



Annual Financial Report
June 30, 2019

East Palo Alto Sanitary District

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EAST PALO ALTO SANITARY DISTRICT

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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, 2019, 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.

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, 2019, 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 – Restatement

As discussed in Note 9 to the financial statements, the July 1, 2018 beginning net position has been restated to correct misstatements related to an unrecorded revolving loan. 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.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Palo Alto, California
February 13, 2020

EAST PALO ALTO SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 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 or evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. 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 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 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 \$22.4 million at the close of the most recent fiscal year. The largest portion of the District's net position (25%) 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 \$1.6 million as of June 30, 2019. 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, 2019

Table A
Summary of Net Position

A summary of the statement of net position as of June 30, 2019 and 2018 (as restated) is shown in the following table:

	2019	2018 as restated	Variance
Current assets	\$ 18,644,979	\$ 16,509,067	\$ 2,135,912
Noncurrent assets	6,997	12,337	(5,340)
Net capital assets	7,123,863	7,409,061	(285,198)
Total assets	25,775,839	23,930,465	1,845,374
Deferred outflows	433,795	622,227	(188,432)
Current liabilities	224,854	227,169	(2,315)
Noncurrent liabilities	3,297,078	3,588,148	(291,070)
Total liabilities	3,521,932	3,815,317	(293,385)
Deferred inflows	269,277	150,041	119,236
Net position	\$ 22,418,425	\$ 20,587,334	\$ 1,831,091

Net position increased by \$1,831,091 in 2019. The increases are a combination of income in the form of sewer service charges, connection fee charges and property taxes.

Current assets increased by \$2,135,912 compared to the prior year primarily due to:

- An increase in cash of \$2,116,044, an increase in accounts receivable of \$27,668 and a decrease in prepaid insurance of \$7,800, as detailed in the statement of cash flows on page 9.

Noncurrent assets decreased by \$290,538 primarily due to:

- A decrease in capital assets of \$285,198 and a decrease in notes receivable of \$5,340.

Current liabilities decreased by \$2,315 primarily due to:

- A decrease in accounts payable of \$19,386, an increase in accrued liabilities of \$12,479 and an increase in current portion of long-term debt of \$4,592.

EAST PALO ALTO SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2019

Table B
Summary of Revenues
Expenses and Changes in Net Position

	2019	2018 as restated	Variance
Total operating revenues	\$ 4,756,599	\$ 4,632,711	\$ 123,888
Total operating expenses	(4,561,410)	(4,014,553)	(546,857)
Operating income (loss)	195,189	618,158	(422,969)
Total nonoperating revenues and expenses	1,635,902	1,113,437	522,465
Increase in net position	1,831,091	1,731,595	99,496
Net position, beginning of year as restated	20,587,334	18,855,739	1,731,595
Net position, end of year	<u>\$ 22,418,425</u>	<u>\$ 20,587,334</u>	<u>\$ 1,831,091</u>

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 2019 total operating revenues increased by \$123,888. Total operating expenses increased by \$546,857. Non-operating revenue and expenses increased by \$522,465. The major factors which contributed to these results include:

- The increase in operating revenues of \$123,888 was due to an increase in sewer service charges of \$120,742, a decrease in rental income of \$50 and an increase in other operating revenue of \$3,196.
- The increase in operating expenses of \$546,857 was due to a decrease in personnel services expense of \$12,584, an increase in depreciation and amortization of \$14,962, an increase in fuel and supplies of \$41,779, a decrease in other expenses of \$49,901, and an increase in purchased services of \$552,601.
- The increase of \$522,465 in non-operating revenues and expenses was due to an increase in interest income of \$310,043, an increase in property tax collections of \$101,699, an increase in interest expense of \$8,008, and an increase in pass through receipts of \$118,731.

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 2019 expenses were under the approved budget.

EAST PALO ALTO SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2019, the District's investment in capital assets amounted to \$7.1 million and \$7.4 million (net of accumulated depreciation) as shown in Table C for 2019 and 2018, respectively. In 2019, the District spent \$59,508 on sewer replacement and \$29,014 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

	2019	2018	Variance
Land	\$ 184,601	\$ 184,601	\$ -
Cured in place pipe	1,474,518	1,474,518	-
Sewer collection facilities	8,036,241	7,976,733	59,508
Buildings	2,587,577	2,587,577	-
Furniture and equipment	2,115,852	2,086,838	29,014
Accumulated depreciation	(7,274,926)	(6,901,206)	(373,720)
Net capital assets	<u>\$ 7,123,863</u>	<u>\$ 7,409,061</u>	<u>\$ (285,198)</u>

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, 2019

ASSETS	
Current assets	
Deposits and investments	\$ 18,560,665
Accounts receivable	27,668
Prepaid insurance	56,646
Total current assets	<u>18,644,979</u>
Noncurrent assets	
Notes receivable	6,997
Capital assets	
Non depreciable capital assets	184,601
Capital assets, net of depreciation	6,939,262
Total capital assets, net	<u>7,123,863</u>
Total non-current assets	<u>7,130,860</u>
TOTAL ASSETS	<u>25,775,839</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to pensions	315,777
Deferred outflows of resources related to other postemployment benefits	118,018
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>433,795</u>
LIABILITIES	
Current liabilities	
Accounts payable	61,529
Accrued liabilities	18,573
Current portion of long-term liabilities	144,752
Total current liabilities	<u>224,854</u>
Noncurrent liabilities	
Due beyond one year	1,467,226
Net pension liability	1,645,444
Net other postemployment benefits liability	184,408
Total long-term liabilities	<u>3,297,078</u>
TOTAL LIABILITIES	<u>3,521,932</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	256,561
Deferred inflows of resources related to other postemployment benefits	12,716
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>269,277</u>
NET POSITION	
Net investment in capital assets	5,511,885
Unrestricted	16,906,540
Total Net Position	<u>\$ 22,418,425</u>

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, 2019

OPERATING REVENUES

Sewer service charges	\$ 4,584,087
Connection fees	49,200
Rental income	25,704
Other revenue	97,608
Total Operating Revenues	<u>4,756,599</u>

OPERATING EXPENSES

Personnel services	894,807
Purchased services	2,990,038
Utilities, fuel and supplies	92,558
Depreciation	373,720
Other expenses	210,287
Total Operating Expenses	<u>4,561,410</u>
Operating Income	<u>195,189</u>

NONOPERATING REVENUES (EXPENSES)

Property taxes	792,520
Pass through receipts	429,457
Interest income	470,526
Interest expense	(56,601)
Total Nonoperating Revenues (Expenses)	<u>1,635,902</u>
Change in Net Position	<u>1,831,091</u>

Net Position - Beginning, as previously stated	21,050,639
Restatement of beginning net position	(463,305)
Net Position - Beginning, as restated	<u>20,587,334</u>
Net Position - Ending	<u><u>\$ 22,418,425</u></u>

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, 2019

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers and users	\$ 4,631,323
Payments to suppliers	(3,291,990)
Payments to employees	(733,457)
Cash receipts from other operating activities	97,608
Net cash provided by operating activities	<u>703,484</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Property taxes	792,520
Pass through receipts	429,457
Net cash provided by noncapital financing activities	<u>1,221,977</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition and construction of capital assets	(88,526)
Principal paid on debt	(140,156)
Interest paid on debt	(56,601)
Collections on note receivable	5,340
Net cash used for capital and related financing activities	<u>(279,943)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	470,526
Cash flows from investing activities	<u>470,526</u>

Net increase in cash and cash equivalents 2,116,044

Cash and cash equivalents at beginning of year	16,444,621
Cash and cash equivalents at end of year	<u>\$ 18,560,665</u>

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED

BY OPERATING ACTIVITIES

Operating income	\$ 195,189
Adjustment to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization expense	373,720
Net pension liability and related deferrals	183,692
Net other postemployment benefits liability and related deferrals	(22,342)
(Increase) decrease in assets	
Accounts receivable	(27,668)
Prepaid expenses	7,800
Increase (decrease) in liabilities	
Accounts payable and accrued expenses	(6,907)

Net cash provided by operating activities \$ 703,484

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

EAST PALO ALTO SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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.

EAST PALO ALTO SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

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, 2019, the balance is \$17,433 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:

	<u>Secured</u>	<u>Unsecured</u>
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

EAST PALO ALTO SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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.

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.

EAST PALO ALTO SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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.

EAST PALO ALTO SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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)*

Effect of New Governmental Accounting Standards Board (GASB) Pronouncements

GASB Statement No. 83 – In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. The objective of this Statement is to provide financial statement users with information about asset retirement obligations that were not addressed in GASB Standards by establishing uniform accounting and financial reporting requirements for these obligations. This Statement is effective for reporting periods beginning after June 15, 2018. The District has determined that the requirements of this Statement had no material impact to the financial statements.

GASB Statement No. 88 – In March 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The objective of this Statement is to improve consistency in the information that is disclosed in the notes to government financial statements related to debt, including direct borrowings and direct placements, and to provide financial statement users with additional essential information about debt. This Statement is effective for reporting periods beginning after June 15, 2018. The District has determined that the requirements of this Statement had no material impact to the financial statements.

Future Governmental Accounting Standards Board (GASB) Pronouncements

GASB Statement No. 84 – In January 2017, 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 is effective for reporting periods beginning after December 15, 2018. The District has not determined the effect of this Statement.

GASB Statement No. 87 – In June 2017, 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; enhancing the comparability of financial statements between governments; and also enhancing the relevance, reliability (representational faithfulness), and consistency of information about the leasing activities of governments. This Statement is effective for reporting periods beginning after December 15, 2019. The District has not determined the effect of this Statement.

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 (a) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (b) to simplify accounting for certain interest costs. This Statement is effective for reporting periods beginning after December 15, 2019. The District has not determined the effect of this Statement.

GASB Statement No. 90 – In September 2018, the GASB issued Statement No. 90, *Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 60*. 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 Statement is effective for reporting periods beginning after December 15, 2018. The District has not determined the effect of this Statement.

EAST PALO ALTO SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

GASB Statement No. 91 – In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The objective of this Statement is to provide a single method of reporting conduit debt obligations by issues and eliminate diversity in practice. The Statement is effective for reporting periods beginning after December 15, 2020. The District has not determined the effect of this Statement.

NOTE 2 – CASH AND INVESTMENTS

Policies and Classification

The District's cash and investments consist of the following at June 30, 2019:

Deposits with financial institutions	\$ 129,479
Cash and investments with San Mateo County Treasurer	18,431,186
Total cash and investments	<u>\$ 18,560,665</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. 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, 2019 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 0.84 years on June 30, 2019.

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, 2019, is an uncategorized input not defined as Level 1, Level 2 or Level 3 input.

EAST PALO ALTO SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

NOTE 3 – CAPITAL ASSETS

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

	Balance at June 30, 2018	Additions	Retirements	Balance at June 30, 2019
Capital assets not being depreciated:				
Land	\$ 184,601	\$ -	\$ -	\$ 184,601
Total capital assets not being depreciated	<u>184,601</u>	<u>-</u>	<u>-</u>	<u>184,601</u>
Capital assets being depreciated:				
Sewer collection facilities	7,976,733	59,508	-	8,036,241
Cured in place pipe	1,474,518	-	-	1,474,518
Buildings	2,587,577	-	-	2,587,577
Furniture and equipment	2,086,838	29,014	-	2,115,852
Total capital assets being depreciated	<u>14,125,666</u>	<u>88,522</u>	<u>-</u>	<u>14,214,188</u>
Less accumulated depreciation for:				
Sewer collection facilities	3,059,021	160,130	-	3,219,151
Cured in place pipe	294,164	49,151	-	343,315
Buildings	1,844,306	105,830	-	1,950,136
Furniture and equipment	1,703,715	58,609	-	1,762,324
Total accumulated depreciation	<u>6,901,206</u>	<u>\$ 373,720</u>	<u>\$ -</u>	<u>7,274,926</u>
Total capital assets, net	<u>\$ 7,409,061</u>			<u>\$ 7,123,863</u>

EAST PALO ALTO SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

NOTE 4 – LONG TERM DEBT

A. Current Year Transactions and Balances

Long-term debt at June 30, 2019 is summarized as follows:

Business-Type Liabilities	Original Issue Amount	Balance June 30, 2018	Retirements	Balance June 30, 2019	Amount Due Within One Year
Palo Alto 1990 Utility Revenue Bonds					
5.75%, due 6/30/2024	\$ 469,595	\$ (167,538)	\$ 24,458	\$ (143,080)	\$ 25,681
Palo Alto 2000 Utility Revenue Bonds					
5.75%, due 6/30/2024	573,000	(204,752)	30,178	(174,574)	31,324
SWRCB SRF Loan					
1.65%, due 11/30/2030	656,709	(463,305)	30,412	(432,893)	31,202
State Revolving Fund Loan					
2.60%, due 1/31/2032	1,225,420	(916,543)	55,112	(861,431)	56,545
Total Long-Term Debt		<u>\$ (1,752,138)</u>	<u>\$ 140,160</u>	<u>\$ (1,611,978)</u>	<u>\$ 144,752</u>

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 \$1.8 million on June 30, 2019. The revenue bonds mature through fiscal year 2032. Total debt service requirements for the year ended June 30, 2019 were \$184 thousand, which is 4.0% 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 – Direct Borrowing

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. Ultraviolet Disinfection Facility Project and SRF Loan – Direct Borrowing

The District authorized the City to pursue State Revolving Fund (SRF) loan from the State Water Resources Control Board (SWRCB) to fund the costs of the Ultraviolet Disinfection Project. This loan is payable from revenues of the District.

EAST PALO ALTO SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

F. Debt Service Requirements

For The Year Ending June 30	Principal	Interest	Total
2020	\$ 57,005	\$ 16,677	\$ 73,682
2021	60,138	13,684	73,822
2022	63,296	10,527	73,823
2023	66,837	7,204	74,041
2024	70,378	3,695	74,073
Total payments due	<u>\$ 317,654</u>	<u>\$ 51,787</u>	<u>\$ 369,441</u>

For The Year Ending June 30	Principal - Direct Borrowing	Interest - Direct Borrowing	Total - Direct Borrowing
2020	\$ 87,745	\$ 33,652	\$ 121,397
2021	90,029	31,371	121,400
2022	92,369	29,031	121,400
2023	94,771	26,629	121,400
2024	97,235	24,164	121,399
2025-2029	525,436	81,562	606,998
2030-2032	306,739	15,002	321,741
Total payments due	<u>\$ 1,294,324</u>	<u>\$ 241,411</u>	<u>\$ 1,535,735</u>

Total long -term payments due	\$ 1,611,978	\$ 293,198	\$ 1,905,176
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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.

EAST PALO ALTO SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

The Plan's provisions and benefits in effect at June 30, 2019, are summarized as follows:

	Miscellaneous	
	Prior to January 1, 2013	On or After January 1, 2013
Formula	2% @ 55	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50	52
Monthly benefits, as a percent of annual salary	1.426% to 2.418%	1.0% to 2.5%
Required employee contribution rates	7.00%	6.25%
Required employer contribution rates	8.48%	6.25%

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, 2019, the contributions to the Plan were \$33,957.

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

As of June 30, 2019 the District reported net pension liability for its proportionate share of collective net pension liability in the amount of \$1,645,444.

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, 2018, 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, 2017 rolled forward to June 30, 2018 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, 2017 and 2018 measurement dates was as follows:

Proportion - June 30, 2017	0.04252%
Proportion - June 30, 2018	0.04366%
Change	<u>0.00114%</u>

EAST PALO ALTO SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

For the year ended June 30, 2019, the District recognized pension expense of \$183,692. At June 30, 2019, 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	\$ 33,957	\$ -
Differences between actual and expected experience	63,133	(21,484)
Changes in assumptions	187,585	(45,974)
Difference between projected and actual contributions	588	(149,750)
Net differences between projected and actual earnings on plan investment	8,135	-
Adjustments due to differences in proportion	22,379	(39,353)
Total	<u>\$ 315,777</u>	<u>\$ (256,561)</u>

The \$33,957 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, 2020. 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
2020	\$ 98,220
2021	30,062
2022	(88,223)
2023	(14,800)
Total	<u>\$ 25,259</u>

EAST PALO ALTO SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

Actuarial Assumptions

The total pension liabilities in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions for both plans:

Valuation Date	30-Jun-17
Measurement Date	30-Jun-18
Actuarial Cost Method	Entry-Age Normal Costs
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Projected Salary Increases ⁽¹⁾	Varies by Entry-Age and Service
Investment Rate of Return ⁽²⁾	7.15%
Mortality ⁽³⁾	Derived using CalPERS membership data for all funds

⁽¹⁾ Annual increases vary by category, entry age, and duration of service.

⁽²⁾ Net of pension plan investment expenses; includes inflation.

⁽³⁾ The mortality table used was developed based on CalPERS' specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of scale MP 2016.

Discount Rate — The discount rate used to measure the total pension liability was 7.15 percent for the Plan. 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.

EAST PALO ALTO SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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	50.00%	4.80%	5.98%
Global Fixed Income	28.00%	1.00%	2.62%
Inflation Sensitive	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Assets	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%
Total	100.00%		

(a) An expected inflation of 2.0% used for this period.

(b) An expected inflation of 2.9% 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	\$ 2,435,665
Current Discount Rate	7.15%
Net Pension Liability	\$ 1,645,444
1% Increase	8.15%
Net Pension Liability	\$ 993,129

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

EAST PALO ALTO SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS
June 30, 2019

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, 2018 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
Active employees	<u>2</u>
	<u>9</u>

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, 2019, the District's contribution was \$167,884 of which \$19,828 was in the form of a subsidy.

EAST PALO ALTO SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

Net OPEB Liability and Assumptions

The District's net OPEB liability was measured as of June 30, 2018 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2018, 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	7.5 percent, grade down to 5% for years 2024 and thereafter

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%	1.0%
Global Fixed Income	27%	1.8%
Global Equity	57%	5.3%
REITs	8%	3.3%
Commodities	3%	0.3%
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.

EAST PALO ALTO SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

Changes in the Net OPEB Liability

The changes in the net OPEB liability are as follows:

	Increase (Decrease)		
	Plan Fiduciary Net		
	Total OPEB Liability	Position	Net OPEB Liability
Balance at June 30, 2018	\$ 1,204,324	\$ 904,180	\$ 300,144
Changes recognized for year:			
Service cost	28,433	-	28,433
Interest	83,812	-	83,812
Contributions:			
Employer	-	167,884	(167,884)
Net investment income	-	61,815	(61,815)
Benefit payments, including refunds of employee contributions	(70,888)	(70,888)	-
Administrative expenses	-	(522)	522
Other expenses	-	(1,196)	1,196
Net changes	\$ 41,357	\$ 157,093	\$ (115,736)
Balance at June 30, 2019	\$ 1,245,681	\$ 1,061,273	\$ 184,408

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%)	\$ 317,806
Current discount rate (7%)	184,408
1% increase (8%)	72,711

EAST PALO ALTO SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

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 (6.5%)	\$ 68,779
Current healthcare cost trend rate (7.5%)	184,408
1% increase (8.5%)	329,227

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, 2019, the District recognized OPEB expense of \$95,676. As of fiscal year end June 30, 2019, the District reported deferred outflows and inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net Difference Between Projected and Actual Earnings on Investments	\$ -	\$ 12,716
Deferred Contributions	118,018	-
Total	\$ 118,018	\$ 12,716

EAST PALO ALTO SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

The \$118,018 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, 2020. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized as expense as follows:

<u>Fiscal year ended June 30,</u>	<u>Amount</u>
2020	\$ (4,560)
2021	(4,560)
2022	(4,560)
2023	964
	<u>\$ (12,716)</u>

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.

EAST PALO ALTO SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

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, 2019.

Note 9 – RESTATEMENT OF PRIOR YEAR NET POSITION

The July 1, 2018 beginning net position is restated to reflect the following corrections noted in the current year audit that relate to prior years:

Net position - Beginning, as previously reported	\$ 21,050,639
Correction for long-term liabilities	(463,305)
Net Position - Beginning at restated	<u>\$ 20,587,334</u>

REQUIRED SUPPLEMENTARY INFORMATION

EAST PALO ALTO SANITARY DISTRICT

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

Measurement period - fiscal year ended June 30,	2018	2017
Total OPEB Liability		
Service cost	\$ 28,433	\$ 65,151
Interest	83,812	75,555
Difference between expected and actual experience	-	56,218
Changes of assumptions	-	58,445
Benefit payments	(70,888)	(47,473)
Net change in total OPEB liability	41,357	207,896
Total OPEB liability - beginning	1,204,324	996,428
Total OPEB liability - ending (a)	\$ 1,245,681	\$ 1,204,324
Plan Fiduciary Net Position		
Contributions - employer	\$ 167,884	\$ 123,991
Net investment income	61,815	84,512
Benefit payments	(70,888)	(47,473)
Administrative expenses	(522)	(421)
Other expenses	(1,196)	-
Net change in plan fiduciary net position	157,093	160,609
Plan fiduciary net position - beginning	904,180	743,571
Plan fiduciary net position - ending (b)	1,061,273	904,180
District's Net OPEB liability - ending (a)-(b)	\$ 184,408	\$ 300,144
Plan fiduciary net position as a percentage of the total OPEB liability	85%	75%
Covered-employee payroll	325,500	534,400
Net OPEB liability as a percentage of covered-employee payroll	56.7%	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 THE DISTRICT'S CONTRIBUTIONS FOR OPEB

Fiscal year ended June 30,	2019	2018
Actuarially determined contribution	\$ 44,729	\$ 84,268
Contribution in relation to the actuarially determined contribution	118,018	171,601
Contribution deficiency (excess)	<u>\$ (73,289)</u>	<u>\$ (87,333)</u>
Covered-employee payroll	\$ 276,918	\$ 325,500
Contributions as a percentage of covered-employee payroll	42.62%	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 PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Measurement period - fiscal year ended June 30,	<u>6/30/2014</u>	<u>6/30/2015</u>	<u>6/30/2016</u>	<u>6/30/2017</u>
Proportion of the net pension liability	0.03807%	0.04303%	0.04232%	0.04252%
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
Proportionate share of the net pension liability as 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.

6/30/2018

0.04366%

\$ 1,645,444

185,975

884.77%

75.26%

EAST PALO ALTO SANITARY DISTRICT

SCHEDULE OF THE DISTRICT'S PENSION CONTRIBUTIONS

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

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

6/30/2019

\$ 33,957

(33,957)

-

262,098

12.96%

EAST PALO ALTO SANITARY DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY 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 – There were no changes in benefit terms since the previous valuations for CalPERS.

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.