EAST PALO ALTO SANITARY DISTRICT
ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2018

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VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the East Palo Alto Sanitary District (District), as of and for the year ended June 30, 2018, 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.

Auditor's Responsibility

Our responsibility is to express opinions 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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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, 2018, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principles

As discussed in Notes 6 and 9 to the financial statements, the District adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, as of July 1, 2017. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Vavrinek, Trine, Day LLP

Palo Alto, California
February 14, 2019

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 deferred outflows of resources and liabilities deferred inflows of resources, with the difference between the four reported as net position. 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 operating, 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 position may serve over time as a useful indicator of an entity's financial position. In the case of the District, assets exceeded liabilities by $21.1 million at the close of the most recent fiscal year. The largest portion of the District's net position (29%) 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 in the amount of $6.1 million as June 30, 2018. 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.

Table A
Summary of Net Position

A summary of the statements of net position as of June 30, 2018 and 2017 is shown in the following table:

	Fiscal Year 2018	Fiscal Year 2017	Variance	Percent of Increase (Decrease)
Current assets	$ 16,509,067	$ 15,920,266	$ 588,801	3.70%
Noncurrent assets	12,337	66,324	(53,987)	-81.40%
Net capital assets	7,409,061	6,253,459	1,155,602	18.48%
Total assets	23,930,465	22,240,049	1,690,416	
Deferred outflows	622,227	308,949	313,278	101.40%
Current liabilities	196,757	153,326	43,431	28.33%
Noncurrent liabilities	3,155,255	2,758,981	396,274	14.36%
Total liabilities	3,352,012	2,912,307	439,705	
Deferred inflows	150,041	140,087	9,954	7.11%
Net position	$ 21,050,639	$ 19,496,604	$ 1,554,035	7.97%

Net position increased by $1,554,035 in 2018. The increases are a combination of income in the form of sewer service charges, connection fee charges and property taxes.

Current assets increased by $588,801 compared to the prior year primarily due to:

- An increase in cash of $584,806 as detailed in the statement of cash flows on page 10, an increase in prepaid insurance of $3,995.

Noncurrent assets decreased by $54,987 primarily due to:

- An increase in capital assets of $1,155,602, a decrease in notes receivable of $ 5,241 and a decrease in OPEB asset of $48,746.

Current liabilities increased by $43,431 primarily due to:

- An increase in accounts payable of $54,204, a decrease in accrued liabilities of $14,921 and an increase in current portion of long term debt of $4,148.

Table B
Summary of Revenues
Expenses and Changes in Net Position

		2018		2017		Variance
Total operating revenues	$	4,632,711	$	4,570,234	$	62,477
Total operating expenses		(4,014,553)		(3,662,726)		(351,827)
Operating income (loss)		618,158		907,508		(289,350)
Total nonoperating revenues and expenses		1,113,437		969,617		143,820
Increase in net position		1,731,595		1,877,125		(145,530)
Net position, beginning of year		19,319,044		17,619,479		1,699,565
Net position, end of year	$	21,050,639	$	19,496,604	$	1,554,035

While the Summary of Net Position (Table A) shows the change in financial 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 2018 total operating revenues increased by $62,477. Total operating expenses increased by $351,827. Non-operating revenue and expenses increased by $143,820. The major factors which contributed to these results include:

- The increase in operating revenues of $62,477 was due to a decrease in sewer service charges of $7,341, an increase in rental income of $2,192 and an increase in other operating revenue of $67,626.

- The increase in operating expenses of $351,827 was due to a decrease in personnel services expense of $30,246, an increase in depreciation and amortization of $10,583, an increase in fuel and supplies of $16,294, an increase in other expenses of $120,830, and an increase in purchased services of $234,366.

- The increase of $143,820 in non-operating revenues and expenses was due to an increase in interest income of $4,247, an increase in property tax collections of $118,959, a decrease in interest expense of $3,873, and an increase in pass through receipts of $16,741.

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 2018 expenses were under the approved budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2018, the District's investment in capital assets amounted to $7.41 million and $6.25 million (net of accumulated depreciation) as shown in Table C for 2018 and 2017, respectively. In 2018, the District spent $1,451,257 on sewer replacement and $36,288 on furniture and equipment. Additional information on the District's capital assets can be found in Note 3 to the Financial Statements.

Table C
Capital Assets

	Fiscal Year 2018	Fiscal Year 2017	Variance
Land	$ 184,601	$ 184,601	$ -
Cured in place pipe	1,474,518	1,474,518	-
Sewer collection facilities	7,976,733	6,525,476	1,451,257
Buildings	2,587,577	2,587,577	-
Furniture and equipment	2,086,838	2,050,550	36,288
Accumulated depreciation	(6,901,206)	(6,569,263)	(331,943)
Net capital assets	$ 7,409,061	$ 6,253,459	$ 1,155,602

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 4 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, 2018

ASSETS	
Current assets	
Deposits and investments	$16,444,621
Prepaid insurance	64,446
Total current assets	16,509,067
Noncurrent assets	
Notes receivable	12,337
Capital assets	
Non depreciable capital assets	184,601
Capital assets, net of depreciation	7,224,460
Total non-current assets	7,421,398
Total Assets	23,930,465
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to pensions	401,443
Deferred outflows of resources related to other postemployment benefits	220,784
Total Deferred Outflows of Resources	622,227
LIABILITIES	
Current liabilities	
Accounts payable	80,915
Accrued liabilities	6,094
Current portion of long-term liabilities	109,748
Total current liabilities	196,757
Noncurrent liabilities	
Due beyond one year	1,179,085
Net pension liability	1,676,026
Net other postemployment benefits liability	300,144
Total long-term liabilities	3,155,255
Total Liabilities	3,352,012
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	127,953
Deferred inflows of resources related to other postemployment benefits	22,088
Total Deferred Inflows of Resources	150,041
NET POSITION	
Net investment in capital assets	6,120,228
Unrestricted	14,930,411
Total Net Position	$21,050,639

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

EAST PALO ALTO SANITARY DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

OPERATING REVENUES	
Sewer service charges	$ 4,512,545
Rental income	25,754
Other revenue	94,412
Total Operating Revenues	4,632,711
OPERATING EXPENSES	
Personnel services	907,391
Purchased services	2,437,437
Utilities, fuel and supplies	77,596
Depreciation	331,941
Other expenses	260,188
Total Operating Expenses	4,014,553
Operating Income	618,158
NONOPERATING REVENUES (EXPENSES)	
Property taxes	690,821
Pass through receipts	310,726
Interest income	160,483
Interest expense	(48,593)
Total Nonoperating Revenues (Expenses)	1,113,437
Change in Net Position	1,731,595
Total Net Position - Beginning as restated	19,319,044
Total Net Position - Ending	$ 21,050,639

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

EAST PALO ALTO SANITARY DISTRICT

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	$ 4,538,299
Payments to suppliers	(2,739,933)
Payments to employees	(833,515)
Cash receipts from other operating activities	94,412
Net cash provided by operating activities	1,059,263
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Property taxes	690,821
Pass through receipts	310,726
Net cash provided by noncapital financing activities	1,001,547
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(1,487,545)
Principal paid on debt	(105,590)
Interest paid on debt	(48,593)
Collections on note receivable	5,241
Net cash used for capital and related financing activities	(1,636,487)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	160,483
Cash flows from investing activities	160,483
Net increase in cash and cash equivalents	584,806
Cash and cash equivalents at beginning of year	15,859,815
Cash and cash equivalents at end of year	$ 16,444,621
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	$ 618,158
Adjustment to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization expense	331,941
Net pension liability and related deferrals	101,240
Net other postemployment benefits liability and related deferrals	(27,364)
Changes in assets and liabilities	
Prepaid expenses	(3,995)
Accounts payable and accrued expenses	39,283
Net cash provided by operating activities	$ 1,059,263

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Reporting Entity

The primary purpose of the East Palo Alto Sanitary District (District) is to provide safe, efficient and cost-effective sanitary services to portions of East Palo Alto and Menlo Park, in San Mateo County. The collection system carries wastewater from the District's service area to the Palo Alto treatment plant where it is treated and disposed of in a manner which meets federal and state standards.

The District is governed by a five-member Board of Directors elected at large to four year terms by residents within the District.

The financial statements of East Palo Alto Sanitary 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 legally separate organization for which the District is financially accountable. 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 governing board of the District serves as the Governing board of the Corporation. The Corporation is so intertwined with the District that it is, in substance, the same as the District and, therefore, is reported as blended component unit of the District. The Corporation does not issue separately financial statements

B. Basis of Presentation and Accounting

Enterprise fund activities are financed in whole or in part by fees charged to external parties, and are accounted for in an enterprise fund. Enterprise funds maintain their records using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the related liability is incurred, regardless of the timing of the cash flows.

The statement of net position and the statement of revenues, expenses, and changes in net position displays information about the primary government (the District) and its component unit (the Corporation). Eliminations have been made to minimize the double-counting of activities between the entities.

Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values.

C. Budgets and Budgetary Accounting

The 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.

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, 2018, the balance is $6,094 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. 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. Donated capital assets are recorded at estimated acquisition value at the date of donation.

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. Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position reports separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense) until then. Deferred inflows of resources, represents an addition of net position that applies to future period(s) and so will not be recognized as an inflows of resources (revenues) until then.

H. 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:

	Secured	Unsecured
Lien/valuation date	January 1	January 1
Levy dates	July 1	July 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. The County of San Mateo is responsible for assessing, collecting and apportioning property taxes for the District. Under California law, property taxes are assessed and collected by the County up to 1% of the full cash value of taxable property, plus other increases approved by the voters and distributed per statutory formulas. The District recognizes property taxes when the individual installments are due, provided they are collected within 60 days after year-end.

Secured property taxes are levied on or before the first day of September of each year. They become a lien on real property on March 1 preceding the fiscal year for which taxes are levied. These taxes are paid in two equal installments; the first is due November 1 and delinquent with penalties after December 10; the second is due February 1 and delinquent with penalties after April 10. Secured property taxes, which are delinquent and unpaid as of June 30, are declared to be tax defaulted and are subject to redemption penalties, cost, and interest when paid. If the delinquent taxes are not paid at the end of five years, the property is sold at public auction, and the proceeds are used to pay the delinquent amounts due. Any excess is remitted, if claimed, to the taxpayer. Additional tax liens are created when there is a change in ownership of property or upon completion of new construction. Tax bills for these new tax liens are issued throughout the fiscal year and contain various payments and delinquent dates but are generally due within one year. If the new tax liens are lower, the taxpayer receives a tax refund rather than a tax bill. Unsecured personal property taxes are not a lien against real property. These taxes are due on March 1, and become delinquent, if unpaid on August 31.

The District participates in an alternative method of distribution of property tax levies and assessments known as the "Teeter Plan." The State Revenue and Taxation Code allows counties to distribute secured real property, assessment, and supplemental property taxes on an accrual basis resulting in full payment to taxing agencies each fiscal year. Any subsequent delinquent payments and penalties and interest during a fiscal year will revert to the County. The Teeter Plan payment, which includes 95% of the outstanding accumulated delinquency, is included in property tax revenue retained by the County under the revenue neutrality agreement. Under the Teeter Plan Code, 5% of the delinquency must remain with the County as a reserve for Teeter plan funding. The Teeter Plan does not allow the District to earn interest in a meaningful way on its reserves and the District has an objective to develop reserves to allow it to earn interest and go off the teeter plan.

I. 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 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.

J. Bond Issuance Costs

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

K. 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.

L. Fair Value Measurements

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.

M. Net Position

The District's net position is required to be classified for accounting and reporting purposes into the following categories:

Net Investment in Capital Assets – This component of net position, includes capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Unrestricted – This component of net position consists of assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

N. Spending Order Policy

When an expense is incurred for which there are both restricted and unrestricted net position is available, it is the District's policy to apply these expenses to restricted net position to the extent that such are available and then to unrestricted net position.

O. Postemployment Benefits Other than Pensions (OPEB)

For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District Plan and additions to/deductions from the District Plan have been determined on the same basis as they are reported by CalPERS.. For this purpose, the District recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value

P. 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 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.

Q. Deferred Outflows and Inflows of Resources

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the Statement of Net Position will report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

R. New Accounting Principles from the Governmental Accounting Standards Board (GASB)

GASB Statement No. 75 – In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB*. Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, establishes new accounting and financial reporting requirements for OPEB plans.

The District has implemented the provisions of this Statement as of July 1, 2017 resulting in a restatement to beginning net position described at note 9.

GASB Statement No. 85 – In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements.

The District has implemented the provisions of this Statement as of June 30, 2018.

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

The District has implemented the provisions of this Statement as of June 30, 2018.

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

This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. The District has not yet determined the effect of this pronouncement to its financial statements.

GASB Statement No. 84 – In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. The District has not yet determined the effect of this pronouncement to its financial statements.

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

The requirements of this Statement are effective for the reporting periods beginning after December 15, 2019. The District has not yet determined the effect of this pronouncement to its financial statements.

GASB Statement No. 88 – In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. The District has not yet determined the effect of this pronouncement to its financial statements.

GASB Statement No. 89 – In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.
This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The requirements of this Statement should be applied prospectively. The District has not yet determined the effect of this pronouncement to its financial statements.

GASB Statement No. 90 – In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests an amendment of GASB Statements No. 14 and No. 61*. The objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The District has not yet determined the effect of this pronouncement to its financial statements.

NOTE 2 – CASH AND INVESTMENTS

Policies and Classification

The District's cash and investments consist of the following at June 30, 2018:

Deposits with financial institutions	$ 77,016
Cash and investments with San Mateo County Treasurer	16,367,605
Total cash and investments	$ 16,444,621

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. State statutes govern the County's investment policies.

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, 2018 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. The pool is not registered with the SEC and is unrated.

Interest Rate Risk – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the SMCIF. The sensitivity of the fair values of the District's investments to market interest rate fluctuation is measured as the weighted average maturity of the investment portfolio, which was 0.91 years on June 30, 2018.

Fair Value Measurements – The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy has three levels, and is based on the valuation inputs used to measure an asset's fair value. Deposits and withdrawals in the SMCIF are made in the basis of $1 and not fair value. Accordingly, the District's proportionate share of investments in those funds at June 30, 2018, is an uncategorized input not defined as Level 1, Level 2 or Level 3 input.

NOTE 3 – CAPITAL ASSETS

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

	Balance at June 30, 2017	Additions	Retirements	Balance at June 30, 2018
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	6,525,476	1,451,257	-	7,976,733
Cured in place pipe	1,474,518	-	-	1,474,518
Buildings	2,587,577	-	-	2,587,577
Furniture and equipment	2,050,550	36,288	-	2,086,838
Total capital assets being depreciated:	12,638,121	1,487,545	-	14,125,666
Less accumulated depreciation for:				
Sewer collection facilities	2,926,195	132,826	-	3,059,021
Cured in place pipe	245,013	49,151	-	294,164
Buildings	1,738,475	105,831	-	1,844,306
Furniture and equipment	1,659,580	44,135	-	1,703,715
Total accumulated depreciation	6,569,263	$ 331,943	$ -	6,901,206
Total capital assets, net	$ 6,253,459			$ 7,409,061

NOTE 4 – LONG TERM DEBT

A. Current Year Transactions and Balances

Long-term debt at June 30, 2018 is summarized as follows:

Business-Type Liabilities	Original Issue Amount	Balance June 30, 2017	Retirements	Balance June 30, 2018	Amount due within one year
Palo Alto 1990 Utility Revenue Bonds					
5.75%, due 6/30/2024	$ 469,595	$ (190,773)	$ 23,235	$ (167,538)	$ 24,458
Palo Alto 2000 Utility Revenue Bonds					
5.75%, due 6/30/2024	573,000	(233,395)	28,643	(204,752)	30,178
State Revolving Fund Loan					
2.60%, due 1/31/2032	1,225,420	(970,255)	53,712	(916,543)	55,112
Total Long-Term Debt		$ (1,394,423)	$ 105,590	$ (1,288,833)	$ 109,748

The bonds are payable from general operating revenues of the District. The approximate amount of the pledge revenues is equal to the remaining principal and interest requirements of the secured debt, which was $1.5 million on June 30, 2018. The revenue bonds mature through fiscal year 2032. Total debt service requirements for the year ended June 30, 2018 were $153 thousand, which is 3.3% of current year pledged revenues.

B. Palo Alto 1990 Utility Revenue Bonds

The District has a contract with the City of Palo Alto (City) whereby the District has rights to a specified ability (11.90%) of the total ability of the City's sewage treatment facilities. The 1990 utility revenue bonds are the District's part of the City of Palo Alto's (City) debt related to capital improvements of the treatment plant.

C. Palo Alto 2000 Utility Revenue Bonds

The 2000 Utility Revenue Bonds represent a portion of the Palo Alto 1990 Utility Revenue Bonds which was refinanced. The bonds are payable from revenues of the District.

D. State Revolving Fund Loan

The District has 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.

E. Debt Service Requirements

For The Year Ending June 30	Principal	Interest	Total
2019	$ 109,748	$ 43,375	$ 153,123
2020	113,550	39,074	152,624
2021	118,153	34,611	152,764
2022	122,819	29,946	152,765
2023	127,908	25,075	152,983
2024-2028	400,392	68,391	468,783
2029-2032	296,263	19,504	315,767
Total payments due	$ 1,288,833	$ 259,976	$ 1,548,809

NOTE 5 – DEFINED BENEFIT PENSION PLAN

A. Plan Descriptions

The District contributes to the California Public Employees Retirement System (CalPERS), a cost sharing multiple-employer public employee retirement system. CalPERS provides retirement and disability benefits, annual cost-of living adjustments, and death benefits to plan members and beneficiaries. CalPERS 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. CalPERS 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.

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

	Miscellaneous	
	Prior to January 1, 2013	**On or After January 1, 2013**
	Tier 1 / Tier 2 Plan	
Formula	3% at 60 / 2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50	52
Monthly benefits, as a percent of annual salary	3% / 2%	2%
Required employee contribution rates	8% / 7%	6.500%
Required employer contribution rates	13.545% / 7.850%	6.908%

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, 2018, the contributions to the Plan were $27,312.

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

As of June 30, 2018 the District reported net pension liability for its proportionate share of collective net pension liability in the amount of $1,676,026.

The District's net pension liability for the Plan is measured as the proportionate share of the collective plans net pension liability. The net pension liability of the Plan is measured as of June 30, 2017, 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, 2016 rolled forward to June 30, 2017 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 the June 30, 2016 and 2017 measurement dates was as follows:

Proportion - June 30, 2016	0.03637%
Proportion - June 30, 2017	0.03570%
Change	-0.00067%

For the year ended June 30, 2018, the District recognized pension expense of $101,240. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 27,312	$ -
Differences between actual and expected experience	1,923	(27,551)
Changes in assumptions	238,603	(18,194)
Difference between projected and actual contributions	1,428	(82,208)
Net differences between projected and actual earnings on plan investment	53,962	-
Adjustments due to differences in proportion	78,215	-
Total	$ 401,443	$ (127,953)

The $27,312 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	Deferred Outflows/(Inflows of Resources
2019	84,430
2020	124,768
2021	69,020
2022	(32,040)
Total	$ 246,178

Actuarial Assumptions

The total pension liabilities in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions for both plans:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	Varies by Entry-Age and Service
Investment Rate of Return	7.65% (1)
Mortality	Derived using CalPERS membership data for all funds (2)

(1) Net of pension plan investment and administrative expenses, includes inflation.
(2) 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 7.15 percent for the Plan down from 7.65% in the prior measurement year. 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 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15 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.

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	Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	47.00%	4.90%	5.38%
Global Fixed Income	19.00%	8.00%	2.27%
Inflation Sensitive	6.00%	6.00%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%
Total	100.00%		

(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 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:

1% Decrease	6.15%
Net Pension Liability	$ 2,462,529
Current Discount Rate	7.15%
Net Pension Liability	$ 1,676,026
1% Increase	8.15%
Net Pension Liability	$ 1,024,629

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 6 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

General Information about the OPEB Plan
Plan description and benefits provided

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.

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 is a contracting agency under the Public Employees' Medical and Hospital Care Act (PEMHCA), which is administered by CalPERS for the provision of healthcare insurance programs for both active and retired employees. The District participates in the California Employers' Retiree Benefit Trust Fund Program (CERBT), an agent-multiple employer postemployment health plan, to prefund other postemployment benefits through CalPERS. The financial statements for CERBT may be obtained by writing the California Public Employees' Retirement System, Constituent Relations Office, CERBT (OPEB), P.O. Box 242709, Sacramento, California 94229-2709 or by calling 888-225-7377.

Employees covered by benefit terms

As of the June 30, 2017 actuarial valuation, the following current and former employees were covered by the benefit terms under the healthcare plan:

Inactive employees or beneficiaries currently receiving benefits payments	7
Inactive employees entitled to but not yet receiving benefits payments	-
Active employees	2
	9

Contributions

The OPEB Plan and its contribution requirements are established by the District. The annual contribution is based on the actuarially determined contribution. For the fiscal year ended June 30, 2018, the District's contribution was $171,601 of which $20,605 was in the form of a subsidy.

Net OPEB Liability and Assumptions

The District's net OPEB liability was measured as of June 30, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2017, based on the following actuarial methods and assumptions:

Inflation	2.75	percent
Salary increases	3.25	percent, average, including inflation
Investment rate of return	7	percent, net of OPEB plan investment expense, including inflation
Health care cost trend rates	5	percent

Demographic actuarial assumptions used in this valuation are based on the 2014 experience study of the California Public Employees Retirement System using data from 1997 to 2011 except for a different basis used to project future mortality improvements.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
TIPS	5%	1%
Global Fixed Income	27%	2%
Global Equity	57%	5%
REITs	8%	5%
Commodities	3%	1%
Total	100%	

The discount rate used to measure the total OPEB liability was 7.00 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries.

Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Changes in the Net OPEB Liability

The changes in the net OPEB liability are as follows:

	Increase (Decrease)		
	Total OPEB Liability	**Plan Fiduciary Net Position**	**Net OPEB Liability**
Balance at June 30, 2017	$ 996,428	$ 743,571	$ 252,857
Changes Recognized for year:			
Service cost	65,151	-	65,151
Interest	75,555	-	75,555
Difference between expected and actual experience	56,218	-	56,218
Changes of assumptions	58,445	-	58,445
Contributions:			
Employer	-	123,991	(123,991)
Net investment income	-	84,512	(84,512)
Benefit payments, including refunds of employee contributions	(47,473)	(47,473)	-
Administrative expenses	-	(421)	421
Net changes	$ 207,896	$ 160,609	$ 47,287
Balance at June 30, 2018	$ 1,204,324	$ 904,180	$ 300,144

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate and to Changes in the Health Care Cost Trend Rates

The following presents the net OPEB liability if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

Discount Rate	Net OPEB Liability
1% decrease (6%)	$ 432,395
Current discount rate (7%)	300,144
1% increase (8%)	189,605

The following presents the net OPEB liability if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rate:

Healthcare Cost Trend Rate	Net OPEB Liability
1% decrease (4%)	$ 195,556
Current healthcare cost trend rate (5%)	300,144
1% increase (6%)	403,645

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time. Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in the future as OPEB expense.

The recognition period differs depending on the source of the gain or loss:

Net difference between projected and actual earnings on OPEB plan investments	5 Years
All other amounts	Expected average remaining service lifetime (1.75 years)

For the fiscal year ended June 30, 2018, the District recognized OPEB expense of $144,183. As of fiscal year ended June 30, 2018, the District reported deferred outflows and inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of Assumptions	$ 25,069	$ -
Differences Between Expected and Actual Experience	24,114	-
Net Difference Between Projected and Actual Earnings on Investments	-	22,088
Deferred Contributions	171,601	-
Total	$ 220,784	$ 22,088

The $171,601 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized as expense as follows:

Fiscal year ended Juner 30,	Amount
2019	$ 43,661
2020	(5,522)
2021	(5,522)
2022	(5,522)
	$ 27,095

NOTE 7 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural 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, nor has there been a significant reduction in coverage from the previous year.

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.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Litigation

The District is involved in litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2018.

Note 9 – CHANGE IN ACCOUNTING PRINCIPLE

The District adopted Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Other Post-employment Benefits, as of July 1, 2017. The impact of the implementation on the beginning net position is as follows:

Net position - Beginning, as previously reported	$ 19,496,604
Changes from adoption of new GASB accounting pronouncement as of July 1, 2017	
Deletion of the GASB Statement No. 45 Net OPEB Asset	(48,746)
Recognition of the GASB Statement No. 75 Net OPEB Liability	(252,805)
Inclusion of deferred outflows of resources related to GASB Statement No. 75	123,991
Net restatement of beginning net position	(177,560)
Net Position - Beginning at restated	$ 19,319,044

REQUIRED SUPPLEMENTAL INFORMATION

EAST PALO ALTO SANITARY DISTRICT

SCHEDULE OF CHANGES IN THE NET DISTRICT'S OPEB LIABILITY AND RELATED RATIOS

Measurement period - Year ended June 30,	2017
Total OPEB Liability	
Service cost	$ 65,151
Interest	75,555
Difference between expected and actual experience	56,218
Changes of assumptions	58,445
Benefit payments	(47,473)
Net change in total OPEB liability	207,896
Total OPEB liability - beginning	996,428
Total OPEB liability - ending (a)	$ 1,204,324
Plan Fiduciary Net Position	
Contributions - employer	$ 123,991
Net investment income	84,512
Benefit payments	(47,473)
Administrative expenses	(421)
Net change in plan fiduciary net position	160,609
Plan fiduciary net position - beginning	743,571
Plan fiduciary net position - ending (b)	904,180
District's Net OPEB liability - ending (a)-(b)	$ 300,144
Plan fiduciary net position as a percentage of the total OPEB liability	75%
Covered-employee payroll	534,400
Net OPEB liability as a percentage of covered-employee payroll	56.2%

Note: Until the full ten year trend is compiled, information is presented only for those years which information is available.

EAST PALO ALTO SANITARY DISTRICT

SCHEDULE OF DISTRICTS'S CONTRIBUTIONS FOR OPEB

Fiscal year ended June 30,	2018
Actuarially determined contribution	$ 84,268
Contribution in relation to the actuarially determined contribution	171,601
Contribution deficiency (excess)	$ (87,333)
Covered-employee payroll	$ 325,500
Contributions as a percentage of clvered-employee payroll	52.72%

Note: Until the full ten year trend is compiled, information is presented only for those years which information is available.

EAST PALO ALTO SANITARY DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTINATE SHARE OF THE NET PENSION LIABILITY

Measurement period - Year ended June 30,	6/30/2014	6/30/2015	6/30/2016	6/30/2017
Proportion of the net pension liability	0.03807%	0.04306%	0.03637%	0.03570%
Proportion share of the net pension liability	$ 940,823	$ 1,180,505	$ 1,470,158	$ 1,676,026
Covered payroll	577,858	678,974	701,673	367,923
a percentage of covered payroll	162.81%	173.87%	209.52%	455.54%
Plan's proportionate share of the fiduciary net position as a percentage of the plan's total pension liability	79.82%	78.40%	74.06%	70.69%

Note: Until the full ten year trend is compiled, information is presented only for those years which information is available.

SCHEDULE OF DISTRICT'S PENSION CONTRIBUTIONS

Fiscal Year End	6/30/2015	6/30/2016	6/30/2017	6/30/2018
Actuarially determined contributions	$ 126,764	$ 76,889	$ 42,955	$ 27,317
Contributions in relation to the actuarially determined contributions	(126,764)	(76,889)	(42,955)	(27,317)
Contribution deficiency (excess)	-	-	-	-
Covered payroll	678,974	701,673	367,923	185,975
Contributions as a percentage of covered payroll	18.67%	10.96%	11.68%	14.69%

Note: Until the full ten year trend is compiled, information is presented only for those years which information is available.

NOTE TO REQUIRED SUPPLIMENTARY INFORMATION

Schedule of Changes in the Net OPEB Liability and Related Ratios

The District's OPEB liability is administered as an agent multiple employer plan, which is administered by CalPERS. The schedule of changes in Net OPEB liability and the schedule of contributions show a ten-year trend information, where available, about these amounts and they are changing from year to another.

Schedule of OPEB Contributions

The District makes contributions towards the OPEB liability at an actuarially determined rate. The District does not request reimbursement for its' out of pocket expenditures for this subsidy from the OPEB trust and allows the subsidy amount to remain in the CERBT to prefund OPEB and offset the total OPEB liability.

Schedules of District's Proportionate Share of the Net Pension Liability (NPL)

This schedule presents information on the District's proportionate share of the net pension liability (NPL), the plans' fiduciary net position and, when applicable, the State's proportionate share of the NPL associated with the District. In the future, as data becomes available, ten years of information will be presented.

Changes in Benefit Terms – There were no changes in benefit terms since the previous valuations for CalPERS.

Changes in Assumptions – CalPERS discount rate was changed from 7.65% to 7.15% in 2017measurement year.

Schedules of District's Pension Contributions

This schedule presents information on the District's required contribution, the amounts actually contributed, and any excess or deficiency related to the required contribution. In the future, as data becomes available, ten years of information will be presented.