

**CAYUCOS SANITARY DISTRICT**

**BASIC FINANCIAL STATEMENTS**

June 30, 2017



**CAYUCOS SANITARY DISTRICT**  
**TABLE OF CONTENTS**  
June 30, 2017

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**FINANCIAL SECTION**

Independent Auditors' Report ..... 1  
Management's Discussion and Analysis..... 3

**BASIC FINANCIAL STATEMENTS**

Statement of Net Position – Enterprise Fund ..... 10  
Statement of Revenues, Expenses, and Changes  
in Net Position – Enterprise Fund..... 12  
Statement of Cash Flows – Enterprise Fund ..... 13  
Notes to Basic Financial Statements ..... 15

**REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Proportionate Share of Net Pension Liability..... 30  
Schedule of Net Pension Contributions ..... 31



**FINANCIAL SECTION**





## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Cayucos Sanitary District  
Cayucos, California

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

We have audited the accompanying basic financial statements of the Cayucos Sanitary District (District) as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, as listed in the table of contents.

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

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

#### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

#### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Cayucos Sanitary District, as of June 30, 2017, and the respective changes in financial position and cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9, Schedule of Proportionate Share of Net Pension Liability on page 30, and the Schedule of Net Pension Contributions on page 31, 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.

### *Report on Summarized Comparative Information*

We have previously audited the Cayucos Sanitary District's 2016 financial statements, and our report dated November 29, 2016, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the fiscal year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2017 on our consideration of the Cayucos Sanitary District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Moss, Remy & Hutzheim LLP*

Santa Maria, California

November 13, 2017

## Cayucos Sanitary District Management's Discussion and Analysis

This section of the financial statements is a highlight of the financial condition and activities for the 2016-2017 fiscal year (FY). The discussion and analysis of the Cayucos Sanitary District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should review the discussion and analysis in conjunction with the basic financial statements as well as the notes to the basic financial statements to enhance their understanding of the District's financial performance.

The District accounting system is an Enterprise Fund. This is similar to the private sector accounting system. The revenue is primarily generated by service charges with the exception of property tax revenue, investment revenue and other income. Expenses are stated as operating expenses, and capital expenses are capitalized and depreciated over the lives of the fixed assets.

### FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year (FY) 2016-2017 are as follows:

Gross wages decreased overall by \$22,779 or 6%. Wages ordinarily would have increased with regular employee longevity/merit/COLA increases, however, due to the continuing vacancy in a permanent Administrative staff position, there was an offset and therefore, a net decrease.

Payroll taxes and fringe benefits increased by \$41,009 or 68% in FY 2016-2017 because of the following:

- The Adjusting Journal Entries (AJE's) initiated by MLH to reconcile interest for the pension numbers in FY 15-16 decreased retirement expenses in FY 15-16. The same AJE that produced adjustments for those pensions in FY 15-16 actually increased retirement expenses in FY 16-17. Additionally, with regard to GASB68 regulations (CalPERS retirement), how far behind they are in their reporting/billing has caused some serious catching up which has left some off balance in FY payments and reconciliation to this account.

Decrease in Director expenses resulted from a decrease in the amount of monthly meetings attended by the Board for WWTP related matters.

### SOURCES OF REVENUES

The District's total revenue for the fiscal year was \$2,680,402 inclusive of the following:

#### Sewer Service (User) Charge

The major source of revenue for the District is the sewer service charge assessed to all customers who are users of the District's sewerage facilities. Sewer service charges generated \$1,679,569 in annual revenue to the District, equal to 64% of total revenues.

#### Sewer Standby (Service Availability) Fee

The District charges its customers who are owners of vacant lots \$7.50 monthly per each vacant, buildable parcel (lot) for the expense of maintaining a sewer system available to vacant properties. Sewer standby (service availability) fees generated \$19,381 in annual revenue to the District, less than 1% of total revenues.

Property Tax

The District receives a pro rata share of property tax (ad valorem) revenues collected by the County of San Luis Obispo for properties located within the District's service boundaries. This portion of revenue includes secured, unsecured, unitary and supplemental property taxes. The secured property tax increases 2% per year. The District's property tax revenue this year was \$788,050 representing 30% of total revenues.

Sewer Connection and Permit Fees

The District currently charges a sewer connection fee of \$7,960 for connecting to the District's sewerage facilities. Of the \$7,960, \$100.00 represents the charge for the sewer connection inspection fee. In FY 2016-2017, the District generated \$39,300 in combined sewer connection fees and sewer permit fees representing approximately 1% of total revenues.

Other permit fees of \$6,915 include charges for processing and issuance of Sewer Will-Serves. District staff reviews all plans for new construction and remodel projects and inspects all sewer tie-ins occurring within the District's boundaries.

Interest Income

The District invests surplus monies not required for immediate necessity of the District in accordance with the provisions of California Government Code Sections 5921 and 53601 et. seq. For this purpose, the District maintains an investment account with Shanley Associates, Inc., working through Girard Securities, Inc. The District's investments are primarily in U.S. Treasury Securities, Certificates of Deposit, and Mortgage-Backed Securities such as GNMA's and FNMA's. In addition, the District maintains an account with the Local Agency Investment Fund (LAIF).

The District manages its exposure to interest rate risk by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. Interest from investment holdings generated \$9,607 in interest or less than 1% of total revenues.

Rental Income

The District derives rental income from long term leases it jointly holds with the City of Morro Bay on parcels of real property adjacent to the Morro Bay-Cayucos Wastewater Treatment Plant that are not needed for current operations. The rental income generated was \$30,447 in annual revenue to the District or 1.14% of total revenues.

Solid Waste Franchise Fee

The District derives a 10% franchise fee based on gross solid waste and recycling receipts of the franchisee, Mission Country Disposal (a subsidiary of Waste Connections, Inc.) which brought in revenues of \$64,345. In addition, the District received \$5,288 representing annual revenue from Mission Country Disposal for a recycling development program. The combined revenue generated \$69,633 or approximately 2.6% of total revenues.

Miscellaneous Income

In FY 2016-2017 the District received \$37,500 in miscellaneous income, equal to 1.4% of total revenues. The majority of these monies were derived from State reimbursements of District expenses related to Brown Act and Open Meeting requirements from preceding fiscal years.

SOURCES OF EXPENSES

The total expenses of the District in FY 2016-2017 were \$1,857,110. There was an overall increase of \$70,623 equal to just 4% increase from prior FY 2016-2017 as shown below.

	<b>FY 2017</b>	<b>FY 2016</b>	<b>\$ CHANGE</b>	<b>% CHANGE</b>
Gross Wages	\$338,297	\$361,076	<b>(\$22,779)</b>	-6%
Payroll taxes and Benefits	\$101,183	\$60,174	<b>\$41,009</b>	68%
Directors' Fees	\$5,900	\$7,850	<b>(\$1,950)</b>	-25%
Office Expense	\$28,824	\$23,993	<b>\$4,831</b>	20%
Dues and Subscriptions	\$5,540	\$5,216	<b>\$324</b>	6%
Business Expense	\$7,395	\$6,542	<b>\$853</b>	13%
Permits and Licenses	\$2,868	\$4,284	<b>(\$1,416)</b>	-33%
Professional Services	\$84,585	\$107,982	<b>(\$23,397)</b>	-22%
Insurance	\$123,262	\$109,703	<b>\$13,559</b>	12%
Taxes & Assessments	\$9,074	\$8,666	<b>\$408</b>	5%
Utilities	\$50,960	\$40,104	<b>\$10,856</b>	27%
Telephone	\$15,775	\$13,603	<b>\$2,172</b>	16%
Rent (Meeting rooms)	\$0	\$305	<b>(\$305)</b>	-100%
Vehicle Expense	\$12,139	\$9,243	<b>\$2,896</b>	31%
Maintenance and Operations	\$78,207	\$65,155	<b>\$13,052</b>	20%
Wastewater Treatment Plant O&M (Includes MMRP Funding)	\$579,509	\$530,999	<b>\$48,510</b>	9%
Depreciation	\$398,981	\$411,741	<b>(\$12,760)</b>	-3%
<b>Total Operating Expenses</b>	<b>\$1,842,499</b>	<b>\$1,766,636</b>	<b>\$75,863</b>	<b>4%</b>
Interest Expense	\$14,611	\$19,851	<b>(\$5,240)</b>	26%
<b>Total Non-Operating Expenses</b>	<b>\$14,611</b>	<b>\$19,851</b>	<b>(\$5,240)</b>	<b>26%</b>
<b>Total Expenses</b>	<b>\$1,857,110</b>	<b>\$1,786,487</b>	<b>\$70,623</b>	<b>4%</b>



CONSTRUCTION IN PROGRESS (CIP) representing \$3,117,226:  
Cayucos Sustainable Water Project

CIP additions representing \$2,215,802:  
District main focus this past fiscal year has been the Cayucos Sustainable Water Project (CSWP)

CIP WWTP-Alternatives Analysis balance representing \$46,883:

CIP balance for the Wastewater Treatment Alternatives Development Study and associated legal review fees from Carmel & Naccasha.

CIP CSWP- Cayucos Sustainable Water Project balance representing \$55,825.

The District is pursuing an independent wastewater treatment facility and these are the costs for the EIR, Facility Planning & Design and legal fees through June 2017.

Long Term Debt

The District did not use any outside funding sources for FY 2016-2017. Funding for the above capital improvement projects (CIP) and equipment acquisitions were from existing reserves.

CURRENT FINANCIAL ISSUES AND CONCERNS

The District is financially stable to meet any increasing operating costs and capital improvement projects.

Morro Bay-Cayucos Sanitary District Wastewater Treatment Plant (WWTP) Project:

Back in 2005, the Morro Bay City Council and Cayucos Sanitary District Board (MBCSD) adopted an eight (8) year full secondary compliance schedule for upgrading the treatment process at their jointly-owned wastewater treatment plant to comply with full secondary treatment standards by no later than March 31, 2014. Carollo Engineers completed the Facility Master Plan for the WWTP Upgrade in final draft form.

On May 28, 2008 a contract was let for environmental review to Environmental Science Associates (ESA) for an amount not to exceed \$288,770. Their work was progressing at fiscal year-end. A flood analysis was performed by Wallace Group Engineers as a component of the environmental review. As a result of the flood analysis it was determined that the flood mitigation costs to complete the upgrade of the current WWTP were prohibitive and the Upgrade would need to take place adjacent to the existing plant. December 4, 2008, the City and District were granted a final 5 year 301(h) modified NPDES Permit from the State Water Resources Control Board for continued discharge from the WWTP to the ocean outfall. This permit was to cover the majority, if not all of the WWTP Project when full secondary treatment standards were achieved.

On January 11, 2011 the Morro Bay City Council conditionally approved a Coastal Development Permit (CDP) for MBCSD's request to upgrade the existing WWTP and certified the Environmental Impact Report (EIR) for the proposed project. The City's approval of the CDP was appealed to the California Coastal Commission (CCC). As a result of the appeal, the CCC asserted jurisdiction over the project's CDP. Per CCC Staff direction, MBCSD conducted an additional WWTP Alternatives Analysis to evaluate whether there is a more appropriate site to locate the WWTP.

On January 10, 2013 at the CCC meeting, the CCC voted to deny the CDP for construction of an upgraded wastewater treatment plant at its existing location. The denial was based in part on inconsistency with the Local Coastal Plan - Zoning, the failure of a major Public Works Infrastructure Project to avoid coastal hazards, the lack of project design to include a reclaimed water component and that the project is located within an LCP-designated sensitive view area. As a result of the CCC denial, the project was abandoned and all expenditures to date written off the Capital Asset schedule.

In February, 2013 the District contracted with Water Systems Consultants (WSC) to prepare a Wastewater Treatment Alternatives Development Study to examine locations and treatment possibilities for the District. In June, 2013 WSC completed their study and the District accepted the final draft. The District then began discussions with the regulatory agencies for review of the concepts outlined in the WSC study.

In February 2015 the City of Morro Bay presented the District with a Memorandum of Understanding (MOU) detailing the payment and governance structure of a new Wastewater Treatment Facility at the City of Morro Bay chosen facility site Rancho Colina. At a JPA meeting, the Cayucos Sanitary District staff and Board presented a revised MOU to the City of Morro Bay based on the principals of the existing JPA's cooperative coownership and governance structure. The District was informed by the City of Morro Bay that the MOU terms were non-negotiable. Presented with a non-negotiable MOU, the District held a town hall open public meeting on April 23, 2015 to discuss options with the community. There was overwhelming support for the CSD to pursue options for the creation of a community treatment facility with the ability to produce reclaimed wastewater in order to help provide a sustainable water supply for the community's future.

On April 30, 2015 the CSD Board unanimously passed resolution 2015-1, "**A RESOLUTION OF THE BOARD OF DIRECTORS OF THE CAYUCOS SANITARY DISTRICT DECLARING ITS INTENTION TO INDEPENDENTLY PURSUE ALTERNATIVES FOR WASTEWATER TREATMENT AND WATER RECLAMATION**" ceasing all participation with City of Morro Bay in respect to their new wastewater treatment facility. In June 2015, the CSD initiated contracts with WSC and Firma for beneficial use analysis, side constraints, and wastewater characterization studies. These studies were scheduled to be presented to the public at a town hall meeting in January 2016. The final comparative analysis was scheduled for presentation to the CSD Board in February 2016.

In February 2016, the Comparative analysis was presented to the Board. After some discussion, the Board directed staff to pursue two sites for the location of the treatment facility. The sites were the Toro Creek Road site and the Montecito Creek Road site with the Toro Creek site the preferred alternative.

On April 1<sup>st</sup>, 2016 the CSD opened escrow on the Toro Creek property and on July 26<sup>th</sup> escrow closed. The Toro Creek property was purchased for \$3.6 million and consists of two lots, Lot 8, 76 acres and Lot 10, 141 acres.

In January 2017 Firma finished the CSWP Draft EIR for presentation and review.

On February 9, 2017 the CSD held a Town Hall meeting to present the DEIR, inform the public of CSWP current progress and upcoming prop 218 proposed rate increase. At the regular February 16, 2017 Board meeting, the Board authorized the 218 notice that put in motion the five-year rate increase to establish the monthly sewer charges.

In late February, the District mailed out over 2,500 prop 218 notices to ALL property owners and renters.

On April 20, 2017 the Board held a prop 218 hearing – a formal count of 41 protest letters were received, far below the more than 1,200 protests necessary for the proposition to fail. The proposition established a 5 year rate increase effective each July 1, beginning in 2017. Also during the April 20, 2017 meeting, by unanimous roll call vote, the Board approved Resolution 2017-3 certifying the CSWP FEIR (Final Environmental Impact Report).

On June 22, 2017, the San Luis Obispo County Planning Commission accepted the District's FEIR and officially adopted Planning Commission Resolution NO. 2017-008 approving the land use permits for the construction of the CSWP.

District's Investment Portfolio and Financial Management Strategy:

In preparation for the design of the new wastewater facility the District Board has directed staff to place the low earning money market funds into two accounts at Wells Fargo Bank. At this time the CSD has a Capital Improvement account and a CalTrust account through Wells Fargo. Additionally, the CSD continues to have long term investments in the US Treasury bond market for safety and liquidity in an effort to protect the District's cash holdings from the economic downturn plagued by bank and financial institution-related problems, the credit crunch, housing slump, steep sell offs in capital markets, and deep slides with both the S&P 500 Index and Dow Jones.

Contacting the District's Financial Management:

This report is a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information please contact Rick Koon, District Manager at (805) 995-3290 or address: P.O. Box 333, 200 Ash Avenue, Cayucos, CA, 93430.

**CAYUCOS SANITARY DISTRICT**  
**STATEMENT OF NET POSITION - ENTERPRISE FUND**  
June 30, 2017  
With Comparative Totals for June 30, 2016

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Current Assets:		
Cash and investments - cash equivalents (Note 3)	\$ 515,754	\$ 5,547,663
Cash and investments - non cash equivalents (Note 3)	3,576,686	3,153,472
Accounts receivable	91,021	39,800
Interest receivable	2,375	2,375
Taxes receivable	11,959	12,801
Other receivables	9,630	8,165
Prepaid expenses		100
	<u>4,207,425</u>	<u>8,764,376</u>
Capital Assets (Note 4):		
Non depreciable		
Land	3,768,848	157,132
Construction in progress	3,117,226	901,424
Construction in progress - CSWP alternatives analysis	55,825	55,825
Construction in progress - WWTP alternatives analysis	46,883	46,883
Depreciable		
Subsurface lines	2,098,642	2,098,642
Sewage collection facilities	1,842,871	1,842,871
Conveyance system	4,900,734	4,900,734
Sewage treatment facilities	5,542,407	5,542,407
Trucks	109,212	109,212
Office equipment	106,930	106,930
Collection equipment	489,804	489,804
Office building	1,243,019	1,243,019
	<u>23,322,401</u>	<u>17,494,883</u>
Accumulated depreciation	<u>(11,446,569)</u>	<u>(11,047,588)</u>
Net capital assets	<u>11,875,832</u>	<u>6,447,295</u>
Total assets	<u>16,083,257</u>	<u>15,211,671</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pensions	<u>182,312</u>	<u>101,654</u>
Total deferred outflows of resources	<u>182,312</u>	<u>101,654</u>

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

**CAYUCOS SANITARY DISTRICT**  
**STATEMENT OF NET POSITION - ENTERPRISE FUND**  
June 30, 2017  
With Comparative Totals for June 30, 2016

	<u>2017</u>	<u>2016</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	\$ 255,915	\$ 104,193
Payable to the City of Morro Bay - operations and maintenance	178,995	183,022
Accrued payroll	7,749	6,661
Accrued interest	1,944	2,854
Customer deposits	325	2,865
Security deposit - MCD	25,000	25,000
Compensated absences (Note 7)	43,188	36,989
Loan payable - LS#2, current portion (Notes 5-6)	<u>127,573</u>	<u>122,140</u>
Total current liabilities	640,689	483,724
Long-Term Liabilities:		
Net pension liability (Note 8)	510,398	390,527
Loan payable - LS#2, less current portion (Notes 5-6)	<u>133,249</u>	<u>260,822</u>
Total liabilities	<u>1,284,336</u>	<u>1,135,073</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pensions	<u>18,270</u>	<u>38,581</u>
Total deferred inflows of resources	<u>18,270</u>	<u>38,581</u>
<b>NET POSITION</b>		
Net investment in capital assets	11,615,010	6,064,333
Unrestricted	<u>3,347,953</u>	<u>8,075,338</u>
Total net position	<u>\$ 14,962,963</u>	<u>\$ 14,139,671</u>

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

**CAYUCOS SANITARY DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -**  
**ENTERPRISE FUND**

For the Fiscal Year Ended June 30, 2017

With Comparative Totals for the Fiscal Year Ended June 30, 2016

	<u>2017</u>	<u>2016</u>
<b>Operating Revenues:</b>		
Sewer services fees	\$ 1,679,569	\$ 1,668,298
Permit fees	6,915	4,800
	<u>1,686,484</u>	<u>1,673,098</u>
<b>Operating Expenses:</b>		
Gross wages	338,297	361,076
Payroll taxes and benefits	101,183	60,174
Directors' fees	5,900	7,850
Office expense	28,824	23,993
Dues and subscriptions	5,540	5,216
Misc. business expense	7,395	6,542
Permits and licenses	2,868	4,284
Professional services	84,585	107,982
Insurance	123,262	109,703
Taxes and assessments	9,074	8,666
Utilities	50,960	40,104
Telephone	15,775	13,603
Rent		305
Vehicle expense	12,139	9,243
Maintenance and operations	78,207	65,155
Treatment plant	579,509	530,999
Depreciation	398,981	411,741
	<u>1,842,499</u>	<u>1,766,636</u>
Total operating expenses		
Net operating loss	<u>(156,015)</u>	<u>(93,538)</u>
<b>Non-Operating Revenues (Expenses):</b>		
Rent income	30,447	43,897
Taxes and assessments	788,050	735,007
Investment income	9,607	72,940
Franchise fees	64,345	54,108
Interest expense	(14,611)	(19,851)
Other revenue	42,788	8,825
Stand by fees	19,381	20,129
	<u>940,007</u>	<u>915,055</u>
Total non-operating revenues (expenses)		
<b>Capital Contributions:</b>		
Connection fees	<u>39,300</u>	<u>133,620</u>
Change in net position	823,292	955,137
<b>Net position:</b>		
Net position, beginning of fiscal year	<u>14,139,671</u>	<u>13,184,534</u>
Net position, end of fiscal year	<u>\$ 14,962,963</u>	<u>\$ 14,139,671</u>

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

**CAYUCOS SANITARY DISTRICT**  
**STATEMENT OF CASH FLOWS - ENTERPRISE FUND**  
For the Fiscal Year Ended June 30, 2017  
With Comparative Totals for the Fiscal Year Ended June 30, 2016

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 1,631,258	\$ 1,660,080
Payments to vendors	(850,343)	(811,021)
Payments to employees	(493,200)	(426,561)
	<hr/>	<hr/>
Net cash provided by operating activities	287,715	422,498
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Property taxes	788,892	735,887
Franchise fees	64,345	54,108
Stand by fees	19,381	20,129
Other revenue	42,788	8,825
	<hr/>	<hr/>
Net cash provided by noncapital financing activities	915,406	818,949
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of capital assets	(5,827,518)	(911,244)
Principal paid on long-term debt	(122,140)	(116,938)
Interest paid on long-term debt	(15,521)	(20,723)
Connection fees	39,300	133,620
	<hr/>	<hr/>
Net cash used by capital and related financing activities	(5,925,879)	(915,285)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	9,607	74,532
Rent	30,447	43,897
Sale/purchase of investments	(349,205)	1,220,585
	<hr/>	<hr/>
Net cash provided (used) by investing activities	(309,151)	1,339,014
Net increase (decrease) in cash and cash equivalents	(5,031,909)	1,665,176
Cash and cash equivalents, July 1	<hr/> 5,547,663	<hr/> 3,882,487
Cash and cash equivalents, June 30	<u>\$ 515,754</u>	<u>\$ 5,547,663</u>
Reconciliation to Statement of Net Position:		
Cash and investments - cash equivalents	<u>\$ 515,754</u>	<u>\$ 5,547,663</u>

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

**CAYUCOS SANITARY DISTRICT**  
**STATEMENT OF CASH FLOWS - ENTERPRISE FUND**  
For the Fiscal Year Ended June 30, 2017  
With Comparative Totals for the Fiscal Year Ended June 30, 2016

	<u>2017</u>	<u>2016</u>
<b>Reconciliation of operating loss to net cash provided by operating activities:</b>		
Operating loss	\$ (156,015)	\$ (93,538)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	398,981	411,741
Change in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:		
Accounts receivable	(51,221)	(27,880)
Other receivables	(1,465)	14,862
Deferred outflows	(80,658)	(58,814)
Prepaid expenses	100	
Payable to the City of Morro Bay	(4,027)	11,069
Accounts payables	151,722	103,705
Accrued payroll	1,088	3,661
Compensated absences	6,199	20,132
Customer deposits	(2,540)	
Net pension liability	119,871	98,572
Deferred inflows	(94,320)	(61,012)
	<u>287,715</u>	<u>422,498</u>
Net cash provided by operating activities	<u>\$ 287,715</u>	<u>\$ 422,498</u>

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

#### NOTE 1 - REPORTING ENTITY

The reporting entity is the Cayucos Sanitary District, which began operations in 1942, under the authorization of Section 6400 et. seq. of the Health and Safety Code of the State of California. The District operates under the direction of a board of directors who are elected by the residents of Cayucos. The District provides wastewater disposal services.

The District is a Sanitary District as defined under State Code Section: 61000. A Sanitary District is a public agency (State Code Section: 12463.1) which is a State instrumentality (State Code Section: 23706). State instrumentalities are exempt from federal and state income taxes.

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

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

GASB Statement No. 34, defines major funds and requires that the District's major business-type fund be identified and presented separately in the fund financial statements.

Major funds are defined as funds that have either assets, liabilities, revenues or expenses equal to ten percent of their fund-type total and five percent of the grand total. The District maintains one proprietary fund.

##### Proprietary Fund Type

##### **Enterprise Fund**

Enterprise fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The District reported its enterprise fund as a major fund in the accompanying basic financial statements.

Sewer Utility Fund is to account for the provision of sewer services to residents of Cayucos.

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

- D. Cash and Cash Equivalents - For purposes of the statement of cash flows, cash and cash equivalents include restricted and unrestricted cash and restricted and unrestricted certificates of deposit with original maturities of three months or less.
- E. Property, Plant, and Equipment – Capital assets purchased by the District are recorded at cost. Contributed or donated capital assets are recorded at fair value when acquired.
- F. Depreciation – Capital assets owned by the District are depreciated over their estimated useful lives (ranging from 5-40 years) under the straight-line method of depreciation.
- G. Receivables - The District did not experience any significant bad debt losses; accordingly, no provision has been made for doubtful accounts, and accounts receivable is shown at full value.
- H. Unearned Revenue - The District bills customers in advance, thus amounts received prior to services being rendered by the District are recorded as unearned revenue.
- I. Encumbrances - Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is not utilized by the District.
- J. Compensated Absences - Accumulated unpaid employee vacation and sick leave benefits are recognized as liabilities of the District. The amounts are included in current liabilities.

K. Property Taxes

Property taxes in the State of California are administered for all local agencies at the county level, and consist of secured, unsecured, and utility tax rolls. The following is a summary of major policies and practices relating to property taxes:

Property Valuations - are established by the Assessor of the County of San Luis Obispo for the secured and unsecured property tax rolls; the utility property tax roll is valued by the State Board of Equalization. Under the provisions of Article XIII of the State Constitution (Proposition 13 adopted by the voters on June 6, 1978), properties are assessed at 100% of full value. From the base assessment, subsequent annual increases in valuation are limited to a maximum of 2%. However, increases to full value are allowed for property improvements or upon change in ownership. Personal property is excluded from these limitations, and is subject to annual reappraisal.

Tax Collections - are the responsibility of the county tax collector. Taxes and assessments on secured and utility rolls which constitute a lien against the property, may be paid in two installments: the first is due on November 1 of the fiscal year and is delinquent if not paid by December 10; and the second is due on March 1 of the fiscal year and is delinquent if not paid by April 10. Unsecured personal property taxes do not constitute a lien against real property unless the taxes become delinquent. Payment must be made in one installment, which is delinquent if not paid by August 31 of the fiscal year. Significant penalties are imposed by the county for late payments.

Tax Levy Apportionments - Due to the nature of the District-wide maximum levy, it is not possible to identify general purpose tax rates for specific entities. Under State legislation adopted subsequent to the passage of Proposition 13, apportionments to local agencies are made by the county auditor-controller based primarily on the ratio that each agency represented of the total District-wide levy for the three years prior to fiscal year 1979.

Property Tax Administration Fees - The State of California FY 90-91 Budget Act, authorized counties to collect an administrative fee for collection and distribution of property taxes. Property taxes are recorded as net of administrative fees withheld during the fiscal year.

Tax Levies - are limited to 1% of full value which results in a tax rate of \$1.00 per \$100 assessed valuation, under the provisions of Proposition 13. Tax rates for voter-approved indebtedness are excluded from this limitation.

Tax Levy Dates - are attached annually on January 1 preceding the fiscal year for which the taxes are levied. The fiscal year begins July 1 and ends June 30 of the following year. Taxes are levied on both real and unsecured personal property as it exists at that time. Liens against real estate, as well as the tax on personal property, are not relieved by subsequent renewal or change in ownership.

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

L. Restricted Net Position – Restricted net position are financial resources segregated for a special purpose such as construction of improvements and financing of debt obligations. These financial resources are for the benefit of a distinct group and as such are legally or contractually restricted.

M. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, as prescribed by the GASB and the AICPA, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

N. Net Position

GASB Statement No. 63 requires that the difference between assets added to the deferred outflows of resources and liabilities added to the deferred inflows of resources be reported as net position. Net position is classified as either net investment in capital assets, restricted, or unrestricted.

Net position that is net investment in capital assets consist of capital assets, net of accumulated depreciation, and reduced by the outstanding principal of related debt. Restricted net position is the portion of net position that has external constraints placed on it by creditors, grantors, contributors, laws, or regulations of other governments, or through constitutional provisions or enabling legislation. Unrestricted net position consists of net position that does not meet the definition of net investment in capital assets or restricted net position.

O. Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Cayucos Sanitary District's California Public Employee's Retirement System (CalPERS) plan (Plan) and additions to/deductions from the Plan fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

P. Deferred Outflows and Inflows of Resources

Pursuant to GASB Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*," and GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities*," the District recognizes deferred outflows and inflows of resources.

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period. The District has one item which qualifies for reporting in this category; refer to Note 8 for a detailed listing of the deferred outflows of resources the District has reported.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. A deferred inflow of resources is defined as an acquisition of net position by the District that is applicable to a future reporting period. The District has one item which qualifies for reporting in this category; refer to Note 8 for a detailed listing of the deferred outflows and inflows of resources the District has reported.

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

Q. Future Accounting Pronouncements

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

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

**NOTE 3 - CASH AND INVESTMENTS**

Investments are carried at fair value in accordance with GASB Statement No. 31. On June 30, 2017 and June 30, 2016, the District had the following cash and investments on hand:

	2017	2016
Cash on hand	\$ 175	\$ 175
Cash in banks	385,521	1,084,248
Investments	3,706,744	7,616,712
Total	\$ 4,092,440	\$ 8,701,135

Cash and investments listed above are presented on the accompanying basic financial statements, as follows:

Cash and investments-cash equivalents	\$ 515,754	\$ 5,547,663
Cash and investments-non cash equivalents	3,576,686	3,153,472
Total	\$ 4,092,440	\$ 8,701,135

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

**CAYUCOS SANITARY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
June 30, 2017

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

The District has the following recurring fair value measurements as of June 30, 2017:

Investments by fair value level		Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Debt securities</b>				
US Treasuries	\$ 1,524,309	\$ 1,524,309	\$ -	\$ -
Government agency bonds	479,640	479,640		
Mortgage pass-through securities	140,087	140,087		
Total investments measured at fair value	2,144,036	2,144,036	-	-
<b>Investments measured at amortized cost</b>				
Money market funds	122,121			
Non-negotiable certificates of deposit	781,161			
CalTrust medium term fund	651,490			
LAIF	7,936			
Total investments	\$ 3,706,744			

Investments Authorized by the California Government Code

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

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

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

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

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

<u>Investment Type</u>	<u>Carrying Amount</u>	<b>2017</b>			
		<u>Remaining Maturity (in Months)</u>			
		<u>12 Months Or Less</u>	<u>13-24 Months</u>	<u>25-60 Months</u>	<u>More than 60 Months</u>
Mortgage pass-through securities	\$ 140,087	\$ 21	\$ -	\$ 771	\$ 139,295
Federal agency securities	2,003,949	1,490,105		513,844	
Non-negotiable certificates of deposit	781,161	25,000	756,161		
CalTrust medium term fund	651,490	651,490			
State investment pool (LAIF)	7,936	7,936			
Money market funds	122,121	122,121			
	<u>\$ 3,706,744</u>	<u>\$ 2,296,673</u>	<u>\$ 756,161</u>	<u>\$ 514,615</u>	<u>\$ 139,295</u>

<u>Investment Type</u>	<u>Carrying Amount</u>	<b>2016</b>			
		<u>Remaining Maturity (in Months)</u>			
		<u>12 Months Or Less</u>	<u>13-24 Months</u>	<u>25-60 Months</u>	<u>More than 60 Months</u>
Mortgage pass-through securities	\$ 156,708	\$ -	\$ 478	\$ -	\$ 156,230
Federal agency securities	2,220,031	201,563	1,007,730	1,010,738	
Non-negotiable certificates of deposit	776,733	25,000	751,733		
State investment pool (LAIF)	7,878	7,878			
Money market funds	4,455,362	4,455,362			
	<u>\$ 7,616,712</u>	<u>\$ 4,689,803</u>	<u>\$ 1,759,941</u>	<u>\$ 1,010,738</u>	<u>\$ 156,230</u>

Disclosures Relating to Credit Risk

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

**CAYUCOS SANITARY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
June 30, 2017

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

Disclosures Relating to Credit Risk (Continued)

Investment Type	Carrying Amount	Minimum Legal Rating	2017			
			Rating as of Fiscal Year End			
			AAA	AA-	Baa	Not Rated
Mortgage pass-through securities	\$ 140,087	N/A	\$ 140,087	\$ -	\$ -	\$ -
Federal agency securities	2,003,949	N/A	1,031,584	479,640		492,725
Non-negotiable certificates of deposit	781,161	N/A				781,161
CalTrust medium term fund	651,490	N/A				651,490
State investment pool (LAIF)	7,936	N/A				7,936
Money market funds	122,121	N/A				122,121
	<u>\$ 3,706,744</u>		<u>\$ 1,171,671</u>	<u>\$ 479,640</u>	<u>\$ -</u>	<u>\$ 2,055,433</u>

Investment Type	Carrying Amount	Minimum Legal Rating	2016			
			Rating as of Fiscal Year End			
			AAA	AA+	AA-	Not Rated
Mortgage pass-through securities	\$ 156,708	N/A	\$ 156,708	\$ -	\$ -	\$ -
Federal agency securities	2,220,031	N/A	1,246,126		480,305	493,600
Non-negotiable certificates of deposit	776,733	N/A				776,733
State investment pool (LAIF)	7,878	N/A				7,878
Money market funds	4,455,362	N/A				4,455,362
	<u>\$ 7,616,712</u>		<u>\$ 1,402,834</u>	<u>\$ -</u>	<u>\$ 480,305</u>	<u>\$ 5,733,573</u>

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments is as follows:

Investment Type	Reported Amount	
	2017	2016
Federal agency securities	\$ 479,640	\$ 480,305

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the District's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

**CAYUCOS SANITARY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
June 30, 2017

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

Custodial Credit Risk (Continued)

As of June 30, 2017, none of the District's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts. As of June 30, 2017, the District's investments in the following types were held by the same broker-dealer (counterparty) that was used by the District to buy securities:

<u>Investment Type</u>	<u>Reported Amount</u>	
	<u>2017</u>	<u>2016</u>
Federal agency securities	\$ 2,003,949	\$ 2,220,031
Mortgage pass-through securities	\$ 140,087	\$ 156,708
Money market funds	\$ 122,121	\$ 4,455,362

Investment in State Pool (LAIF)

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

**NOTE 4 - SCHEDULE OF CAPITAL ASSETS**

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

	<u>Balance</u>				<u>Balance</u>
	<u>July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>June 30, 2017</u>
<b>Non depreciable</b>					
Land	\$ 157,132	\$ 3,571,716	\$ -	\$ 40,000	\$ 3,768,848
Construction in progress	901,424	2,255,802		(40,000)	3,117,226
Construction in progress-CSWP alternatives analysis	55,825				55,825
Construction in progress-WWTP alternatives analysis	46,883				46,883
Total non depreciable	<u>\$ 1,161,264</u>	<u>\$ 5,827,518</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,988,782</u>
<b>Depreciable</b>					
Building	\$ 1,243,019	\$ -	\$ -	\$ -	\$ 1,243,019
Subsurface lines	2,098,642				2,098,642
Sewage collection facilities	1,842,871				1,842,871
Conveyance system	4,900,734				4,900,734
Sewage treatment facilities	5,542,407				5,542,407
Collection equipment	489,804				489,804
Office equipment	106,930				106,930
Trucks	109,212				109,212
	16,333,619				16,333,619
Less accumulated depreciation	11,047,588	398,981			11,446,569
Total depreciable	<u>\$ 5,286,031</u>	<u>\$ (398,981)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,887,050</u>
Net capital assets	<u>\$ 6,447,295</u>	<u>\$ 5,428,537</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,875,832</u>

**CAYUCOS SANITARY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
 June 30, 2017

**NOTE 4 - SCHEDULE OF CAPITAL ASSETS (Continued)**

A schedule of changes in capital assets and depreciation for the fiscal year ended June 30, 2016, is shown below:

	Balance July 1, 2015	Additions	Deletions	Transfers	Balance June 30, 2016
<b>Non depreciable</b>					
Land	\$ 157,132	\$ -	\$ -	\$ -	\$ 157,132
Construction in progress		901,424			901,424
Construction in progress-CSWP alternatives analysis	46,005	9,820			55,825
Construction in progress-WWTP alternatives analysis	46,883				46,883
<b>Total non depreciable</b>	<b>\$ 250,020</b>	<b>\$ 911,244</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,161,264</b>
<b>Depreciable</b>					
Building	\$ 1,243,019	\$ -	\$ -	\$ -	\$ 1,243,019
Subsurface lines	2,098,642				2,098,642
Sewage collection facilities	1,842,871				1,842,871
Conveyance system	4,900,734				4,900,734
Sewage treatment facilities	5,542,407				5,542,407
Collection equipment	489,804				489,804
Office equipment	106,930				106,930
Trucks	109,212				109,212
	16,333,619				16,333,619
Less accumulated depreciation	10,635,847	411,741			11,047,588
<b>Total depreciable</b>	<b>\$ 5,697,772</b>	<b>\$ (411,741)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 5,286,031</b>
<b>Net capital assets</b>	<b>\$ 5,947,792</b>	<b>\$ 499,503</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 6,447,295</b>

**NOTE 5 – LOAN PAYABLE**

On April 21, 2004, the District received a loan from Municipal Finance Corporation in the amount of \$1,500,000. The purpose of the loan was to refinance the 1982 Sewer Bonds in the amount of \$174,000, and to finance the reconstruction of pump station #2. The District will make semi-annual payments under the loan agreement of \$68,831 through April 29, 2019. The interest rate for the loan is 4.4%. Future debt service payments are as follows:

Fiscal Year Ending	Principal	Interest	Total
2018	\$ 127,573	\$ 10,088	\$ 137,661
2019	133,249	4,410	137,659
	<u>\$ 260,822</u>	<u>\$ 14,498</u>	<u>\$ 275,320</u>

**CAYUCOS SANITARY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
 June 30, 2017

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**NOTE 6 – LONG-TERM DEBT**

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

	<u>July 1, 2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2017</u>
Loan payable	\$ 382,962	\$ -	\$ 122,140	\$ 260,822
Net pension liability	390,527	170,843	50,972	510,398
	<u>\$ 773,489</u>	<u>\$ 170,843</u>	<u>\$ 173,112</u>	<u>\$ 771,220</u>

	<u>July 1, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2016</u>
Loan payable	\$ 499,900	\$ -	\$ 116,938	\$ 382,962
Net pension liability	291,955	169,066	70,494	390,527
	<u>\$ 791,855</u>	<u>\$ 169,066</u>	<u>\$ 187,432</u>	<u>\$ 773,489</u>

**NOTE 7 - COMPENSATED ABSENCES**

As of June 30, 2017, it is estimated that the District’s employees have \$43,188 of accumulated vested vacation time and sick leave. Accumulated unpaid employee vacation and sick leave benefits are recognized as liabilities of the District. The accumulated benefits will be liquidated in future years as employees elect to use them.

**NOTE 8 – DEFINED BENEFIT PENSION PLAN**

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

*Plan Descriptions*

All qualified permanent and probationary employees are eligible to participate in the District’s Miscellaneous Employee Pension Plans, cost-sharing multiple employer defined benefit plans administered by the California Public Employees’ Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

*Benefits Provided*

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for nonduty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees’ Retirement Law.

**NOTE 8 – DEFINED BENEFIT PENSION PLAN (Continued)**

**A. General Information about the Pension Plans (Continued)**

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

	<u>Miscellaneous</u>	
	<u>Prior to January 1, 2013</u>	<u>On or after January 1, 2013</u>
Hire Date		
Benefit formula	2.0% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50-63	52-67
Monthly benefits, as a % of eligible compensation	2.0% to 2.7%	1.0% to 2.5%
Required employee contribution rates	7.00%	7.00%
Required employer contribution rates	9.671%	6.237%

*Contributions*

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Contributions to the pension plan from the District was \$51,948 for the fiscal year ended June 30, 2017.

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

At June 30, 2017, the District reported a liability of \$510,398 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all Pension Plan participants, actuarially determined. The District's proportionate share of net pension liability for the miscellaneous plan as of June 30, 2015, and 2016 was as follows:

	<u>Miscellaneous</u>
Proportion-June 30, 2015	0.01423%
Proportion-June 30, 2016	0.01469%
Change-Increase (Decrease)	0.00046%

For the year ended June 30, 2017, the District recognized pension expense of \$70,950. Pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

**NOTE 8 – DEFINED BENEFIT PENSION PLAN (Continued)**

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 51,948	\$ -
Differences between expected and actual experience	1,286	
Changes in assumptions		15,830
Net difference between projected and actual earnings on retirement plan investments	82,388	
Adjustment due to differences in proportions	46,690	
Difference in actual contributions and proportionate share of contributions		2,440
	<u>\$ 182,312</u>	<u>\$ 18,270</u>

Deferred outflows of resources and deferred inflows of resources above represent the unamortized portion of changes to net pension liability to be recognized in future periods in a systematic and rational manner.

\$51,948 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in the pension expenses as follows:

Fiscal Year Ended June 30	Amount
2018	\$ 25,759
2019	23,890
2020	41,105
2021	21,340
Total	<u>\$ 112,094</u>

**NOTE 8 – DEFINED BENEFIT PENSION PLAN (Continued)**

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

*Actuarial Assumptions*

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

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

- (1) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table please refer to the 2014 experience study report.

*Discount Rate*

The discount rate used to measure the total pension liability was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of the discount rate for public agency plans (including PERF C), CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing the plans, the tests revealed the assets would not run out. Therefore, the current 7.65 percent discount rate is appropriate and the use of municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund, including PERF C. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB No. 68 section.

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

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

**NOTE 8 – DEFINED BENEFIT PENSION PLAN (Continued)**

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

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

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

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

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

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

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

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

	1% Decrease 6.65%	Discount Rate 7.65%	1% Increase 8.65%
District's proportionate share of the net pension plan liability	\$ 795,188	\$ 510,398	\$ 275,035

*Pension Plan Fiduciary Net Position*

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

**NOTE 8 – DEFINED BENEFIT PENSION PLAN (Continued)**

**C. Payable to the Pension Plan**

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

**NOTE 9 - CONTINGENCIES**

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

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**REQUIRED SUPPLEMENTARY INFORMATION**



**CAYUCOS SANITARY DISTRICT**  
**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY**  
 Last 10 Years\*  
 As of June 30, 2017

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Proportion of the net pension liability	0.00560%	0.00569%	0.00469%
Proportionate share of the net pension liability	\$ 510,398	\$ 390,527	\$ 291,955
Covered- employee payroll	\$ 283,428	\$ 252,538	\$ 257,826
Proportionate share of the net pension liability as percentage of covered-employee payroll	180.08%	154.64%	113.24%
Plan's total pension liability	\$ 33,358,627,624	\$ 31,771,217,402	\$ 30,829,966,631
Plan's fiduciary net position	\$ 24,705,532,291	\$ 24,907,305,871	\$ 24,607,502,515
Plan fiduciary net position as a percentage of the total pension liability	74.06%	78.40%	79.82%

\*- Fiscal year 2015 was the 1st year of implementation.

**CAYUCOS SANITARY DISTRICT**  
**SCHEDULE OF PENSION CONTRIBUTIONS**  
 Last 10 Years\*  
 As of June 30, 2017

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

	2017	2016	2015
Contractually required contribution (actuarially determined)	\$ 51,948	\$ 50,972	\$ 40,776
Contribution in relation to the actuarially determined contributions	51,948	50,972	40,776
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered- employee payroll	\$ 287,078	\$ 283,428	\$ 252,538
Contributions as a percentage of covered-employee payroll	18.10%	17.98%	16.15%

**Notes to Schedule**

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

\*- Fiscal year 2015 was the 1st year of implementation.