0.00000%
Proportion - June 30, 2014	3.80700%	0.00000%
Change - Increase (Decrease)	0.08700%	0.00000%

For the year ended June 30, 2015, the District recognized pension expense of (\$279,407) for Tier 1 and (\$3) for Tier 2. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources \$0 for the Tier 2 plan and for the Tier 1 plan from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Pension contributions subsequent to measurement date	\$125,376	
Differences between actual and expected experience		
Changes in assumptions		
Net differences between projected and actual earnings on plan investments		(\$264,249)
Adjustments due to differences in proportion	11,016	(4,923)
Total	<u>\$136,392</u>	<u>(\$269,172)</u>

The \$125,315 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<b>Year Ended June 30</b>	
2015	(\$63,887)
2016	(63,887)
2017	(64,321)
2018	(66,061)

**EAST PALO ALTO SANITARY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, June 30, 2015**

**NOTE 6 – DEFINED BENEFIT PENSION PLAN (Continued)**

**Actuarial Assumptions** – The total pension liabilities in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions for both plans:

	<u>Miscellaneous Plan</u>
Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.5%
Inflation	2.75%
Projected Salary Increase	(A)
Investment Rate of Return	7.5% (B)
Mortality	Derived using CalPERS Membership Data
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

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

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

Audited annual financial statements and ten-year trend information are available from CALPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

**Discount Rate** – The discount rate used to measure the total pension liability was 7.50% for the Plans. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the plans, 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 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.



**EAST PALO ALTO SANITARY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, June 30, 2015**

**NOTE 6 – DEFINED BENEFIT PENSION PLAN (Continued)**

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 67 and 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.

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

In determining the long-term expected rate of return, 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 was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects 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	47.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	12.0%	6.83%	6.95%
Real Estate	11.0%	4.50%	5.13%
Infrastructure and Forestland	3.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	100%		

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

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

**EAST PALO ALTO SANITARY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, June 30, 2015**

**NOTE 6 – DEFINED BENEFIT PENSION PLAN (Continued)**

***Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*** – The following presents the District’s proportionate share of the net pension liability for the Plans, calculated using the discount rate for the Plans, 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 or 1-percentage point higher than the current rate:

	<b>Miscellaneous</b>	
	<b>Tier 1</b>	<b>Tier 2</b>
1% Decrease	6.50%	6.50%
Net Pension Liability	\$1,575,986	\$11
Current Discount Rate	7.50%	7.50%
Net Pension Liability	\$940,817	\$6
1% Increase	8.50%	8.50%
Net Pension Liability	\$413,687	\$2

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

**NOTE 7 – OTHER POST RETIREMENT BENEFITS**

The District provides post-retirement benefits to eligible employees in the form of reimbursement for post-retirement health insurance premiums. Retired employees have a choice of remaining on the District’s group health insurance plan or purchasing a plan of their choice. Reimbursement is made quarterly upon receipt of proof of payment. The District’s contribution is capped at the amount of the Kaiser premium which was set at \$1,429 per month per individual for fiscal year 2014-2015, \$1,019 per month per individual for fiscal year 2013-2014, \$1,019 per month per individual for fiscal year 2012-2013, and \$676 for fiscal year 2011-2012.

The obligation of the District to provide these benefits is determined annually by the Board of Directors.

In order to qualify for postemployment medical benefits, an employee must retire from the District with at least 5 years of service and be over 50 years of age.

The District follows the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes uniform financial reporting standards for employers providing postemployment benefits other than pensions (OPEB). The provisions of this statement are applied prospectively and do not affect prior year’s financial statements. Required disclosures are presented below.

The District joined the California Employers’ Retiree Benefit Trust (CERBT), an agent multiple-employer plan administered by CALPERS, consisting of an aggregation of single-employer plans.

**EAST PALO ALTO SANITARY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, June 30, 2015**

**NOTE 7 – POST RETIREMENT BENEFITS (Continued)**

**Funding Policy and Actuarial Assumptions**

The District's policy is to fund minimally the Annual Required Contribution (ARC) of these benefits by accumulating assets with CERBT discussed above pursuant to the District's annual budget approved by Board. The annual required contribution (ARC) was determined as part of the July 1, 2013 actuarial valuation using the entry age normal actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions included (a) 7.50% investment rate of return, (b) 3% inflation rate, (c) 3.25% projected annual salary increase, and (d) health care cost trend rates of 4.64% to 8.50% for medical benefits. The actuarial methods and assumptions used include techniques that smooth the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to revision at least tri-ennially as results are compared to past expectations and new estimates are made about the future. The District's OPEB unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll using a 30 year amortization period on a closed basis.

**Funding Progress and Funded Status**

Generally accepted accounting principles permit contributions to be treated as OPEB assets and deducted from the Actuarial Accrued Liability when such contributions are placed in an irrevocable trust or equivalent arrangement. As a result, the District has calculated and recorded the Net OPEB Asset, representing the difference between the ARC, amortization and contributions, as presented below:

Annual OPEB expense:	
Annual required contribution (ARC)	\$74,663
Interest on net OPEB obligation (asset)	(1,214)
Adjustment to annual required contribution	<u>1,474</u>
Total annual OPEB expense	74,923
Change in net OPEB payable obligation:	
Contributions paid to trust	(34,423)
Premiums paid	<u>(40,240)</u>
Total payments	<u>(74,663)</u>
Total change in net OPEB payable obligation	<u>260</u>
OPEB obligation (asset) - beginning of year	<u>(16,188)</u>
OPEB obligation (asset) - end of year	<u><u>(\$15,928)</u></u>

The actuarial accrued liability (AAL) representing the present value of future benefits, included in the actuarial study dated July 1, 2013, amounted to \$689,923. The AAL is partially funded since assets have been transferred into CERBT.

**EAST PALO ALTO SANITARY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, June 30, 2015**

**NOTE 7 – Other POST RETIREMENT BENEFITS (Continued)**

The Plan's annual required contributions and actual contributions for the last three fiscal years are set forth below:

Fiscal Year	Annual OPEB Cost (AOC)	Actual Contribution	Percentage of AOC Contributed	Net OPEB Obligation (Asset)
June 30, 2013	\$74,372	\$90,802	122%	(\$16,430)
June 30, 2014	76,612	76,370	100%	(16,188)
June 30, 2015	74,923	74,663	100%	(15,928)

The Schedule of Funding Progress presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Trend data from the last three actuarial studies are presented below:

Actuarial Valuation Date	Actuarial Value of Assets (A)	Entry Age Actuarial Accrued Liability (B)	Unfunded (Overfunded) Actuarial Accrued Liability (A – B)	Funded Ratio (A/B)	Covered Payroll (C)	Unfunded (Overfunded) Actuarial Liability as Percentage of Covered Payroll [(A – B)/C]	Interest Rate
1/1/2008	\$101,295	\$455,360	\$354,065	22.25%	\$705,947	50.15%	7.75%
7/1/2011	227,878	560,420	332,542	40.66%	758,410	43.85%	7.50%
7/1/2013	494,957	689,923	194,966	71.74%	676,728	28.81%	7.50%

**NOTE 8 – NET POSITION**

Net Position is the excess of all the District's assets and deferred outflows of resources, over all its liabilities and deferred inflows of resources, regardless of fund. The following captions apply only to Net Position, which is determined only at the Government-wide level, and are described below:

*Net investment in capital assets* describes the portion of Net Position which is represented by the current net book value of the District's capital assets, less the outstanding balance of any debt issued to finance these assets.

*Unrestricted* describes the portion of Net Position which is not restricted to use.

**EAST PALO ALTO SANITARY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2015**

<b>NOTE 9 – RISK MANAGEMENT</b>
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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 disaster. The District joined together with other entities to form the Special District Risk Management Authority (SDRMA), a public entity risk pool currently operating a common risk management and insurance program for 60 member entities. The purpose of SDRMA 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 SDRMA for its general liability, property damage, workers compensation insurance and automobile coverage. Settled claims for SDRMA have not exceeded coverage in any of the past three fiscal years.

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

SDRMA is not a component unit of the District, and the District's share of SDRMA's assets, liabilities, and equity has not been calculated.

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**REQUIRED SUPPLEMENTAL INFORMATION**

**EAST PALO ALTO SANITARY DISTRICT**  
**Cost-Sharing Multiple-Employer Pension Plan**  
**Last 10 Years\***

**SCHEDULE OF THE PLAN'S PROPORTIONATE SHARE OF THE  
NET PENSION LIABILITY AND RELATED RATIOS AS OF  
THE MEASUREMENT DATE**

	<u>Miscellaneous Plan 6/30/2014</u>	<u>Miscellaneous Plan 6/30/2014</u>
	<u>Tier 1</u>	<u>Tier 2</u>
Plan's proportion of the Net Pension Liability (Asset)	0.01512%	0.00000%
Plan's proportion share of the Net Pension Liability (Asset)	\$940,817	\$6
Plan's Covered Employee Payroll	465,993	140,533
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll	201.89%	0.00%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	80.35%	84.62%
Plan's Proportionate Share of Aggregate Employer Contributions	104,030	1

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



**EAST PALO ALTO SANITARY DISTRICT**  
**Cost-Sharing Multiple-Employer Pension Plan**  
**Last 10 Years\***

**SCHEDULE OF CONTRIBUTIONS**

	<b>Miscellaneous Plan</b>	<b>Miscellaneous Plan</b>
	<b>6/30/2014</b>	<b>6/30/2014</b>
	<b>Tier 1</b>	<b>Tier 2</b>
Actuarially determined contribution	\$89,464	\$12,006
Contributions in relation to the actuarially determined contributions	(113,321)	(12,055)
Contribution deficiency (excess)	(23,857)	(\$49)
Covered-employee payroll	\$465,993	\$140,533
Contributions as a percentage of covered-employee payroll	24.32%	8.58%

**Notes to Schedule**

Valuation date: 6/30/2013

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	15 years
Asset valuation method	5-year smoothed market
Inflation	2.75%
Salary increases	(1)
Investment rate of return	7.50% (2)
Mortality	Derived using CalPERS Membership Data
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

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

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

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

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

Board of Directors  
East Palo Alto Sanitary District  
East Palo Alto, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the East Palo Alto Sanitary District (District), as of and for the year ended June 30, 2015 and the related notes to the financial statements, and have issued our report thereon dated November 20, 2015. Our report included an emphasis of a matter paragraph disclosing the implementation of new accounting principles.

***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 opinions 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 the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal 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*.

We have also issued a separate Memorandum on Internal Control dated November 20, 2015 which is an integral part of our audit and should be read in conjunction with this report.

### ***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.

*Maze + Associates*

Pleasant Hill, California  
November 20, 2015